William Blair

Zoetis Inc.

Beefing Up: Initiating Coverage With a Market Perform Rating

We are initiating coverage of Zoetis with a Market Perform rating and Established Growth company profile after the company's spin-off from Pfizer in February. Zoetis had been the animal health division of Pfizer since 1952 and has been a global leader in the manufacturing of pharmaceuticals and vaccines for the production and companion animal markets for decades. We view Zoetis as a high-quality company in a sector with improving secular demand trends that should propel midsingle-digit industry growth for the next decade. Combined with potential for margin leverage and cash redeployment, we believe that Zoetis could generate roughly 10% earnings growth with little volatility and no exposure to reimbursement risk. Despite this backdrop, we are cautious on the stock's ability to outperform in the coming year considering its premium valuation and lack of visibility into the R&D pipeline. We believe new product flow will be the key to Zoetis's ability to outpace the industry and sustain attractive returns.

Attractive market trends. The market for animal pharmaceuticals and vaccines is roughly $23 billion, by our estimates, and is poised to grow 5%-6% over the next decade. We estimate that the production market accounts for 60% of global spending and companion makes up the rest. Both are growing at about 5%-6%; production is more sensitive to weather, while companion is more sensitive to consumer spending. Zoetis is a leader in both markets, with a slight bias toward production (65% of revenue). We believe a strong demographic tailwind should help propel the animal health market above global GDP growth as a result of increased protein consumption by emerging middle classes in developing countries and an increasing human/animal bond in many areas. Resistance to economic cycles, insulation from reimbursement risks, a more benign regulatory environment, and a relative lack of generic competition versus human drug development make this industry attractive, in our view.

Leader by virtually any metric. Zoetis is the industry leader as measured by revenue and maintains a No. 1 or 2 position in nearly all markets it participates in. Impressive product and geographic breadth has enabled Zoetis to be well diversified; no product line generates more than 7% of revenue across any of the 120 countries in which it has a presence.

Key risks. We view the following items as key risks for Zoetis's stock in the next three to five years: 1) valuation, which appears aggressive given our expectations for 10% longer-term growth; 2) economic shocks, since the company is resistant but not immune to economic volatility; 3) increased penetration of generic medications; 4) inclement weather, such as droughts; and 5) pressure to reduce the use of antibiotics in livestock.

Zoetis is a leader in the development, manufacturing, and marketing of animal health medicines and vaccines for production and companion animal markets, with annual revenue exceeding $4 billion. The company was founded in 1952 as a division of Pfizer, but was spun out in February 2013. It operates in 120 countries and maintains one of the largest R&D budgets in the industry.

November 25, 2013
Basic Report (13-137)

Stock Rating:	**Market Perform**
Company Profile:	**Established Growth**

Symbol:	ZTS (NYSE)
Price:	$31.58 (52-Wk.: $29–$35)
Market Value (mil.):	$15,807
Fiscal Year End:	December
Long-Term EPS Growth Rate:	10%
Dividend Yield:	0.8%

Estimates	**2012A**	**2013E**	**2014E**
EPS FY	$1.08	$1.40	$1.55
EBITDA (mil.)	$1,123	$1,247	$1,429
Valuation			
P/E	29.2x	22.6x	20.4x
Net Debt/EBITDA	0.5x	2.5x	2.1x

Trading Data	
Shares Outstanding (mil.)	500.4
Float (mil.)	500.4
Average Daily Volume (mil.)	4.0

Financial Data	
Long-Term Debt/Total Capital	82%
Book Value Per Share	$1.65
Enterprise Value (mil.)	$19,090
2013 ROIC	16.3%
2013 EBITDA Margin	24.3%

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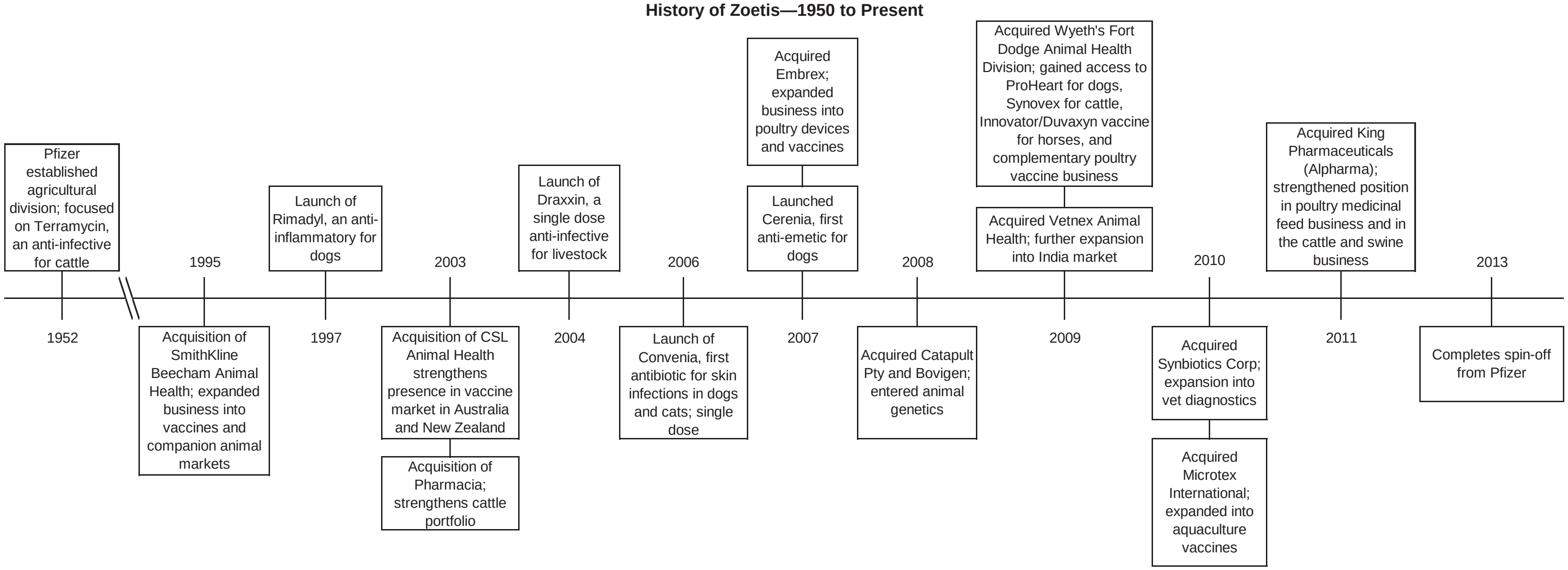
Exhibit 1
Zoetis Inc.
History of Zoetis—1950 to Present



Source: Company reports

Executive Summary

We are initiating coverage of Zoetis Inc. with a Market Perform rating and Established Growth company profile. The company executed a spin-off in February 2013 after being the animal health division of Pfizer since 1952. Beginning as a manufacturer of cattle-focused pharmaceuticals in the 1950s, the company grew primarily organically until 1995 when it entered the vaccine and companion markets through the acquisition of SmithKline Beecham's Norden Laboratories. The company continued to expand both organically and through strategic acquisitions (CSL and Pharmacia in 2003, Embrex in 2007, Wyeth's Fort Dodge division in 2009, and King Pharmaceuticals' Alpharma division in 2011, among others) to become the largest player in the animal health industry, with a No. 1 or 2 position in nearly all market segments. Today, the company's revenue approaches \$4.5 billion, with \$2.9 billion (64%) coming from the production animal market and the remaining \$1.6 billion (36%) from the companion market. The company generates EBITDA margins of nearly 28%, which we expect to increase to more than 30% over the next several years.

Since 2010, the company has generated a top-line compound annual growth rate (CAGR) of 8% through a combination of organic growth and acquisitions and an impressive EBITDA CAGR of 38%. On an organic basis, revenue growth has been in the midsingle digits over the same period, by our estimates. We view Zoetis as a defensive vehicle for investors looking to participate in the animal health market, which we see as compelling for the following reasons. First, demographic trends in both the companion and production markets should allow market growth to outpace global GDP over the long term as the middle class emerges in developing nations. Second, unlike the rest of healthcare, animal health spending is not exposed to government reimbursement risk, since the vast majority of payments are made out of pocket. Third, while margins are lower than in human pharmaceuticals, we believe returns on investment are actually better because the drug development process is faster and less expensive, receives less regulatory scrutiny, and is less affected by generic erosion. Given its size and diversity across functions, geographies, and clients, the company offers investors a lower level of risk and a higher level of liquidity than other animal health stocks, in our view.

We are establishing EPS estimates for Zoetis of \$1.40 in 2013, \$1.55 in 2014, and \$1.70 in 2015. These targets are based on 5%-6% organic revenue growth over the longer term, typically 45-90 basis points of annual operating margin leverage, and 2% annual contribution from capital deployment (see exhibit 2 for more detail). We view the growth as well balanced between the companion and production segments, although over the longer term we expect the production market to grow slightly faster on a global basis. A summary of our top- and bottom-line expectations follows in exhibit 3. In aggregate, we believe Zoetis offers the potential for sustainable 10% earnings growth.

Exhibit 2
Zoetis Inc.
Estimated Earnings Build

	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E
Revenue	18.2%	2.4%	4.1%	5.5%	5.7%	6.0%	6.0%	6.0%
Gross Margin Improvement	2.4%	3.6%	0.3%	0.5%	0.4%	0.4%	0.2%	0.3%
Expense Leverage	75.8%	15.7%	14.3%	4.1%	1.5%	1.6%	1.8%	1.9%
Income Growth	**96.4%**	**21.8%**	**18.7%**	**10.1%**	**7.6%**	**8.1%**	**8.0%**	**8.2%**
Debt Reduction/Tax/Other	-13.2%	-14.4%	11.0%	0.7%	1.6%	1.1%	0.7%	0.7%
Share Count	0.00%	0.00%	-0.09%	-0.2%	0.9%	1.0%	1.1%	1.1%
EPS Growth	83.2%	7.4%	29.5%	10.6%	10.1%	10.2%	9.9%	10.0%

Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 3
Zoetis Inc.
Projected Income Statement Summary

	2010	2011	2012	2013E	2014E	2015E
Revenue (mil.)	$3,582	$4,233	$4,336	$4,512	$4,760	$5,032
EBITDA (mil.)	$571	$963	$1,123	$1,247	$1,429	$1,507
EBIT (mil.)	$386	$758	$923	$1,095	$1,206	$1,298
EPS	**$0.55**	**$1.01**	**$1.08**	**$1.40**	**$1.55**	**$1.70**
Growth Metrics						
Revenue		18%	2%	4%	6%	6%
Organic Revenue		6%	5%	5%	6%	6%
EBITDA		69%	17%	11%	15%	6%
EBIT		96%	22%	19%	10%	8%
EPS		83%	7%	30%	11%	10%
Margin						
EBITDA	15.9%	22.7%	25.9%	27.6%	30.0%	30.0%
EBIT	10.8%	17.9%	21.3%	24.28%	25.3%	25.8%

Sources: Company reports and William Blair & Company, L.L.C. estimates

Relative to other ways to gain exposure to animal health (distribution, diagnostics, start-up manufacturers), we do not believe that Zoetis will be able to generate the highest level of revenue growth since its leading revenue base is already in place and established around the globe. However, we believe the company is well positioned to hold or expand share over time through new products, considering that it is one of the largest R&D organizations in the industry. Zoetis's free cash flow yield of 4.8%, or roughly $750 million per year (in 2014), also provides flexibility to deleverage the balance sheet, acquire new companies or technologies, and, over time, return cash to shareholders via dividends or share buybacks.

In terms of valuation, we believe Zoetis will generally trade between pharmaceutical companies, such as Pfizer, Merck, and Novartis, and faster-growth animal health manufacturers, such as Idexx, Virbac, and Dechra. We believe that it may also be helpful to compare the company with animal health distributors, such as Henry Schein, Patterson, and MWI Veterinary. We believe the most useful approach to valuing the company is a multiple of earnings, although EV/EBITDA will also be helpful in setting a private market benchmark.

The animal health group has generally performed well in 2013, and Zoetis has been no exception. The stock is up 21% since the company's spin-off in February (the S&P is up 20% over the same period) and trades at 20.4 times our 2014 EPS estimate and at an enterprise value of 13.4 times our 2014 EBITDA estimate. Its animal health peer group trades at 24.2 times projected 2014 EPS, while its large pharmaceutical peers trade at 14.6 times. We view Zoetis's valuation as somewhat expensive at current levels given our expectations for 10% longer-term growth, although we acknowledge that it arguably deserves a higher safety premium than other, more volatile animal health names.

While a pure-play animal health manufacturer of this size has not been available as a comparison historically, given the relatively steady growth expected over the longer term, we do not believe it is likely that Zoetis's stock will experience much, if any, multiple expansion in the next few years. Still, we like the durability of the company's earnings stream and believe upside is possible from M&A activity and perhaps acceleration in the development of emerging economies if the economic environment remains favorable. Better-than-expected new product flow could also be an important driver of upside, but visibility is limited to the contents of the R&D pipeline. Exhibit 4 shows our assessment of Zoetis's risk/reward profile in the coming year. Overall, we believe investors will be rewarded with steady, predictable growth, but the current valuation prevents us from being more constructive at present.

Exhibit 4
Zoetis Inc.
Probability-Weighted 12-Month Outlook for Zoetis (Using 2015 Estimates)

	Scenario 1 (A)	Scenario 2 (B)	Scenario 3 (C)
Earnings Per Share	$1.60	$1.70	$1.82
Implied Current P/E Multiple	19.7x	18.5x	17.3x
Estimated Multiple	14.0x	19.0x	24.0x
Implied Price	$22.44	$32.38	$43.72
Price Relative to Current Level	-29%	3%	38%
Probability	20%	60%	20%
Probability-Weighted Return		3.4%	

(A) Scenario 1 assumes a 4.0% increase in revenue and 600 basis points of operating margin leverage from 2012 through 2015

(B) Scenario 2 is our base case and assumes roughly 5% revenue growth and 660 basis points of margin leverage from 2012 through 2015

(C) Scenario 3 assumes a 6.5% increase in revenue and 720 basis points of operating margin leverage from 2012 through 2015

Sources: FactSet and William Blair & Company, L.L.C. estimates

Investment Highlights

Attractive Market Trends
The animal health market has a number of attractive dynamics that should lead to sustainable, consistent industry growth in the midsingle digits, in our view. As we have discussed at length over the years, we believe the self-pay nature of the industry, faster drug development timelines than human healthcare, insulation from economic downturns, and underlying demographics are major reasons for investors to gain exposure.

In the companion animal market, the growing human/animal bond in developed markets is driving increased medical treatment (chronic and acute) for pets; this has driven solid growth in the past few decades and should continue. Novartis's recent conditional approval of a canine version of the biologic Rituxan for the treatment of lymphoma is an excellent example of how companion animal treatments are becoming more medically complex. We expect a similar dynamic to play out in emerging markets as the middle class establishes itself and pets work their way from the yard to inside the home. On average, real veterinary spending growth in the United States has outpaced real GDP by 3-4 percentage points annually over the past 50 years, and we believe this outperformance should continue both in the United States and globally. We expect global annual companion animal market growth of 5.6% over the next seven years on average.

In the production animal market, the steady rise in global population—particularly in emerging markets—coupled with an increase in incomes should lead to increased consumption of animal proteins. We believe this wealth-driven change in consumption should result in sustained outperformance of veterinary medicine manufacturers relative to global GDP over the long term. We project global production animal growth of 5.8% annually over the next seven years.

Zoetis Is a Market Leader

For 60 years, Zoetis has been a leader in the animal health industry. The company has historically been strong in the cattle market, where it developed one of the first cattle antibiotics (Terramycin), which is still used today. It has since expanded into the swine and poultry markets. Through the acquisition of SmithKline Beecham's animal health division (Norden Laboratories) in 1995, Zoetis entered the companion animal market, where it has since grown to be the second-largest player. On a consolidated basis (including the livestock and companion animal business), Zoetis is the largest player in the market as measured by revenue (20% share of global market), and it maintains a global presence with offices in 120 countries. We believe that the company's considerable cash flow should enable a steady flow from its internal product pipeline and periodic tuck-in acquisitions. In our view, the combination of these two factors should allow Zoetis to maintain or extend its existing market position.

Diversification

Revenue for Zoetis exceeds $4 billion and is well diversified by product, geography, and species. The company manufactures more than 300 products, none of which accounts for more than 7% of revenue. The top 10 product lines account for 40% of revenue. By comparison, Merial (owned by Sanofi), the largest player in the companion animal business, derives nearly 40% of revenue from a single product (Frontline). On a geographic basis, 41% of revenue comes from the United States, 25% from EMEA, 18% from Canada and Latin America, and 16% from Asia. Lastly, the company generates 65% of revenue from livestock and 35% from companion animal products. As a result, we believe the risk of a significant dislocation in the company's earnings power is quite unlikely.

Enhanced Focus Following Spin-Off

As a part of Pfizer, the animal health division did not receive the attention and capital it deserved, in our view, given the parent company's focus on the much larger human healthcare business. Now that the company is operating on a stand-alone basis, we believe pipeline projects will receive more attention as the company becomes more focused on growth and new product productivity. From 2004 through 2011, Pfizer accounted for roughly 25% of the FDA's animal health approvals and roughly 20% of the USDA's approvals.

Investment Risks

We view Zoetis as a relatively low-risk way for investors to participate in the animal health industry given its market-leading position in several species and its global presence. However, there is some sensitivity to the macroeconomic environment and weather that can lead to volatility. Generics and antibiotic usage are two other important issues to monitor over the longer term.

Economic Instability

Albeit more resistant to economic volatility than most other industries, the animal health industry is not immune to severe changes in the economic climate. In the companion market, the discretionary nature of pet spending makes it vulnerable to severe downturns, as was observed from 2008 to 2010. During this period, growth slowed from the high single digits to a decline in the low- to midsingle digits, by our estimates. In general, the production market is even more sensitive to economic volatility, since treatment decisions for animals are driven more by the profitability of a given animal than by the bond-driven spending in the companion market. Profitability for the producer is driven primarily by the balance of feed costs (notably corn and wheat) and the price of the end-product (beef, pork, or poultry). We have found that volatility in pricing has a more significant impact on ordering patterns than absolute prices.

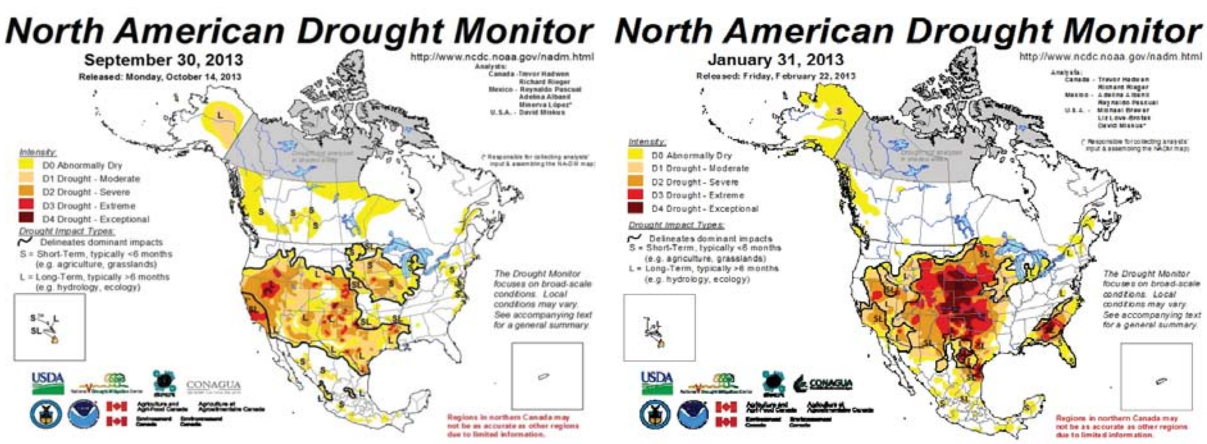
Generics

Unlike the human market, generics have not gained much traction in the animal health market. By our estimates, generics make up less than 10% of companion animal volumes and less than 25% of production animal volumes. While these numbers will likely increase over time, we do not expect a significant impact on branded companies in the near term. We suspect that the lack of chemical (easily reproduced) blockbusters in the market may contribute to this dynamic. Many of the largest products in the space are vaccines, which are difficult to reproduce given that they are biologics. In addition, regulatory requirements for generic medications in the United States are quite high compared with requirements in other countries and thus the costs are relatively high as well. Given that the vast majority of animal health drugs generate modest levels of revenue (less than $100 million) relative to human health drugs, few manufacturers choose to compete for what is likely to be a small potential market; therefore, pricing does not come down as much as it does in the human market, where there are many manufacturers competing for shelf space. We believe the pricing discount for generics is only about 15% compared with branded drugs. We suspect traction could be higher outside the United States given lower regulatory requirements. Lastly, given that medications represent only a fraction of the cost to raise an animal for slaughter (about 5%) and that a sick animal quickly becomes unprofitable, we believe that producers will not be willing to take a chance on anything but the most proven generic products.

Weather

We believe that weather patterns play an important role in demand trends for the production market because they dictate the quality and quantity of feed available. Indeed, over the past two years, a severe drought gripped much of the cattle-producing areas of the United States, reducing the amount of hay available for feed. As a result, animals were slaughtered early to minimize the time spent in feedlots, which are where illness, and therefore treatment, is more likely to occur. In addition, the number of cattle during this drought was reduced by 2% in 2013 following previous reductions in 2012. Therefore, both the number of cattle available for treatment and the extent to which they are treated is reduced during such periods. Moreover, it takes two to three years after a purge in the herd to see a full rebound in the quantity of cattle.

Exhibit 5
Drought Conditions in North America



Source: North American Drought Portal; http://www.drought.gov/nadm/

R&D Productivity

Although we believe that the ability to focus free cash flow exclusively on animal health projects could enhance productivity, Zoetis's R&D pipeline seems to be a significant unknown. As mentioned above, Zoetis has had a steady stream of new products approved over the last several years, and a few more have received approval over the past several months (vaccines for swine and poultry, Apoquel, Excenel, and two generic beta-agonists). Should the pace of new product introductions slow, organic growth rates could slow somewhat—particularly if growth in generics constrains future price increases. While we do not assume that the lack of transparency regarding the current content of the pipeline suggests a dearth of new products, it increases the stock's uncertainty.

Regulatory Pressure to Reduce Antibiotic Usage in Livestock

As discussed in greater detail on page 16, there is growing concern over the spread of bacteria that are resistant to antibiotics. Regulators have pointed to overuse of prophylactic antibiotics in livestock as a potential source of drug resistance. Both the Centers for Disease Control and Prevention and the FDA have published reports and guidelines on the topic. The FDA is expected to issue final guidelines on the topic next year, calling for voluntary changes in product labeling to discourage use of antibiotics for feed efficiency and growth promotion. Our discussions on this topic suggest that there is not likely to be a material change in antibiotic usage among animal producers, but because this class of product accounts for 28% of Zoetis's revenues, we view it as an important longer-term risk to monitor.

Animal Health Industry Outlook

For the past decade, William Blair has increased its coverage of the animal health industry since we believe it has a sustainable midsingle-digit long-term growth profile, is resistant to economic cycles, and is immune from government reimbursement changes because expenditures are nearly all out-of-pocket. Therefore, we have expanded our coverage to include distribution (John Kreger) and therapeutics (John Kreger and Tim Lugo), as well as diagnostics, reference laboratories, and veterinary practice operators (Ryan Daniels). Although our coverage has offered some insight into global markets, the vast majority of our work has focused on the U.S. production and companion animal markets. In our view, global markets offer a compelling growth opportunity, particularly in developing markets, as the emergence of a middle class in these economies will likely result in an increase in consumption of animal proteins and eventually an increase in pet ownership.

In our view, the slow transformation of developing nations into developed economies is likely to offer sustainable growth outperformance relative to global GDP as protein consumption increases along with the financial wealth of a given population. According to the Food and Agriculture Organization of the United Nations' Statistics Division, people in the developing world consume roughly 70 grams of protein per capita per day, compared with 103 grams per day on average in developed nations, a difference of 47%. We believe that over the next several decades, consumption of animal proteins around the world will eventually converge on a per capita basis, which should provide a significant growth opportunity for participants in the production animal market. In total, we estimate the production animal market (about 60% of the global animal health market) can grow at a compound annual rate of 5.8% from 2013 to 2020, with faster growth in emerging economies such as Asia (7.6%) and Latin America (5.7%) while the United States and Europe grow closer to 4.5%.

In addition, the type of protein consumed tends to progress from poultry toward beef as a given economy becomes more prosperous. Thus, we believe that emerging economies such as India, Sub-Saharan Africa, China, Southeast Asia, and Latin America will drive consumption of poultry for the next few decades before eventually transitioning to pork and/or beef depending on the cultural preferences of the region. Therefore, we project poultry to be the fastest-growing area of the production market (7.2%), followed by pork (6.0%), and lastly beef (roughly 5.0%) for the remainder of this decade. It is important to note that given the relative sizes of each animal, poultry tends to consume the least amount of vaccine, medication, and feed. It is therefore the least profitable species for drug manufacturers to target. Cattle, which are the largest species and tend to become ill frequently after being placed in high-density feedlots, are generally the most lucrative.

On the companion side, which represents about 40% of the global animal health market, we believe dogs, cats, and horses are the three main species that manufacturers target. We estimate that dogs make up nearly 60% of global spending, cats account for roughly 30%, and horses represent a bit more than 10%. In general, we believe the long-term growth trajectory of this market is driven by both demographics (more middle-class households being formed, which tends to result in more pet ownership; see the Research Note published by Ryan Daniels on April 8, titled "The Monthly Bull/Bear Report, Special Edition: Proprietary Analysis of Pet Ownership Trends Supports Improving Outlook," for more detail) and an increase in the human/animal bond (more acute and chronic medical intervention). Similar to the production market, we believe these factors should allow the companion animal market to grow at a rate faster than global GDP over the long term.

We believe that cats tend to make fewer visits to veterinarians because they have a reputation of being difficult to transport and generally uncooperative. According to the American Pet Products Association (APPA), dogs represent 64.4% of all veterinary visits in the United States with a mean of 1.6 annual visits per pet, while cats represent 29.9% of all visits with 0.7 visits per pet. In addition, dog owners tend to spend more on their pets than cat owners. Specifically, the APPA estimates that the average annual expenditure is $227 per dog, but only $90 per cat. Thus, in our view, while increased treatment of cats represents a significant opportunity for veterinarians, we believe any change in behavior of cat owners will be quite gradual. We expect growth in cat-related spending to slightly outpace dog-related spending (by 10-20 basis points) at 5.4% for cats compared with 5.3% for dogs. We expect horse-related spending, which we believe is more economically sensitive, to grow slightly slower at 5.2%.

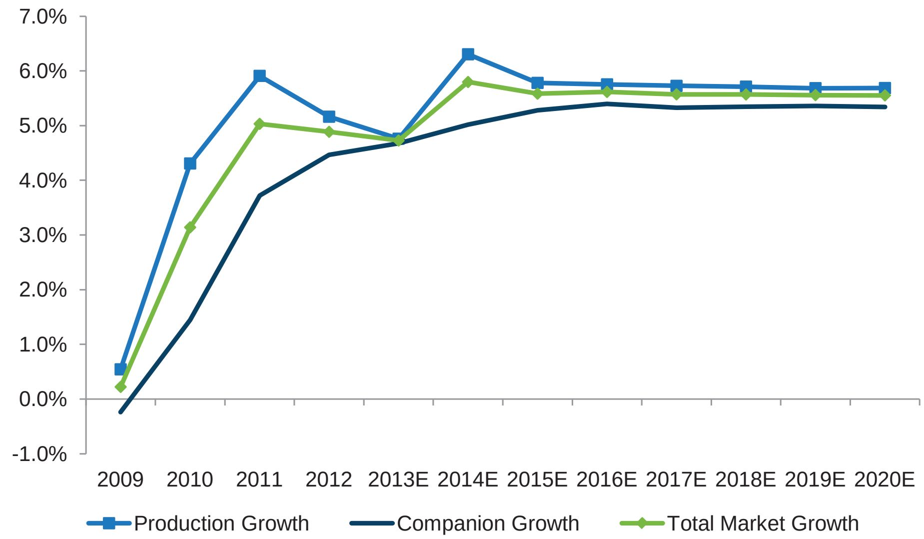
In summary, we believe long-term demographic trends should allow the global animal health market to outperform global GDP growth for the next decade with less volatility than many other areas of healthcare. In exhibit 6, we detail our thoughts on potential industry growth by geography and species through 2020. Following the market model, we discuss two significant, if unlikely, risks to long-term industry growth: generics and the potential for increased government regulation of antibiotic use in livestock.

Exhibit 6
Global Market Model

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Production by Species													
Cattle	$6,100	$6,100	$6,331	$6,681	$6,955	$7,190	$7,617	$8,006	$8,408	$8,829	$9,266	$9,721	$10,200
Growth		0.0%	3.8%	5.5%	4.1%	3.4%	5.9%	5.1%	5.0%	5.0%	4.9%	4.9%	4.9%
Percent of total production market	54%	54%	53%	53%	53%	52%	52%	51%	51%	51%	50%	50%	50%
Swine	$3,100	$3,102	$3,232	$3,427	$3,635	$3,838	$4,080	$4,325	$4,584	$4,857	$5,146	$5,448	$5,766
Growth		0.1%	4.2%	6.0%	6.1%	5.6%	6.3%	6.0%	6.0%	6.0%	6.0%	5.9%	5.9%
Percent of total production market	27%	27%	27%	27%	28%	28%	28%	28%	28%	28%	28%	28%	28%
Poultry	$2,100	$2,160	$2,288	$2,443	$2,610	$2,800	$3,002	$3,219	$3,452	$3,700	$3,967	$4,255	$4,562
Growth		2.9%	5.9%	6.8%	6.8%	7.3%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Percent of total production market	19%	19%	19%	19%	20%	20%	20%	21%	21%	21%	22%	22%	22%
Total Production	**$11,300**	**$11,361**	**$11,851**	**$12,551**	**$13,199**	**$13,828**	**$14,699**	**$15,549**	**$16,444**	**$17,386**	**$18,379**	**$19,424**	**$20,529**
Growth		0.54%	4.31%	5.91%	5.16%	4.76%	6.30%	5.78%	5.75%	5.73%	5.71%	5.68%	5.69%
Production by Geography													
U.S. Total Production	$3,041	$3,024	$3,152	$3,324	$3,429	$3,448	$3,659	$3,822	$3,990	$4,164	$4,345	$4,532	$4,727
Growth		-0.6%	4.2%	5.5%	3.1%	0.6%	6.1%	4.5%	4.4%	4.4%	4.4%	4.3%	4.3%
Percent of total production market	27%	27%	27%	26%	26%	25%	25%	25%	24%	24%	24%	23%	23%
EU/Africa/ME	$3,984	$3,994	$4,155	$4,399	$4,621	$4,901	$5,181	$5,465	$5,762	$6,075	$6,399	$6,739	$7,096
Growth		0.3%	4.0%	5.9%	5.0%	6.1%	5.7%	5.5%	5.4%	5.4%	5.3%	5.3%	5.3%
Percent of total production market	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Canada/Latin America	$1,860	$1,861	$1,930	$2,030	$2,151	$2,278	$2,412	$2,551	$2,699	$2,853	$3,016	$3,186	$3,365
Growth		0.1%	3.7%	5.2%	6.0%	5.9%	5.9%	5.8%	5.8%	5.7%	5.7%	5.6%	5.6%
Percent of total production market	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Asia-Pacific	$2,415	$2,482	$2,615	$2,798	$2,999	$3,201	$3,448	$3,711	$3,993	$4,294	$4,618	$4,967	$5,340
Growth		2.8%	5.3%	7.0%	7.2%	6.7%	7.7%	7.6%	7.6%	7.5%	7.6%	7.5%	7.5%
Percent of total production market	21%	22%	22%	22%	23%	23%	23%	24%	24%	25%	25%	26%	26%
Total Production	**$11,300**	**$11,361**	**$11,851**	**$12,551**	**$13,199**	**$13,828**	**$14,699**	**$15,549**	**$16,444**	**$17,386**	**$18,379**	**$19,424**	**$20,529**
Growth		0.54%	4.31%	5.91%	5.16%	4.76%	6.30%	5.78%	5.75%	5.73%	5.71%	5.68%	5.69%
Companion by Species													
Dog	$4,456	$4,496	$4,608	$4,788	$4,979	$5,212	$5,479	$5,772	$6,084	$6,407	$6,749	$7,109	$7,489
Growth		0.9%	2.5%	3.9%	4.0%	4.7%	5.1%	5.4%	5.4%	5.3%	5.3%	5.3%	5.3%
Percent of total companion market	56.8%	57.4%	58.0%	58.1%	57.8%	57.8%	57.9%	57.9%	57.9%	57.9%	57.9%	57.9%	57.9%
Cat	$2,323	$2,311	$2,308	$2,435	$2,577	$2,710	$2,852	$3,005	$3,170	$3,342	$3,524	$3,716	$3,916
Growth		-0.5%	-0.1%	5.5%	5.8%	5.2%	5.2%	5.4%	5.5%	5.4%	5.4%	5.5%	5.4%
Percent of total companion market	29.6%	29.5%	29.0%	29.5%	29.9%	30.1%	30.1%	30.2%	30.2%	30.2%	30.2%	30.3%	30.3%
Horse/Other	$1,073	$1,025	$1,030	$1,020	$1,054	$1,091	$1,135	$1,188	$1,249	$1,313	$1,381	$1,453	$1,530
Growth		-4.4%	0.5%	-1.0%	3.4%	3.5%	4.0%	4.7%	5.1%	5.2%	5.2%	5.2%	5.2%
Percent of total companion market	13.7%	13.1%	13.0%	12.4%	12.2%	12.1%	12.0%	11.9%	11.9%	11.9%	11.9%	11.8%	11.8%
Total Companion	**$7,852**	**$7,833**	**$7,946**	**$8,242**	**$8,610**	**$9,013**	**$9,465**	**$9,965**	**$10,503**	**$11,062**	**$11,654**	**$12,278**	**$12,934**
Growth		**-0.2%**	**1.4%**	**3.7%**	**4.5%**	**4.7%**	**5.0%**	**5.3%**	**5.4%**	**5.3%**	**5.3%**	**5.4%**	**5.3%**
Companion by Geography													
U.S.	$3,456	$3,425	$3,436	$3,545	$3,721	$3,916	$4,123	$4,343	$4,577	$4,811	$5,057	$5,315	$5,583
Growth		-0.9%	0.3%	3.2%	5.0%	5.2%	5.3%	5.3%	5.4%	5.1%	5.1%	5.1%	5.0%
Percent of total companion market	44.0%	43.7%	43.2%	43.0%	43.2%	43.4%	43.6%	43.6%	43.6%	43.5%	43.4%	43.3%	43.2%
EU/Africa/ME	$2,673	$2,662	$2,668	$2,738	$2,821	$2,909	$3,022	$3,147	$3,277	$3,412	$3,553	$3,700	$3,853
Growth		-0.4%	0.2%	2.6%	3.0%	3.1%	3.9%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Percent of total companion market	34.0%	34.0%	33.6%	33.2%	32.8%	32.3%	31.9%	31.6%	31.2%	30.8%	30.5%	30.1%	29.8%
Canada/Latin America	$752	$756	$803	$846	$868	$909	$959	$1,016	$1,079	$1,145	$1,216	$1,291	$1,370
Growth		0.6%	6.1%	5.4%	2.6%	4.7%	5.5%	6.0%	6.2%	6.2%	6.2%	6.2%	6.2%
Percent of total companion market	9.6%	9.7%	10.1%	10.3%	10.1%	10.1%	10.1%	10.2%	10.3%	10.4%	10.4%	10.5%	10.6%
Asia-Pacific	$970	$990	$1,039	$1,113	$1,199	$1,279	$1,362	$1,459	$1,571	$1,694	$1,828	$1,972	$2,127
Growth		2.0%	4.9%	7.1%	7.8%	6.7%	6.4%	7.2%	7.6%	7.9%	7.9%	7.9%	7.9%
Percent of total companion market	12.4%	12.6%	13.1%	13.5%	13.9%	14.2%	14.4%	14.6%	15.0%	15.3%	15.7%	16.1%	16.4%
Total Companion	**$7,852**	**$7,833**	**$7,946**	**$8,242**	**$8,610**	**$9,013**	**$9,465**	**$9,965**	**$10,503**	**$11,062**	**$11,654**	**$12,278**	**$12,934**
Growth		**-0.2%**	**1.4%**	**3.7%**	**4.5%**	**4.7%**	**5.0%**	**5.3%**	**5.4%**	**5.3%**	**5.3%**	**5.4%**	**5.3%**
Total Market by Geography													
U.S.	$6,497	$6,449	$6,588	$6,869	$7,150	$7,364	$7,781	$8,165	$8,567	$8,974	$9,402	$9,847	$10,310
Growth		-0.7%	2.2%	4.3%	4.1%	3.0%	5.7%	4.9%	4.9%	4.8%	4.8%	4.7%	4.7%
Percent of total companion market	33.9%	33.6%	33.3%	33.0%	32.8%	32.2%	32.2%	32.0%	31.8%	31.5%	31.3%	31.1%	30.8%
EU/Africa/ME	$6,657	$6,656	$6,823	$7,137	$7,442	$7,810	$8,204	$8,612	$9,039	$9,488	$9,953	$10,439	$10,949
Growth		0.0%	2.5%	4.6%	4.3%	4.9%	5.0%	5.0%	5.0%	5.0%	4.9%	4.9%	4.9%
Percent of total companion market	34.8%	34.7%	34.5%	34.3%	34.1%	34.2%	33.9%	33.8%	33.5%	33.4%	33.1%	32.9%	32.7%
Canada/Latin America	$2,612	$2,617	$2,732	$2,876	$3,019	$3,186	$3,370	$3,567	$3,777	$3,998	$4,232	$4,477	$4,736
Growth		0.2%	4.4%	5.2%	5.0%	5.5%	5.8%	5.8%	5.9%	5.8%	5.9%	5.8%	5.8%
Percent of total companion market	13.6%	13.6%	13.8%	13.8%	13.8%	14.0%	13.9%	14.0%	14.0%	14.1%	14.1%	14.1%	14.2%
Asia-Pacific	$3,385	$3,472	$3,654	$3,911	$4,198	$4,480	$4,810	$5,170	$5,564	$5,988	$6,446	$6,938	$7,467
Growth		2.6%	5.2%	7.0%	7.3%	6.7%	7.4%	7.5%	7.6%	7.6%	7.7%	7.6%	7.6%
Percent of total companion market	17.7%	18.1%	18.5%	18.8%	19.2%	19.6%	19.9%	20.3%	20.6%	21.0%	21.5%	21.9%	22.3%
Total Market	**$19,152**	**$19,194**	**$19,797**	**$20,793**	**$21,809**	**$22,840**	**$24,164**	**$25,514**	**$26,947**	**$28,448**	**$30,033**	**$31,702**	**$33,463**
Growth		**0.22%**	**3.14%**	**5.03%**	**4.89%**	**4.73%**	**5.80%**	**5.58%**	**5.62%**	**5.57%**	**5.57%**	**5.56%**	**5.55%**

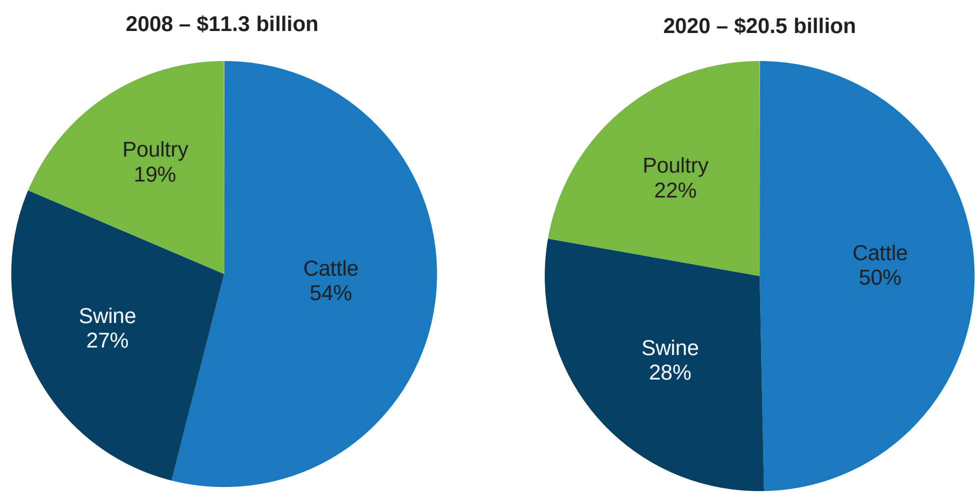
Sources: UN FAOSTAT, IFA Europe, Sundale Research, APPA, Vetnosis, company reports, and William Blair & Company, L.L.C. estimates

Exhibit 7
Market Growth Summary



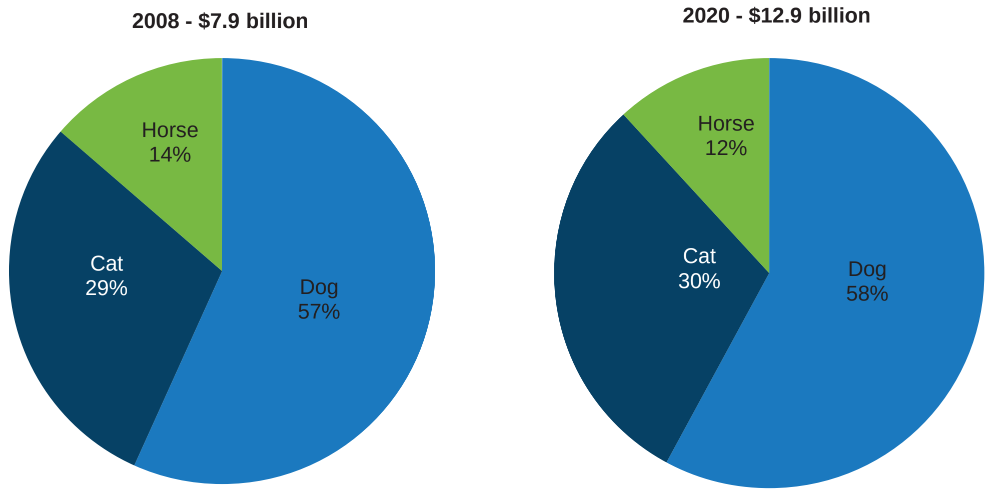
Sources: UN FAOSTAT, IFA Europe, Sundale Research, APPA, Vetnosis, company reports, and William Blair & Company, L.L.C. estimates

Exhibit 8
Production Market Summary



Sources: UN FAOSTAT, IFA Europe, Sundale Research, APPA, Vetnosis, company reports, and William Blair & Company, L.L.C. estimates

Exhibit 9
Companion Market Summary



Sources: UN FAOSTAT, IFA Europe, Sundale Research, APPA, Vetnosis, company reports, and William Blair & Company, L.L.C. estimates

Potential Industry Threats
While the demographic trends and behaviors that have historically been associated with increased prosperity should result in significant tailwinds for the animal health industry, we believe there are two potential headwinds that could reduce industry growth rates if they gain traction: increased generic drug adoption and decreased antibiotic usage. First, generic drugs have not yet caught on in animal health as they have in human health, in part because of the smaller market opportunity and incentive structure for veterinarians. Second, antibiotics represent a large percentage of product consumption in the livestock market, but the use of antibiotics has come under increasing scrutiny in recent years. If governments decide to limit the usage of antibiotics, we believe companies like Zoetis, which generated $1.2 billion in 2012 (roughly 28% of revenue) from the sale of antibiotics, could see a significant reduction to growth rates.

Generic drugs gaining traction. Generic drugs for animals are far behind their human healthcare counterparts for several reasons: 1) the lack of large blockbuster brands that tend to attract multiple generic entrants, 2) a fairly strict approval process for generics in the United States, 3) strong brand loyalty among veterinarians and protein producers, and 4) the lack of a third-party payer that could force adoption. We estimate that as a result of these barriers, generic penetration among animal health drugs is less than 10% in the U.S. companion market and approaching 25% in the U.S. production animal market. In aggregate, we suspect generic penetration is in the 10%-15% range in the United States. This compares with more than 80% in human health. We note that penetration levels outside the United States vary by market, but do not differ widely in aggregate compared with U.S. levels, in our view. In categories where there is a generic available, there appears to be some traction, notably in flea and tick treatments and certain classes of livestock medications where the price sensitivity has driven somewhat better adoption. Today, we believe there are 10-12 generic options in the flea and tick class. As an example, generic fipronil (the active ingredient in industry-leading Frontline) has garnered 5%-10% of Frontline's sales ($25 million-$50 million) and we estimate penetration in the flea/tick/parasiticide category is as much as 10%-15% in aggregate.

We believe much of the drastic difference in generic penetration between human and animal products can be attributed to an earlier stage of industry development. Over time, economic forces will likely attract more generics to this industry and will prompt more vets, pet owners, and producers to switch away from brands. However, we see this trend as a gradual one that industry experts believe will plateau near 50% rather than 80% (and climbing) for human therapeutics. We examine the bull and bear cases for generics in the following sections.

Generic headwinds

- *Barriers to entry.* Barriers to enter the generic manufacturing business are reasonably high. Developing adequate manufacturing capabilities and regulatory expertise is costly and complex. Since the payoff is relatively small considering the small number of drugs exceeding $100 million in sales, few drug manufacturers have bothered to enter. Illustrating the challenge, Teva recently sold its animal health unit to Bayer.

- *Brand loyalty.* Livestock producers and veterinarians tend to exhibit brand loyalty to products that have demonstrated consistent, high levels of effectiveness. In addition, brand name medicines and vaccines are a relatively small portion of total production costs, at less than 5%, but have a significant impact on the health of the herd and ultimately on the ability to sell an animal for a profit. Because a sick animal becomes unprofitable very quickly, many producers believe the benefit of consistently healthy results from brands outweigh the risks of losing a large portion of their animals by using unproven generics.

- *No payer incentive.* Since animal health is virtually all self-pay, there is a lack of insurance payment programs that strongly encourage or even require the selection of generic alternatives.

- *No economic incentive for vets.* Veterinarians and animal hospitals do not currently have an economic incentive to switch from brands to generics—a striking contrast to the supply chain for human pharmaceuticals. The markup on branded products generates more profit dollars for vets than the markup on generics, since the price to acquire generics is not significantly below the comparable branded product. We believe that generic manufacturers will have to change their pricing models to increase the economic motivation of veterinarians and distributors to consider switching away from brands. As more generic manufacturers enter the market, we suspect this dynamic is beginning to change.

Generic tailwinds

- *Incentives changing.* While vets are economically motivated to sell branded drugs over generics today, there is no structural reason that this will always be true. As we have seen in the human pharma supply chain, generic manufacturers can price low enough to increase profits per pill for vets and distributors. We believe customers are becoming more cost sensitive to high-priced drugs and will readily switch if the quality is equivalent and vets encourage it. For years, consumers have been exposed to low-cost generic options via human health and have become accustomed to paying less for the same results.

- *Authorized generics becoming more popular.* The limited number of blockbuster brands in animal health therapeutics has made it difficult for stand-alone generics companies to thrive to date. However, we believe there will be pockets where rising generic conversion makes sense. We note a trend for a hybrid brand/generic structure taking shape in the industry, with Zoetis buying Ranbaxy's animal health unit in 2009 (and announcing two generic approvals in the last few months) and Bayer announcing the purchase of Teva's animal health unit in September 2012. We believe Putney will be a key name to watch as one of the most active pure-plays in animal health generics over the next several years.

- *Manufacturer interest increasing.* Recently, Perrigo, a manufacturer and marketer of over-the-counter healthcare products for the store-brand market, has announced its intention to increase its presence in the flea and tick market. Perrigo has expanded its private-label pet medication business to $200 million in annual sales, $90 million of which is in the flea and tick market (roughly 6% of the U.S. market, by our estimates). Perrigo believes that over time, government legislation will require veterinarians to offer a copy of a given prescription, enabling owners to fill it outside the veterinarian's office. Over time (perhaps 5-10 years), this could shift usage of pharmaceuticals to more price-sensitive alternatives.

Potential impact of generics. To see the potential impact on Zoetis's EPS, we performed a sensitivity analysis varying EBITDA margin, generic penetration rates, and loss of revenue to generic competition. To be conservative, we assumed a constant 25% discount to branded drugs. The base EBITDA margin is an estimated 28% in 2013 for Zoetis.

Scenario 1. Assumes Zoetis produces an authorized generic drug and sells it for a 25% discount, while losing zero business to competition. Under these assumptions, we believe the most likely outcome would be for margins to compress by 10 to 15 points (to an estimated 13%-18% range) and generic penetration rates to increase by 10 to 15 points (to 17%-22%). This would result in a 3% to 7% reduction in EPS, by our estimates.

Scenario 2. Assumes Zoetis produces a generic drug and sells it for a 25% discount, while losing 50% of the volume that converts to other generics. Again, we believe the most likely outcome would be for margins to compress by 10 to 15 points and penetration rates to increase by 10 to 15 points. This would result in an 8% to 13% reduction in EPS.

Scenario 3. Assumes Zoetis loses 100% of volume that converts to generic. EBITDA margin is irrelevant, as 100% of relevant sales have been forfeited to competing generic drugs. If penetration rates increase by 10 to 15 points, this would result in a 13%-19% reduction in EPS.

Over the next three to five years, we believe generic penetration rates will rise, causing a slight impact on EPS growth—mostly through less pricing flexibility. The most likely outcome, in our view, would be for branded companies to fend off generics with a combination of lower prices and authorized generics once their patent protection expires, thus retaining drug sales but at a lower margin. In such a scenario, it will be difficult for smaller generic manufacturers to take share, causing penetration rates to remain low compared with human healthcare. As a result, while we believe generics will likely become a larger part of the market, we do not expect penetration to approach human health levels and we expect branded drug manufacturer participation in the market to mitigate the impact to their earnings growth.

Exhibit 10
Zoetis Inc.

Three-Year Incremental Reduction of EPS: Scenario 1

EBITDA Margin	*Penetration Rate of Generics* 12%	17%	22%	27%
23%	$0.04	$0.08	$0.11	$0.15
18%	$0.08	$0.15	$0.23	$0.30
13%	$0.11	$0.23	$0.34	$0.46
8%	$0.15	$0.30	$0.46	$0.61

As a Percent of Three-Year EPS: Scenario 1

EBITDA Margin	*Penetration Rate of Generics* 12%	17%	22%	27%
23%	1%	2%	2%	3%
18%	2%	3%	5%	7%
13%	2%	5%	7%	10%
8%	3%	7%	10%	13%

Notes: Assumes 25% discount to brand and no leakage; current penetration rate is 7%; current EBITDA margin is 28%

Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 11
Zoetis Inc.

Three-Year Incremental Reduction of EPS: Scenario 2

Penetration Rate of Generics

EBITDA Margin	12%	17%	22%	27%
23%	$0.17	$0.34	$0.50	$0.67
18%	$0.19	$0.37	$0.56	$0.75
13%	$0.21	$0.41	$0.62	$0.82
8%	$0.23	$0.45	$0.68	$0.90

As a Percent of Three-Year EPS: Scenario 2

Penetration Rate of Generics

EBITDA Margin	12%	17%	22%	27%
23%	4%	7%	11%	14%
18%	4%	8%	12%	16%
13%	4%	9%	13%	18%
8%	5%	10%	14%	19%

Notes: Assumes 25% discount to brand and 50% leakage; current penetration rate is 7%; current EBITDA margin is 28%

Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 12
Zoetis Inc.

Three-Year Incremental Reduction of EPS: Scenario 3

Penetration Rate of Generics

EBITDA Margin	12%	17%	22%	27%
NA	$0.30	$0.60	$0.89	$1.19

As a Percent of Three-Year EPS: Scenario 3

Penetration Rate of Generics

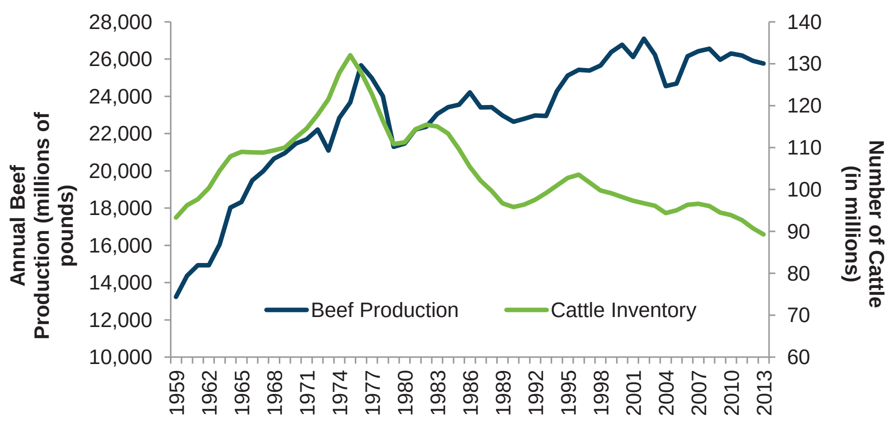
EBITDA Margin	12%	17%	22%	27%
NA	6%	13%	19%	26%

Notes: Assumes 100% leakage; current penetration rate is 7%

Sources: Company reports and William Blair & Company, L.L.C. estimates

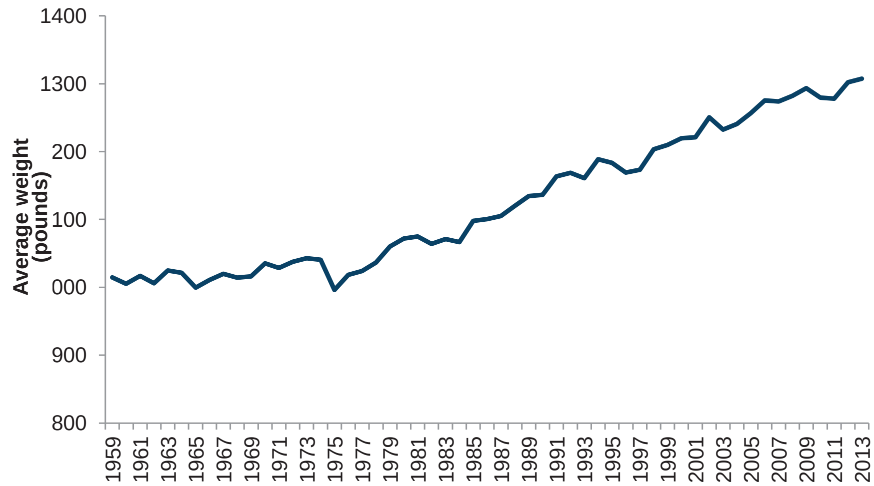
Overuse of antibiotics in production animals. The second potential headwind for branded manufacturers is the potential reduction of dosing antibiotics in livestock. As seen in exhibits 13 and 14, the population of cattle in the United States has been in decline since 1975; however, the production of beef (in pounds) has increased given improvements in production methods and use of antibiotics as growth promoters. On average, the weight of a single animal has increased significantly as a result of more-efficient feeding methods as well as effective prophylactic use of antibiotics, in our view. We believe these improvements in productivity should continue, but the use of antibiotics as growth promotion in the United States and Europe has been under debate.

Exhibit 13
Zoetis Inc.
Average Weight of Cattle



Source: USDA

Exhibit 14
Zoetis Inc.
Average Weight of Cattle



Source: USDA

Recently, the Centers for Disease Control and Prevention (CDC) published a report titled *Antibiotic Resistance Threats in the United States, 2013,* highlighting a growing concern about the overuse of antibiotics in both human and animal populations. In the report, the CDC asserts that as much as one-half of antibiotic use is unnecessary and may be contributing to the growing resistance of bacteria to treatment. There has been growing concern that these types of studies could eventually lead to decreased use of antibiotics, particularly prophylactically, in livestock. In 2014, we expect additional guidance from the FDA about the future use of antibiotics, and we believe any language regarding the appropriateness of prophylactic use will be key to determining if evolving regulations will have an impact on the antibiotic market.

While we view potential regulatory action as a threat to Zoetis because antibiotics represented 28% of revenue in 2012, this issue is not new. Over the past decade, the FDA, USDA, National Research Council, and Institute of Medicine have debated the merits of antibiotic use in food animals, but they have allowed producers to administer medicines as they see fit despite concluding that widespread use of antibiotics has affected the sensitivity of bacteria to antibiotics.

Furthermore, the FDA has issued for public comment draft guidance (Guidance No. 213) that will direct drug companies to voluntarily revise product labels to 1) remove the use of antibiotics for production uses such as feed efficiency and growth promotion; 2) add, where appropriate, scientifically supported disease prevention, control, and treatment uses; and 3) change the marketing status to include veterinary oversight or consultation. As a part of this process, the FDA is requesting comment on the practical implications of these changes for animal producers, particularly those with smaller operations in remote locations. Specifically, the agency wants to know how disruption to animal producers could be minimized and what economic effects may result from the adoption of the practices set out in the guidance. It proposed a three-year time frame for implementation (ending in April 2015) to evaluate the effects on the animal pharmaceutical industry, the feed industry, and producers.

Livestock producers allege that these studies are not scientifically rigorous. In addition, the producers argue that this could disproportionately affect small farmers and drive up the cost of production. We suspect that there will be continued debate on this topic and that restrictions on the use of antibiotics are very unlikely in the near to intermediate term until there is more concrete evidence showing that the potential risks of treatment outweigh the positives. Therefore, we view regulatory pressure to limit overuse of antibiotics as a notable long-term uncertainty, but we do not expect any change in antibiotics usage by livestock producers anytime soon.

Outside the United States, the attitudes toward antibiotics tend to be more negative, particularly in Europe. While attitudes vary by country, we understand that a growing number of countries in Europe have adopted a more aggressive stance against antibiotics. Specifically, the Danish government has restricted use of antibiotics in animal production since the 1990s, with reportedly no reduction in production. In addition, the European Union banned the use of antibiotics for growth promotion (not disease prevention) in 2006. In our view, governmental regulation in Europe could continue to be a headwind for Zoetis, more so than in the United States.

To summarize, while we acknowledge that there are potential risks to the secular growth trend in the animal health industry, we do not believe either major risk discussed above carries a significant probability. Therefore, we are comfortable with our long-term market growth estimate of 5%-6% and with Zoetis's ability to meet or exceed that level of growth. In the next section, we expand on Zoetis's position in the market.

Company Overview

Zoetis is the world's largest animal health company, with roughly 20% market share and market-leading offerings in companion as well as the cattle and swine markets. After 60 years as a part of Pfizer, Zoetis was incorporated as a stand-alone entity in mid-2012 and executed a spin-off in February 2013. As of June 2013, Pfizer no longer has any ownership stake in Zoetis, although the two companies have an agreement through early 2020 (seven years following the February 2013 IPO) allowing Zoetis to access Pfizer's R&D portfolio.

In our view, there are both advantages and disadvantages to being an independent entity. On the positive side, as an independent entity, the focus on animal health will be heightened. Cash flow can be directly reinvested in animal health projects rather than having to be shared with the human drug development and commercialization team. This should enhance productivity and maximize the potential of the asset for both management and shareholders. However, on the negative side, the company is no longer able to leverage the Pfizer cost structure and back-office efficiencies. In our view, Zoetis is one of the best-run companies in the industry and should be able to maintain or extend its global leadership position through a combination of in-house new product development, quality acquisitions, and excellent execution. In aggregate, we believe Zoetis will be able to improve its overall efficiency and returns once it completes the buildout of its own back-office infrastructure.

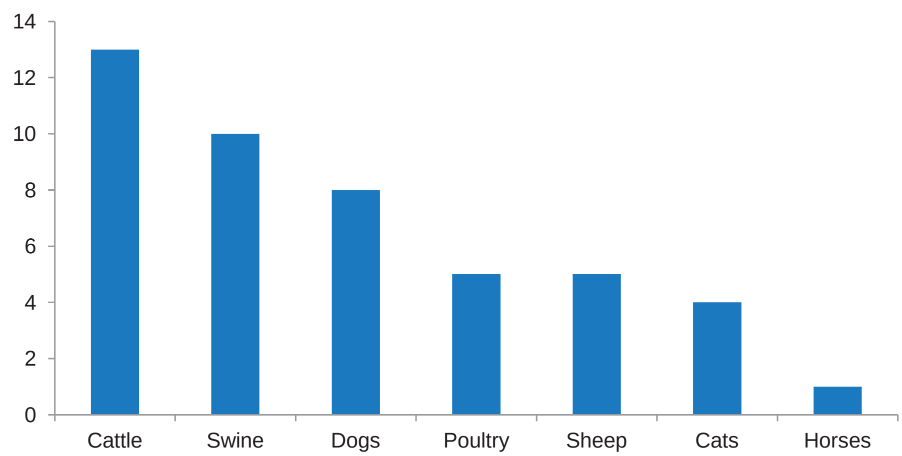
Looking at Zoetis's existing footprint, it maintains global leadership in many categories with excellent geographic and therapeutic breadth. We project the company to maintain its roughly 20% market share through 2020, although there is some variation by species. In the cattle market, we estimate Zoetis commands roughly 22% of the market, which we expect to stay constant for the next seven years. Conversely, in the poultry market, where competitors Merck, Sanofi's Merial, and Eli Lilly's Elanco have strong franchises, we expect Zoetis to roughly keep pace (7% growth, compared with industry growth in excess of 7%). We project market share in the swine and companion animal markets to be flat at 16.5% for swine and 19% for companion. A key to expanding market share will be the development of the company's internal product pipeline. Although there is little transparency, we believe the collaboration with Pfizer (among its many other collaborations) to maintain access to its library of compounds through 2020 should allow for sufficient opportunities to discover new products in-house. Overall, we expect top-line growth to be roughly 6% from 2013 through 2020, which is in line with our broader market expectation. See exhibits 15, 16, 17 and 18 for more detail.

Exhibit 15
Zoetis Inc.
Number of Products Offered That Represent at Least 1% of Revenue

Product Category	Function	Livestock	Companion
Anti-infectives	Prevent, kill, or slow growth of bacteria, fungi, or protozoa	7	3
Vaccines	Biological preparations that prevent respiratory, gastrointestinal, and reproductive tract diseases or induce a specific immune response	4	2
Parasiticides	Prevent or eliminate external and internal parasites such as fleas, ticks, and worms	2	1
Medicated Feed Additives	Products added to animal feed that provide medicine, nutrients, and probiotics to livestock	NA	NA
Other	Pain, sedation, oncology, and anti-emetic products	4	2

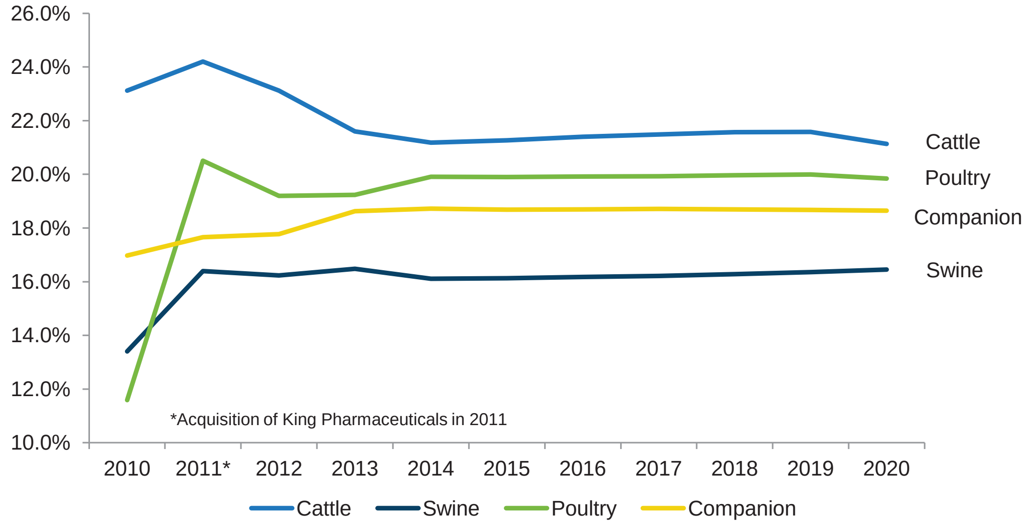
Source: Company reports

Exhibit 16
Zoetis Inc.
Number of Products Offered That Represent at Least 1% of Revenue



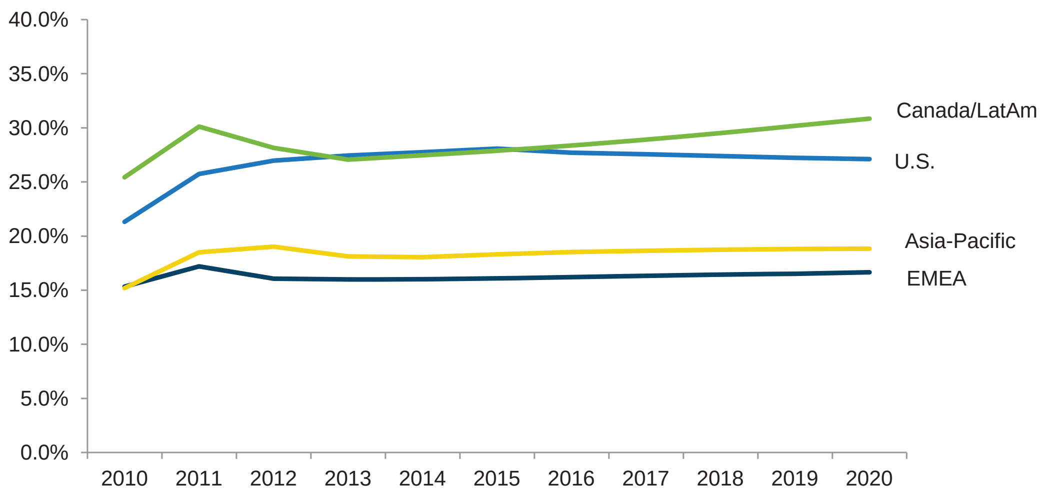
Source: Company reports

Exhibit 17
Zoetis Inc.
Market Share Estimates by Species



Sources: William Blair & Company, L.L.C. estimates and company reports

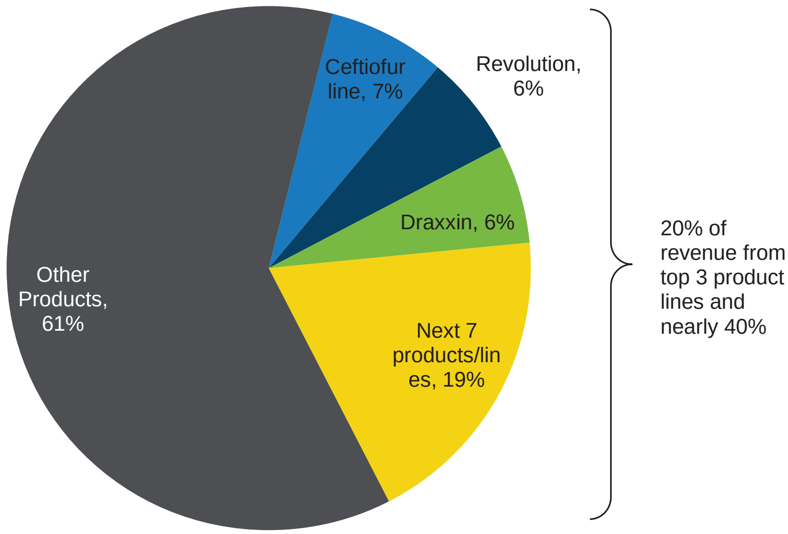
Exhibit 18
Zoetis Inc.
Market Share Estimates by Geography



Sources: William Blair & Company, L.L.C. estimates and company reports

Zoetis is well diversified, with no single product making up more than 7% of revenue. As noted below, the top three product lines make up roughly 20% of revenue. The largest, Ceftiofur, is a broad-spectrum antibiotic for cattle, sheep, and swine generating just over $300 million annually. We believe the next two products, Revolution (a flea and tick antiparasitic for dogs and cats) and Draxxin (a single-dose antibiotic for cattle and swine), are roughly equally sized (about 6% of revenue each). The next seven products/product lines make up roughly 19% of revenue, implying that each generate only 2%-3% of revenues on average. In total, the company has more than 300 products, which make up the balance (61%) of revenue. See exhibit 19 for additional product detail.

Exhibit 19
Zoetis Inc.
Product Concentration



Source: Company reports

We believe a key to fueling growth and extending its leadership position in the market is the company's R&D effort, which is one of the largest in the industry. Zoetis spends more than $400 million annually using a staff of more than 1,000 people. The company has generated roughly 60 product approvals or line extensions since 2006. To put this productivity in context, between 2004 and 2011, Zoetis received 25% of all FDA product approvals and 20% of USDA product approvals.

We understand that the majority of this spending is focused on managing the life cycle of existing brands by expanding labels to include new species or claims, improving the efficacy or safety of a product through reformulation, or gaining approval in new geographies. Still, the development of new compounds (both chemical and biological) plays a critical role in future growth, in our opinion. We do not have much visibility into the new product candidates in the Zoetis pipeline, and we note that a key issue will be what impact, if any, the spin-off has on new product flow.

A second way to boost its pipeline could be to follow a similar strategy to what large pharma has employed in the human health world, namely to acquire novel compounds from smaller entities. Historically, the company has been quite acquisitive; it bought SmithKline Beecham's animal health business in 1995 and followed with 10 acquisitions from 2003 through 2011. Of these, eight appear to be motivated by animal health rather than simply being an add-on to mergers and acquisitions by the parent company. We believe that acquisitions will continue to be a part of the company's cash-deployment strategy, focusing on tuck-ins to fill geographic or portfolio gaps. We do not expect management to pursue a major acquisition of a peer, considering the divestitures required by the FTC to complete the Wyeth/Fort Dodge purchase in 2009.

In addition to its R&D pipeline and overall product diversification, another competitive strength for Zoetis is its direct sales model, which consists of 3,300 employees globally, including general representatives as well as technical and operation specialists. Zoetis has relationships with distributors in markets where it does not have a significant presence. In addition, in the United States Zoetis uses distributors across a large percentage of the production market, but only in select areas of the companion market. This is in contrast to many other manufacturers that use distribution more significantly. While maintaining an internal salesforce is more expensive and arguably less efficient, the company has pointed to this strategy as a competitive differentiator in the marketplace since the sales team is more knowledgeable and focused on and loyal to products from a single manufacturer rather than a distributor, which tends to be agnostic to which product is sold.

Exhibit 20
Zoetis Inc.
Acquisition History

Year	Target	Areas of Expansion in Animal Health
1995	SmithKline Beecham Animal Health	Vaccines and companion animal market
2003	Pharmacia Corporation	Cattle portfolio
2003	CSL Animal Health	Geographic expansion—Australia/New Zealand; vaccine portfolio
2007	Embrex, Inc.	Poultry devices and vaccines
2008	Catapult Pty Ltd.	Animal genetics
2008	Bovigen LLC	Animal genetics
2009	Wyeth/Fort Dodge	ProHeart (dogs), Synovex (cattle), Innovator/Duvaxyn West Nile vaccine (horses), poultry vaccines
2009	Vetnex Animal Health Ltd.	Geographic expansion—India
2010	Microtek International, Inc.	Aquaculture vaccines
2010	Synbiotics Corporation	Veterinary diagnostics
2011	King Pharmaceuticals/Alpharma	Poultry medicinal feed additives; cattle and swine portfolio

Source: Company reports

Management

We believe the Zoetis management team is one of the deepest and most experienced in the industry. Chief Executive Officer Juan Ramón Alaix has more than 20 years of experience in the pharmaceutical industry. Mr. Alaix joined Pfizer from Pharmacia in 2003 and has served as president of Pfizer Animal Health since 2006. Exhibit 21 contains additional information about some of the key members of the management team.

Exhibit 21
Zoetis Inc.
Management Biographies

Name	Title	Experience
Juan Ramón Alaix	CEO, Director	Mr. Alaix was appointed CEO of Zoetis in July 2012. He has served as president of Pfizer Animal Health since 2006, where he was responsible for the overall strategic direction and financial performance of the company. Under his leadership, the company grew to become a $4.3 billion enterprise in 2012. He joined Pfizer from Pharmacia in 2003 as regional president. He has 35 years of experience of increasing responsibility in finance and management, including 20 years in the pharmaceutical industry. Mr. Alaix currently serves as a member of the IFAH board and executive committee.
Richard A. Passov	Executive VP and CFO	Mr. Passov was appointed executive vice president and CFO in November 2012. Previously, he served as senior vice president and treasurer of Pfizer, a position he held since 2001. Before joining Pfizer, Mr. Passov was assistant treasurer and director of business development at Intel.
Alejandro Bernal	Executive VP and Area President of Europe, Africa, and Middle East Region	Mr. Bernal has served as executive vice president and area president of EMEA since October 2012. Previously, Mr. Bernal was the area president for this region in the Pfizer Animal Health organization, a position he held since November 2010. From 2008 to 2010, Mr. Bernal was a member of the board of directors of The Resource Foundation, a U.S. nonprofit organization that works to provide sustainable opportunities for poor rural communities in Latin America. In February 2011, he became a member of the Council for the IFAH Europe and is currently chairman of the board.
Catherine A. Knupp	Executive VP and President of Research and Development	Dr. Knupp is executive vice president and president of research and development at Zoetis. Dr. Knupp previously served as vice president of veterinary medicine research and development at Pfizer Animal Health, a position she held since 2005. She began her career in 1987 at Bristol-Myers Squibb, where she held positions of increasing responsibility in drug metabolism and pharmacokinetics.
Joyce J. Lee	Executive VP and Area President of Canada and Latin America Region	Joyce Lee has served as executive vice president and area president of the Canada and Latin America region since October 2012. Previously, she was area president for CLAR in the Pfizer Animal Health organization, a position she held since 2010. Ms. Lee has held various positions of broad scope and increasing complexity in the animal health industries. Her experience includes information technology, financial services, transportation, human pharmaceuticals, and animal health.
Clinton A. Lewis, Jr.	Executive VP and President of U.S. Operations	Clinton Lewis is executive vice president and president of U.S. operations. He joined Pfizer Animal Health in 2007. Mr. Lewis joined Pfizer in 1988 as a sales rep in Long Island and has held positions of increasing responsibility in several areas across various commercial operations dedicated to human health.
Kristin C. Peck	Executive VP and Group President	Kristin Peck is executive vice president and group president at Zoetis. She is responsible for global manufacturing and supply, global poultry, global diagnostics, corporate development, and new product marketing and global research. Ms. Peck joined Pfizer in 2004 in a strategy role, and later became senior vice president of worldwide strategy and innovation. Before joining Pfizer, she focused on strategy and merger-related issues in the pharmaceutical and financial services industries at the Boston Consulting Group.
Stefan Weiskopf	Executive VP and Area President of Asia-Pacific Region	Dr. Weiskopf was appointed executive vice president and area president of Asia-Pacific in October 2012, a position he held at Pfizer Animal Health since 2007. He joined Pfizer Animal Health in Germany in 1986. Before entering the pharmaceutical industry, Dr. Weiskopf practiced veterinary medicine.

Source: Company reports

Competition

While Zoetis is the largest and one of the best diversified manufacturers in the animal health market, there are a number of other large players in the market, many of which are still a part of larger pharmaceutical companies—although speculation is building that Merck and Novartis are also considering a spin-off or sale of their animal health subsidiaries. As shown in exhibit 22, after Zoetis there is a fairly significant drop-off in revenue to the next-largest player, Merck. Among the top six players in the market, we believe there are some areas of specialization that could provide some opportunities for Zoetis to gain share. Specifically, while we believe that the company is the largest player in both the cattle and swine markets, the poultry market is an area of opportunity, in our view, as both Merck and Elanco have larger market share. In addition, in the companion market, the company trails Merial in terms of share, especially in the flea and tick segment.

We believe the competitive dynamics are generally stable and that pricing is rational. In our market model, we expect roughly 3% inflation growth on a global basis annually with slightly higher contribution from inflation in developed markets. However, there are growing concerns that recent rates of inflation are not sustainable, which will likely prompt greater interest in generic alternatives. Hence, in our market model, we have assumed inflation decreases over the next several years from 2.4% in 2013 to 1.9% by 2020.

Exhibit 22
Zoetis Inc.
Estimated Revenue for Potential Competitors

	Estimated 2012 Revenue ($ millions)	Estimated 2012 Market Share
Zoetis	$4,336	20%
Merck	$3,399	16%
Merial (Sanofi)	$2,802	13%
Elanco (Eli Lilly)	$2,037	9%
Bayer	$1,676	8%
Boehringer Ingelheim	$1,322	6%
Novartis	$1,000	5%
Virbac	$916	4%
Ceva	$800	4%
Dechra*	$325	1%
Total	$18,613	85%

*Excludes estimated contribution from recently divested distribution business

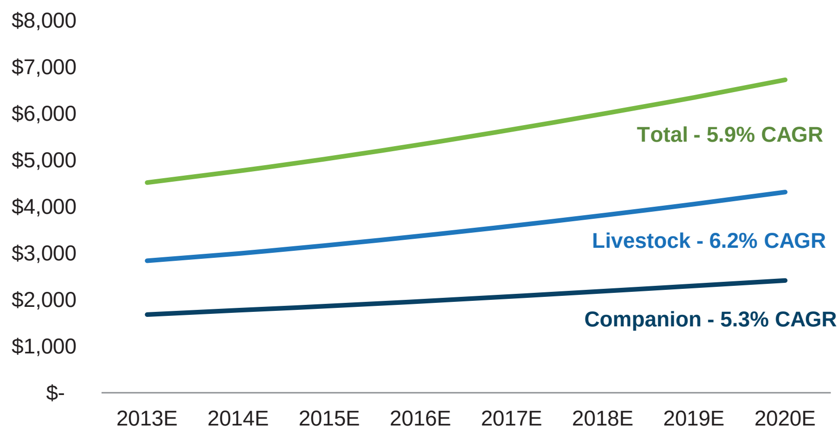
Sources: FactSet, company reports, and William Blair & Company, L.L.C. estimates

Financial Outlook and Key Modeling Assumptions

We believe Zoetis's size will likely result in modest but stable growth over the next several years because of its diversification across product lines, species, and geography. Zoetis operates in four distinct geographic regions characterized by meaningfully different customer bases. In each operating segment, it offers a diversified product portfolio for both livestock and companion animal customers. Zoetis's four operating segments are the United States (41% of revenue, 52% operating margin excluding corporate expenses), Europe/Africa/Middle East (25% of revenue, 34% operating margin), Canada/Latin America (18% of revenue, 33% operating margin), and Asia-Pacific (16% of revenue, 34% operating margin).

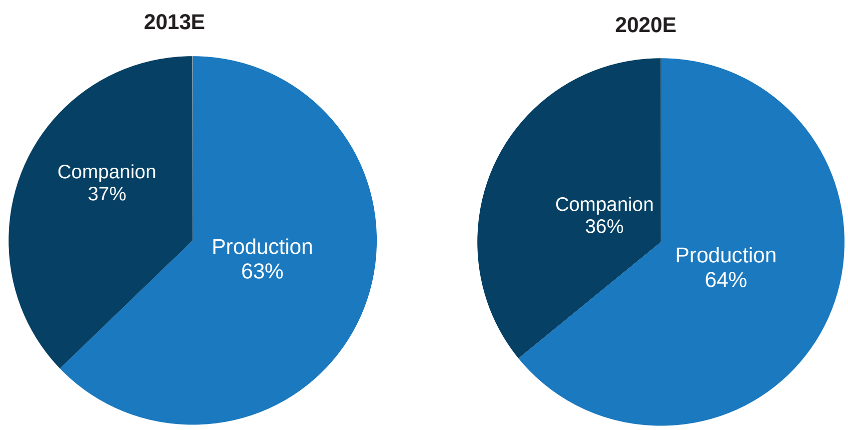
Revenue
Based on industry data from Vetnosis and our market model, we believe the global animal vaccine and medicine market will grow between 5% and 6% for the next five to seven years. We believe Zoetis should grow in line with or slightly faster than the broader market. Over the long term, we project Zoetis's revenue mix should move slightly in favor of production sales, albeit at a gradual pace. This will put downward pressure on consolidated gross margins since production customers are historically more sensitive to changes in price. Exhibits 23 and 24 demonstrate the expected change in revenue by segment from 2013 to 2020.

Exhibit 23
Zoetis Inc.
Revenue Growth by Segment ($ millions)



Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 24
Zoetis Inc.
Total Revenue by Segment



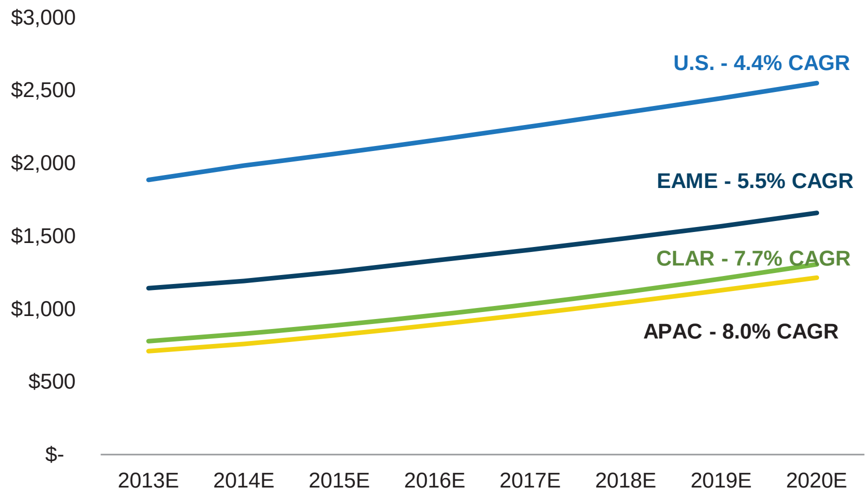
Sources: Company reports and William Blair & Company, L.L.C. estimates

On a geographic basis, we estimate Asia-Pacific's livestock and companion markets will outgrow all other segments of the market at 8.4% and 7.0%, respectively. Behind Asia-Pacific is CLAR (Canada and Latin America), with the majority of growth coming from Latin America. Similar to Asia-Pacific, we forecast CLAR's production revenue to outpace companion growth over the long term at 7.9%

versus 6.8%. Africa is also poised for rapid growth, but given that it is growing from a small base and Zoetis categorizes the region with Europe and the Middle East, growth does not appear to change trajectory. Still, we project revenue growth in Europe, Africa, and the Middle East (EAME) to outpace U.S. growth by more than 110 basis points over the long term.

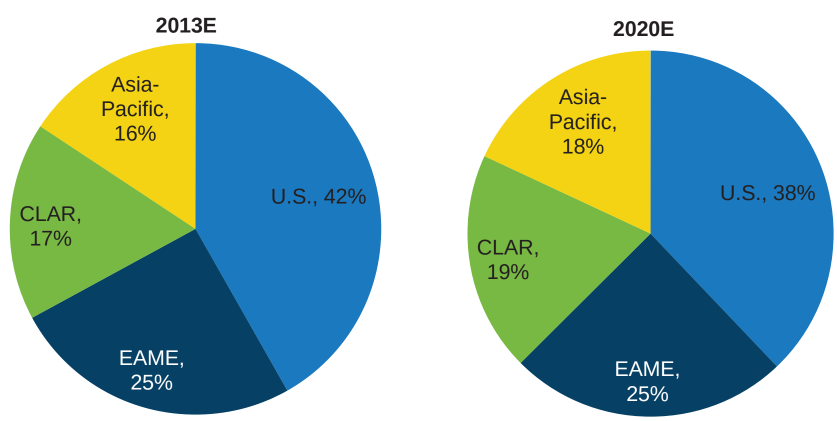
Lastly, the U.S. market is projected to grow at a slower pace than the rest of the world because of its larger and more mature revenue base. The United States is the only region where we expect the companion market to outgrow production annually. We project the U.S. companion market to outpace livestock initially, but as both markets mature, we estimate they will grow in tandem over the long term. Historically, the United States has been the most profitable geography for Zoetis; thus, as the geographic mix shifts away from the United States, we suspect there could be a negative impact to operating margin. Exhibits 25 and 26 demonstrate the expected change in revenue by geography from 2013 to 2020.

Exhibit 25
Zoetis Inc.
Revenue Growth by Geography ($ millions)



Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 26
Zoetis Inc.
Total Revenue by Geography



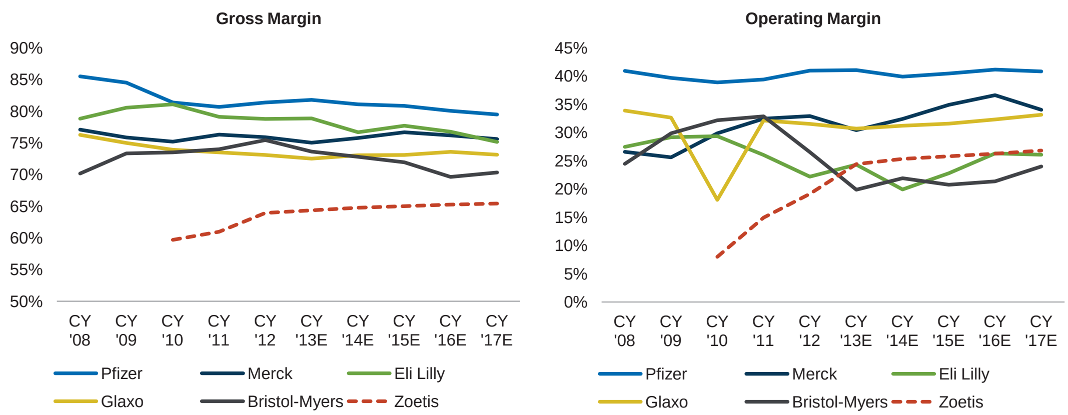
Sources: Company reports and William Blair & Company, L.L.C. estimates

Operating Margins

We believe that historical margins were depressed since Zoetis was allocated expenses from Pfizer's other business segments. Zoetis should be able to expand operating margins over the longer term now that it operates independently. Exhibit 27 demonstrates the company's expected future margin trend, based on consensus estimates. We believe the majority of leverage will take place within SG&A expense, and as Zoetis starts to achieve companywide synergies that no longer include overhang expenses associated with Pfizer, we believe the bulk of these savings will be realized in the first two years. However, the company will have to ramp up spending over the next few years to build the stand-alone infrastructure that did not exist under Pfizer's ownership. These expenses are being quantified in management guidance as $200 million to $240 million in 2013, $100 million to $120 million in 2014, and a small amount of spending in 2015. We therefore expect cash flow to show greater improvement in 2015 once these "stand up" investments are largely complete.

As one would expect, gross margins for Zoetis are significantly less than at human pharmaceutical companies since animal health customers are historically more price sensitive, especially within livestock. From 2013 to 2017, we believe Zoetis can realize operating margin leverage of about 250 basis points in total for an average of 63 basis points per year. Management has stated that it expects total revenue to outpace SG&A expenses annually over the long term.

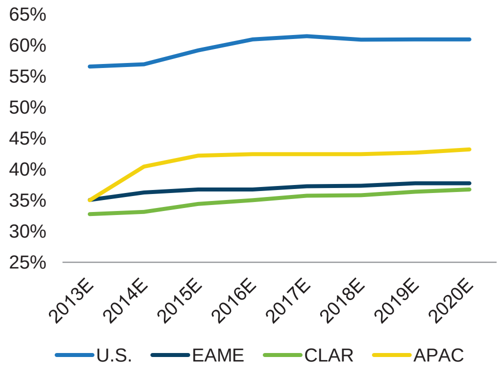
Exhibit 27
Zoetis Inc.
Projected Margin Profile

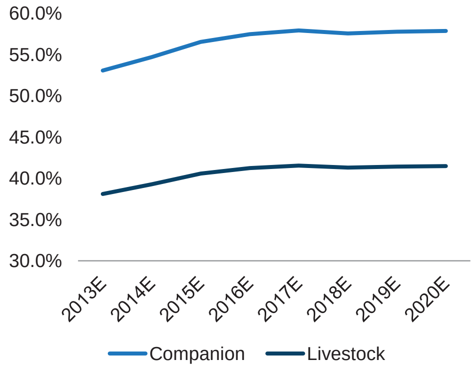


Sources: FactSet and William Blair & Company, L.L.C. estimates

We do not believe Zoetis will achieve 30%-plus operating margin, because of changes in mix over time (companion is more profitable than livestock and developed markets are more profitable than developing markets). As we stated previously, livestock is projected to outgrow companion, while emerging markets are expected to outpace developed markets for the immediate future. Both of these trends are negative for sustained margin expansion, as would be any acceleration of generic adoption. Exhibit 28 demonstrates this movement.

Exhibit 28
Zoetis Inc.
Segment Operating Margins



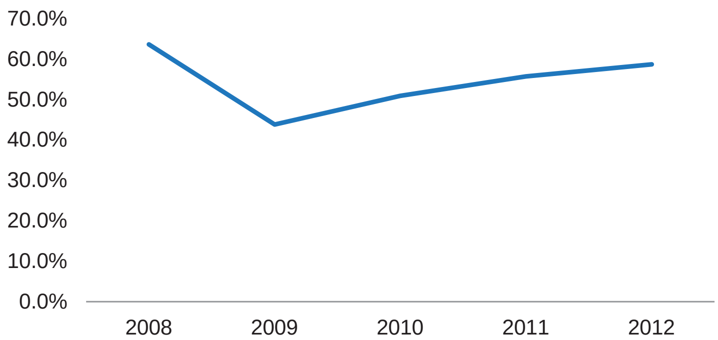


Source: William Blair & Company, L.L.C. estimates

Cash Flow

Once Zoetis's operations begin to normalize, we believe it will be able to generate levels of cash flow similar to that of human pharmaceutical companies. Exhibit 29 shows that over the last five years, large pharmaceutical companies have been able to generate free cash flow as a percent of EBITDA of more than 50%.

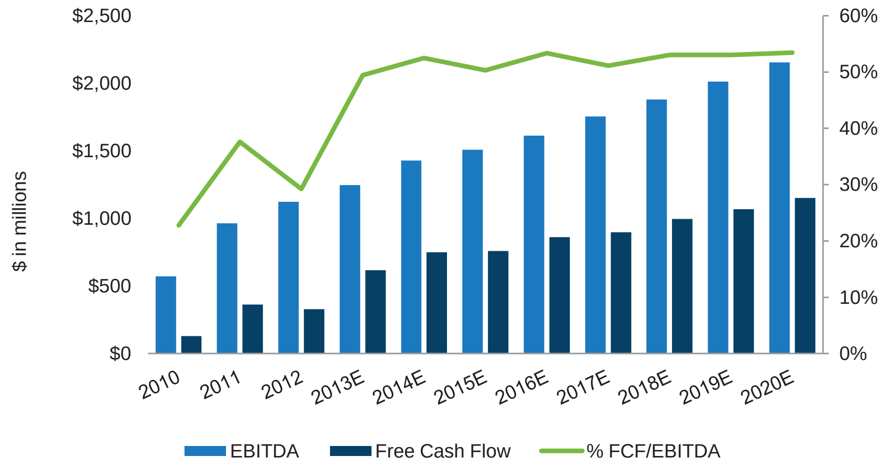
Exhibit 29
Large Pharma: Free Cash Flow as a Percent of EBITDA



Includes: Bristol-Myers Squibb, Pfizer, Eli Lilly, GlaxoSmithKline, and Merck
Source: FactSet

As seen in exhibit 30, we assume that as operations normalize going into 2014, Zoetis's free cash flow should grow in relation to EBITDA. We believe cash will be used by management to buy back shares, pay down debt, and fund acquisitions.

Exhibit 30
Zoetis Inc.
Annual Free Cash Flow and EBITDA



Source: William Blair & Company, L.L.C. estimates

Given Zoetis's current debt-to-capital ratio of 79% and debt-to-EBITDA ratio of 2.70, we assume management will opt to further deleverage the balance sheet to a level of 60% and 2.00, respectively. We expect interest expense to reduce EPS by $0.16 in 2014. However, because of the significant amount of cash flow being generated, Zoetis should be able to boost EPS by paying down debt and subsequently reducing interest expense. For example, exhibit 31 demonstrates that if Zoetis uses 50% of annual free cash flow to reduce debt from 2014 to 2016, it could increase EPS by $0.01 in 2014, $0.03 in 2015, and $0.04 in 2016, with a resulting debt-to-EBITDA ratio of 1.48 by the end of 2016, by our calculations.

Exhibit 31
Zoetis Inc.
EPS Benefit From Reduced Interest Expense

% Use of FCF	2014	2015	2016	Debt-to-EBITDA
25%	$0.01	$0.01	$0.02	1.85
50%	$0.01	$0.03	$0.04	1.48
75%	$0.02	$0.04	$0.07	1.11

Sources: Company reports and William Blair & Company, L.L.C estimates

As debt levels approach a more typical level for the industry, we believe that management will begin to shift capital deployment in the direction of share buybacks, increased dividends, and tuck-in acquisitions. Our model assumes debt reduction will become less of a priority by 2015, with share repurchases ramping up in the second half of the year.

Share repurchase. Using the same free cash flow modeling projections, we estimate a share repurchase program could add 1.1% to 3.5% to EPS growth annually. If we assume an 8% annualized return to share price and interest on cash approaching 1% in 2020, management can increase EPS 2.2% on average if it repurchases stock with 50% of annual free cash flow starting in 2016.

Exhibit 32
Zoetis Inc.
Annual Percent EPS Benefit From Share Repurchase

% Use of FCF	2016	2017	2018	2019	2020
25%	1.12%	1.08%	1.10%	1.09%	1.08%
50%	2.27%	2.18%	2.23%	2.20%	2.19%
75%	3.45%	3.31%	3.39%	3.34%	3.33%

Sources: Company reports and William Blair & Company, L.L.C estimates

Sensitivity of Key Assumptions

Operating margin. Despite some of the negative mix drivers noted previously, we believe Zoetis can improve EBIT margins by 45 to 60 basis points per year (after 2014), thanks to the ability to improve efficiency after the Pfizer spin-off. Based on our 2014 estimates, every 10 basis points of operating leverage results in a $0.01 swing to EPS annually.

Revenue. We project constant-currency, organic revenue growth of 5.2% in 2014. Every 100 basis points in 2014 revenue growth is equivalent to roughly $45.1 million in sales. Assuming our margin assumptions remain unchanged, every 100-basis-point change in revenue growth yields a change of $0.015 to EPS annually.

Based on 2013 guidance through 2016, we expect a top-line CAGR of 5.7% and annual operating leverage of 67 basis points. In exhibit 33, we estimate a range of 2016 earnings per share, based on annual revenue growth between 3.4% and 8.2% and operating leverage of 20 basis points to as much as 100 basis points annually. We believe the most likely range of outcomes is for a minimum of 4.2% annual revenue growth and 40 basis points of annual margin leverage and a maximum of 7.4% annual revenue growth and 80 basis points of annual margin leverage. This results in a potential EPS range of $1.73 to $2.01, or a three-year EPS CAGR of 7.5%-13.0%. Our model results in 2016 EPS of $1.88, a 10.3% CAGR, the midpoint of the long-term guidance range.

Exhibit 33
Zoetis Inc.
2016 EPS Range Based on Revenue CAGR and Operating Leverage Variations

Annual Operating Margin Change	Three-Year Revenue CAGR 3.40%	4.20%	5.00%	5.80%	6.60%	7.40%	8.20%
0.20%	$1.65	$1.69	$1.73	$1.77	$1.82	$1.86	$1.91
0.30%	$1.67	$1.71	$1.75	$1.80	$1.84	$1.89	$1.93
0.40%	$1.69	$1.73	$1.78	$1.82	$1.86	$1.91	$1.96
0.50%	$1.71	$1.75	$1.80	$1.84	$1.89	$1.93	$1.98
0.60%	$1.73	$1.78	$1.82	$1.87	$1.91	$1.96	$2.00
0.70%	$1.75	$1.80	$1.84	$1.89	$1.93	$1.98	$2.03
0.80%	$1.78	$1.82	$1.87	$1.91	$1.96	$2.01	$2.05
0.90%	$1.80	$1.84	$1.89	$1.93	$1.98	$2.03	$2.08
1.00%	$1.82	$1.86	$1.91	$1.96	$2.00	$2.05	$2.10

Sources: Company reports and William Blair & Company, L.L.C. estimates

Lastly, exhibit 2, on page 3, demonstrates how our model arrives at Zoetis's long-term earnings growth rates. As mentioned previously, we believe Zoetis should achieve low-double-digit growth through operations, acquisitions, debt reduction, and share buybacks. Our model assumes the majority of operational efficiencies should be realized in 2013 and 2014, with gradual leverage built in sequentially. Because operating growth is hovering near 8%, Zoetis will need to commit to a capital-deployment strategy that generates roughly 2% growth to the bottom line annually to achieve our long-term EPS estimates.

Valuation

Zoetis is up 21% since its initial spin-off price of $26, but since opening at $31.50 on February 1, the company has traded relatively flat between $29 and $34 per share. Over the same period, the S&P 500 has advanced close to 20%. We believe the stock has underperformed since trading on a stand-alone basis for two reasons. First, in the short term, the company reported fairly underwhelming second and third quarters, with current growth constrained by drought in the United States and Australia. Second, and more importantly, we do not believe the growth trajectory—which we believe is quite defensive, but does not offer much opportunity for notable upside—is adequate to support or expand the current multiple. While we believe Zoetis is the market leader with impressive diversification and global scale, we do not believe long-term growth of about 10% can support a forward multiple of 19-20 times or better.

We assess Zoetis's valuation using forward earnings multiples, enterprise-value-to-forward-EBITDA, and discounted cash flow. We believe the most appropriate comparable companies are animal health companies and, given Zoetis's size and pedigree, midsize and large pharmaceutical companies. Exhibits 34 and 35 show our valuation peer group and its respective profile. We believe it would be logical for Zoetis to trade in between these two peer groups over the longer term. The most visible difference between Zoetis and its peers is the level of debt. Because of Zoetis's annual cash flow generation, we believe it can get its net-debt-to-EBITDA ratio to less than 2.0 by mid-2015, and we do not view this as significant risk. From an organic revenue growth and P/E comparison, the company is in the middle of the pack at 5.1% organic revenue growth and a 20.4-times P/E multiple.

Exhibit 34
Zoetis Inc.
Animal Health Comparison Table

Company	Ticker	Net Debt/ CY 2014 EBITDA	Total Debt/CY 2014 EBITDA	Fwd 2014 P/E	3-Yr Revenue CAGR
Patterson Companies	PDCO	0.8	1.9	17.7	2.9%
Henry Schein	HSIC	0.4	0.5	21.2	3.9%
MWI Veterinary Supply	MWIV	0.1	0.1	29.9	9.9%
IDEXX Laboratories	IDXX	0.4	1.1	28.1	7.3%
Zoetis	**ZTS**	**2.3**	**2.6**	**20.4**	**5.1%**
Virbac	VIRP	0.9	1.2	18.4	6.2%
Dechra Pharmaceuticals	DPH	1.8	2.5	19.1	NA
Average		***1.0***	***1.4***	***22.1***	***5.9%***

*Organic revenue growth estimates

Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 36, on page 32, details the forward P/E ratio trend for the comparable group dating to December 2000. Historically, the animal health group has collectively traded between 16.5 and 20.6 times forward earnings, with an average earnings multiple of roughly 18.5 times. The midsize and large pharma group has traded between 9.5 and 19.8 times forward earnings, with an average earnings multiple of roughly 14.7 times. Based on this exhibit, we can see the animal health group has just recently breached one standard deviation above its historical range. This trend has been skewed by the likes of Idexx and MWI, as their valuations are greater than 28 times projected 2014 EPS. Currently, Zoetis is trading at a 15.8% discount to the animal health peer group. If we compare Zoetis with Virbac and Dechra, the only other publicly traded pure-play animal health pharma companies, it is trading at an 8.8% premium despite a lower likelihood of earnings growth acceleration, in our view. Compared with large pharma companies, Zoetis is trading at a premium of 40%, which is logical given less drug development risk than human pharma, although this is accompanied by a lower probability of blockbuster drugs.

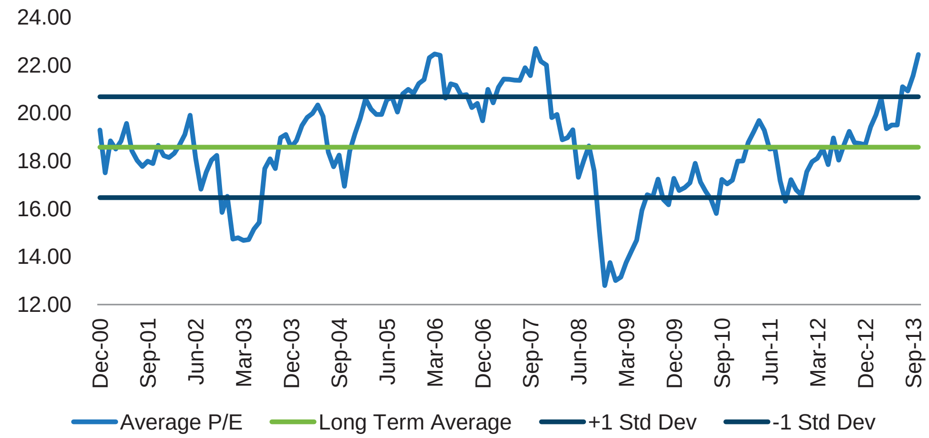
Exhibit 35
Zoetis Inc.
Veterinary Organization Comparative Valuation Summary
(in millions, except per share data)

Company	Rating / Profile	11/21/13 Price	% Chg YTD	Diluted Shares	Market Cap.	Curr. Ann. Rev.	Mkt. Cap/ Rev	Calendar Year EPS 2012A	2013E	2014E	P/E Ratio 2012A	2013E	2014E	EV/EBITDA 2013E	3 Yr Est Growth Rate	2013 P/E to Growth	FCF yield 2013E	DVD yield (ann.)	Last Quarter Actual Growth Rate Rev	EPS	EBIT Margin
AstraZeneca (AZN)	NR	54.96	16%	1,254.0	$68,920	$24,930	2.8x	$6.86	$4.90	$4.51	8.0x	11.2x	12.2x	8.1x	-9%	NA	7.6%	0.0%	-7%	-20%	32%
Abbvie (ABBV)	NR	48.57	42%	1,609.0	$78,149	$18,768	4.2x	$3.35	$3.14	$3.17	14.5x	15.5x	15.3x	11.3x	3%	4.4x	6.8%	3.3%	4%	-26%	38%
Eli Lilly (LLY)	NR	50.49	2%	1,084.2	$54,741	$23,090	2.4x	$3.39	$4.14	$2.77	14.9x	12.2x	18.2x	11.0x	1%	NA	6.2%	3.9%	6%	41%	27%
GlaxoSmithKline (GSK)	NR	53.22	22%	2,461.5	$131,001	$40,643	3.2x	$3.62	$3.66	$3.93	14.7x	14.5x	13.6x	9.9x	7%	2.1x	7.4%	4.2%	-2%	9%	32%
Johnson & Johnson (JNJ)	NR	95.20	36%	2,893.0	$275,414	$71,468	3.9x	$5.10	$5.48	$5.85	18.7x	17.4x	16.3x	10.8x	6%	2.5x	NA	2.8%	8%	9%	28%
Pfizer (PFE)	NR	31.97	27%	7,117.0	$227,530	$51,892	4.4x	$2.19	$2.17	$2.29	14.6x	14.7x	14.0x	9.1x	4%	3.4x	7.7%	3.0%	-14%	9%	43%
Merck & Co. (MRK)	NR	48.62	19%	3,010.0	$146,346	$44,076	3.3x	$3.82	$3.49	$3.50	12.7x	13.9x	13.9x	8.4x	1%	NA	9.8%	3.5%	-11%	-3%	34%
Novartis (NVS)	NR	79.17	25%	2,490.0	$197,133	$57,608	3.4x	$5.25	$5.13	$5.46	15.1x	15.4x	14.5x	12.0x	5%	2.7x	NA	0.0%	6%	-6%	25%
Sanofi (SNY)	NR	52.59	11%	2,651.4	$139,437	$41,768	3.3x	$4.09	$3.51	$3.94	12.9x	15.0x	13.4x	9.0x	6%	2.3x	7.2%	0.0%	-8%	-15%	29%
LARGE PHARMACEUTICALS AVERAGE			**22%**				**3.4x**				**14.0x**	**14.4x**	**14.6x**	**10.0x**	**3%**	**2.9x**			**-2%**	**0%**	**32%**

Company	Rating / Profile	11/21/13 Price	% Chg YTD	Diluted Shares	Market Cap.	Curr. Ann. Rev.	Mkt. Cap/ Rev	Calendar Year EPS 2012E	2013E	2014E	P/E Ratio 2012E	2013E	2014E	EV/EBITDA 2013E	3 Yr Est Growth Rate	2013 P/E to Growth	FCF yield 2013E	DVD yield (ann.)	Last Quarter Actual Growth Rate Rev	EPS	EBIT Margin
Henry Schein (HSIC)	O/C	114.52	42%	88.0	$10,074	$9,567	1.1x	$4.44	$4.89	$5.40	25.8x	23.4x	21.2x	11.6x	10%	2.1x	4.9%	0.0%	9%	11%	7%
MWI Veterinary Supply (MWIV)	O/A	174.08	58%	12.7	$2,216	$2,426	0.9x	$4.50	$5.02	$5.83	38.7x	34.7x	29.9x	16.3x	15%	2.0x	-0.2%	0.0%	9%	15%	4%
Patterson Dental (PDCO)	M/C	41.11	20%	101.9	$4,190	$3,995	1.0x	$1.99	$2.12	$2.33	20.7x	19.4x	17.7x	9.9x	10%	1.8x	7.0%	1.6%	15%	10%	8%
Abaxis (ABAX)	NR	35.50	-4%	22.6	$801	$173	4.6x	$1.07	$0.88	$0.99	33.1x	40.4x	35.8x	18.1x	15%	2.4x	NA	0.0%	3%	NA	12%
Aratana Therapeutics (PETX)	O/A	19.85	231%	20.8	$413	$0	NA	($0.91)	($0.95)	($1.29)	NA	NA	NA	NA	NA	NA	NA	0.0%	NA	NA	NA
Dechra Pharmaceuticals (DPH-GB)	NR	11.00	12%	87.2	$958	$675	1.4x	$0.58	$0.58	$0.58	19.0x	18.9x	19.1x	14.8x	NA	NA	NA	0.0%	NA	NA	NA
IDEXX Laboratories (IDXX)*	O/E*	107.51	16%	53.2	$5,724	$1,353	4.2x	$3.13	$3.47	$3.83	34.3x	31.0x	28.1x	16.6x	14%	2.0x	3.4%	0.0%	7%	13%	19%
Neogen (NEOG)	NR	48.47	7%	37.0	$1,794	$234	7.7x	$0.70	$0.82	$0.96	69.4x	59.4x	50.5x	27.3x	19%	2.7x	NA	0.0%	18%	14%	21%
VCA Antech (WOOF)*	O/C*	30.24	44%	89.7	$2,711	$1,861	1.5x	$1.36	$1.69	$1.85	22.2x	17.9x	16.4x	9.2x	13%	1.3x	6.5%	0.0%	6%	24%	15%
Petsmart (PETM)*	M/C*	74.60	9%	104.5	$7,797	$6,824	1.1x	$3.47	$3.93	$4.48	21.5x	19.0x	16.7x	8.1x	16%	1.0x	6.7%	0.9%	5%	25%	9%
Petmed Express (PETS)	NR	15.45	39%	20.0	$309	$297	1.0x	$0.85	$0.89	$0.93	18.2x	17.3x	16.7x	8.6x	5%	3.3x	NA	3.9%	8%	5%	11%
Virbac S.A. (VIRP-FR)	NR	201.44	2%	8.5	$1,704	$965	1.8x	$10.43	$9.55	$10.96	19.3x	21.1x	18.4x	9.6x	8%	2.2x	4.4%	0.0%	4%	NA	NA
Zoetis (ZTS)	NR	31.58	21%	500.5	$15,807	$4,412	3.6x	$1.08	$1.40	$1.55	29.2x	22.6x	20.4x	13.4x	10%	2.0x	4.7%	0.8%	8%	12%	24%
VETERINARY AVERAGE			**38%**				**2.5x**				**29.3x**	**27.1x**	**24.2x**	**13.6x**	**12%**	**2.1x**			**8%**	**14%**	**13%**

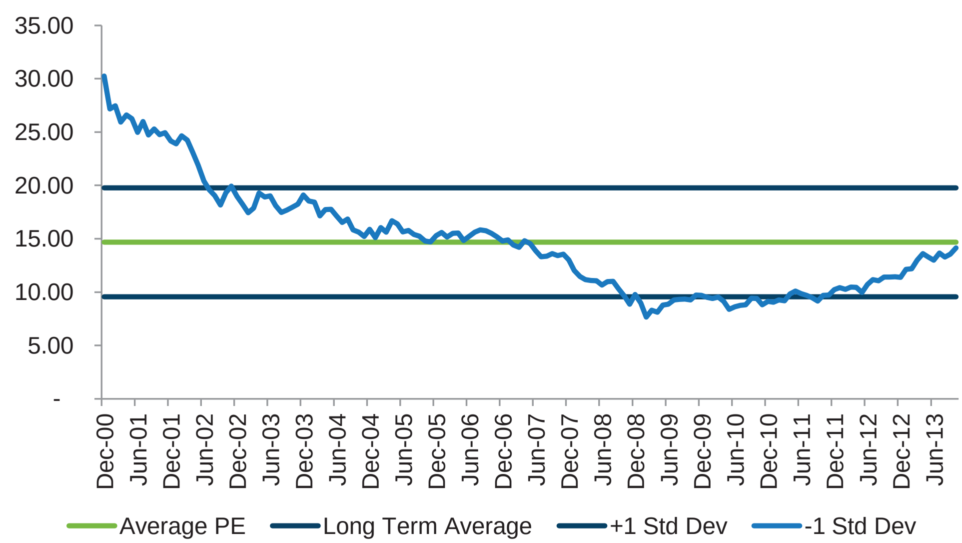
Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 36
Animal Health Historical Foward P/E Ratio



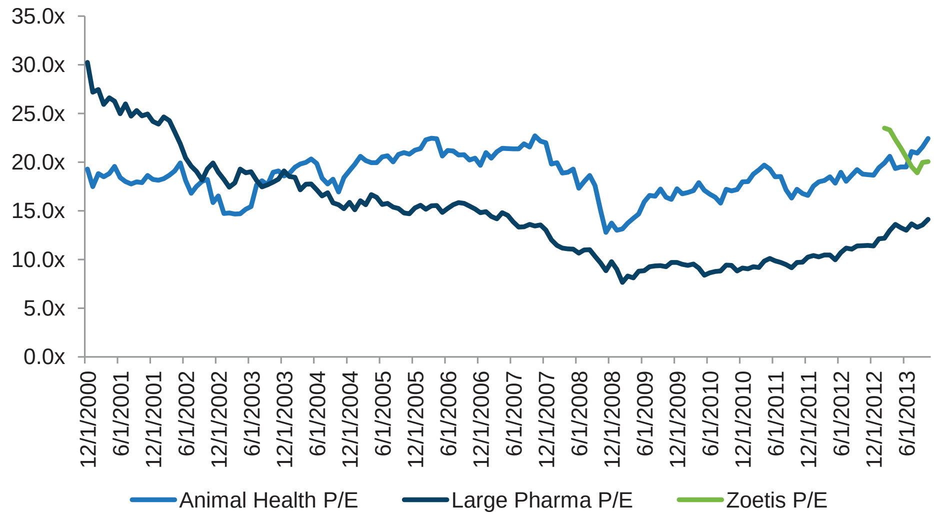
*Animal health group includes PDCO, HSIC, MWIV, IDXX, VIRP, and DPH
Source: FactSet

Exhibit 37
Large Pharmaceutical Historical Forward P/E Ratio



*Pharma group includes AZN, ABBV, LLY, GSK, JNJ, PFE, MRK, NVS, and SNY
Source: FactSet

Exhibit 38
Zoetis Inc.
Zoetis P/E Trend Versus Historical Peer Group Trends



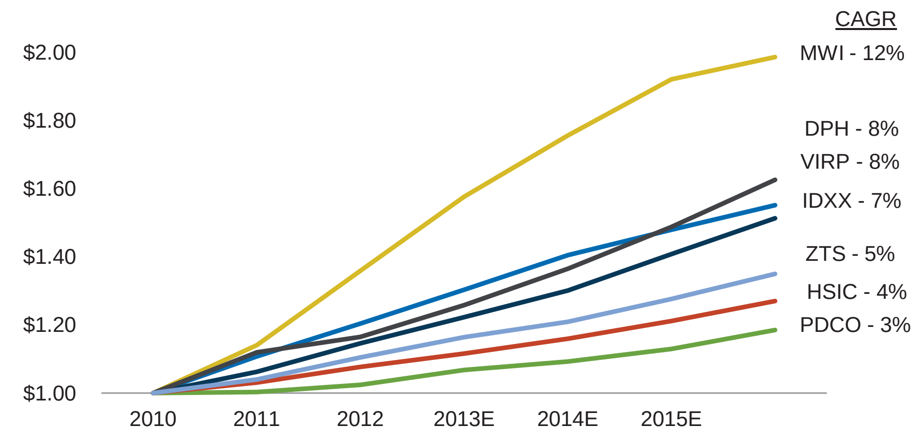
*Large pharma group includes AZN, ABBV, GSK, LLY, JNJ, PFE, MRK, NVS, and SNY
*Animal health group includes PDCO, HSIC, MWIV, IDXX, VIRP, and DPH
Source: FactSet

To better understand where Zoetis should arguably trade in relation to its peers, we believe much will depend on future organic growth momentum and accelerating margin leverage. Exhibit 39 shows this growth relationship dating to 2010 and extending into 2015 (using consensus estimates). We can see in the exhibit that MWI's growth trajectory would appear to justify its valuation premium in relation to not only its direct competitors (Patterson and Henry Schein) but also the animal health group in general. However, we do not expect growth acceleration for Zoetis, given its size, and thus we believe that shares are fully valued at present.

If Zoetis continues on its current growth trajectory, which we believe is probable, we believe it will likely trade at an expanding discount to its animal health peer group over time.

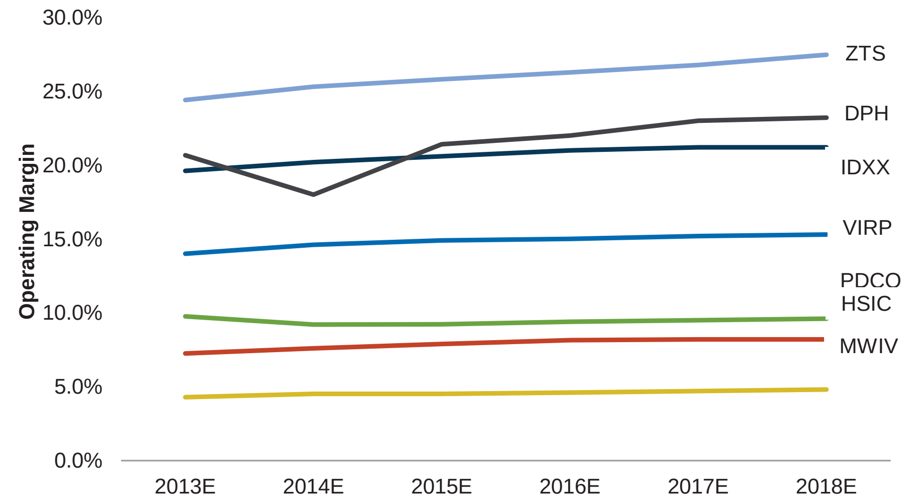
Relative to large pharma, which has a similar top-line growth trajectory, slightly higher drug-development risk, and arguably less margin leverage, we see that Zoetis carries a slight premium. Given that these factors are likely to persist, we believe the premium is justified and will also likely persist into the future. Thus, on a P/E basis, we suspect ZTS shares should trade somewhere between these two distinct groups.

Exhibit 39
Growth of $1: Organic Revenue Growth Rates



Source: FactSet

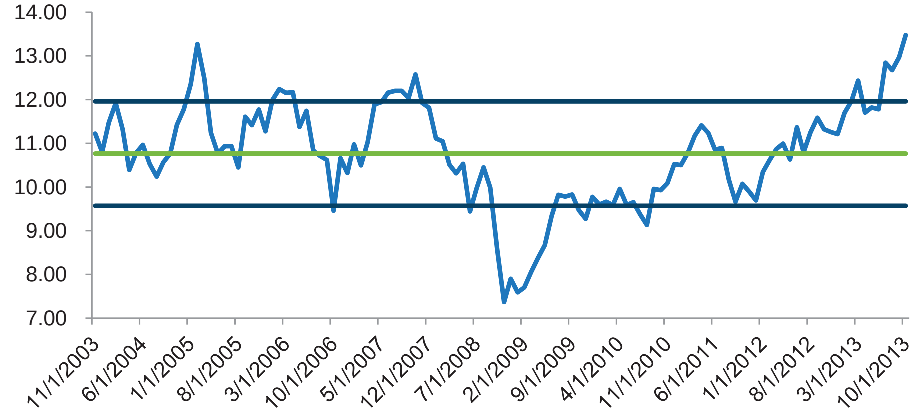
Exhibit 40
Projected Operating Margins



Sources: FactSet and William Blair & Company, L.L.C. estimates

We believe enterprise-value-to-EBITDA (EV/EBITDA) multiple represents another way to assess the company's valuation. Based on FactSet data, animal health companies trade between 9.5 and 12.0 times EBITDA, with a 10-year average of 10.75 times (see exhibit 41). Similar to earnings multiples, current EV/EBITDA valuations have recently broken through one standard deviation above the group's 10-year average, with a current valuation of 13.5 times. Zoetis is now trading at 13.4 times 2014 EBITDA, representing a 2% discount to the animal health group. Compared with large pharma, Zoetis is trading a discount of 34%.

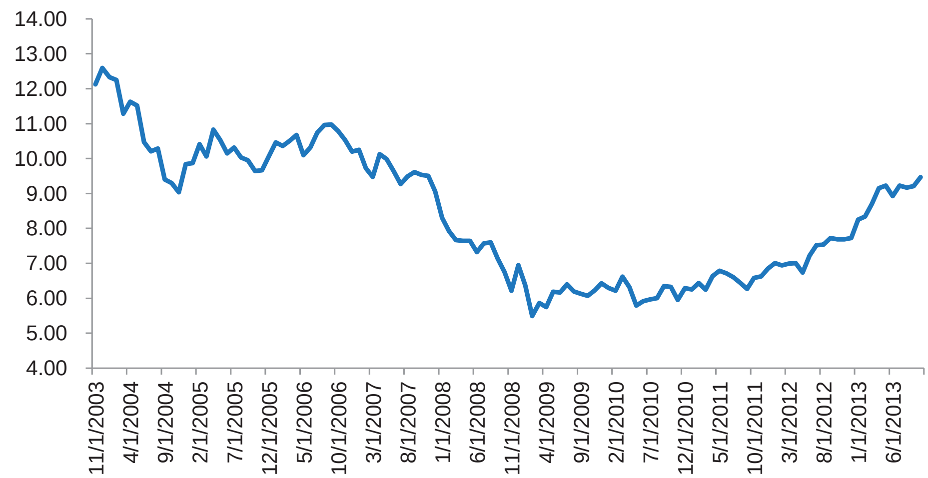
Exhibit 41
Animal Health Historical EV/EBITDA



*Animal health group includes PDCO, HSIC, MWIV, IDXX, VIRP, and DPH

Source: FactSet

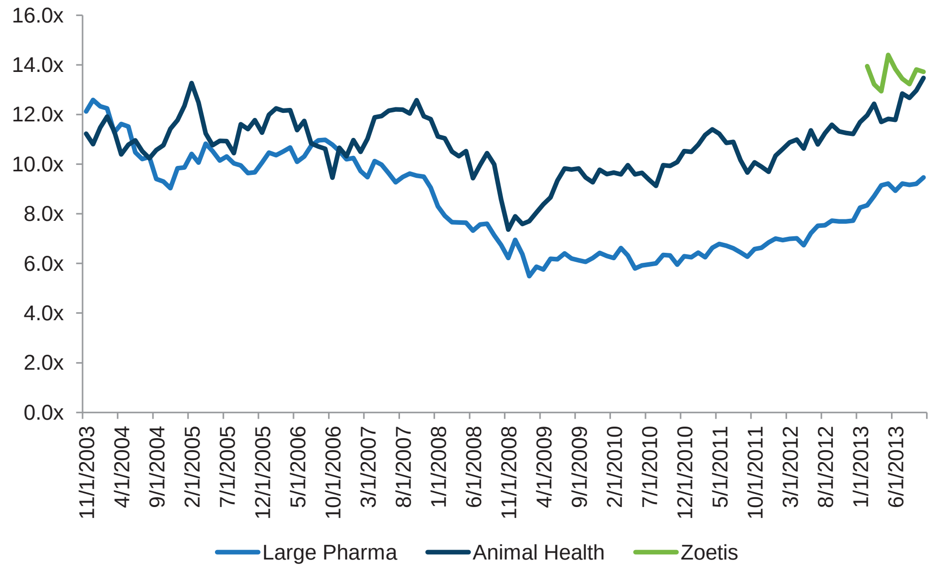
Exhibit 42
Large Pharma Historical EV/EBITDA



*Large pharma group includes AZN, ABBV, GSK, LLY, JNJ, PFE, MRK, NVS, and SNY

Source: FactSet

Exhibit 43
Zoetis Inc.
Zoetis EV/EBITDA Trend Versus Historical Peer Group Trends



*Large pharma group includes AZN, ABBV, GSK, LLY, JNJ, PFE, MRK, NVS, and SNY
*Animal health group includes PDCO, HSIC, MWIV, IDXX, VIRP, and DPH
Source: FactSet

Given that Zoetis is expected to generate a significant amount of free cash flow, we performed a discounted free cash flow analysis using our model assumptions, while applying a long-term perpetuity growth rate after 2020. We assumed Zoetis's after-tax cost of debt was 3.5%, along with a cost of equity of 10%. Our weighted average cost of capital is a function of our model's balance sheet as time progresses. Exhibits 44 and 45 show Zoetis's annual free cash flow being discounted back to 2014 using long-term growth rates between 0% and 5%, and discount rates between 6% and 11%. Based on these results, we estimate Zoetis's stock price could be valued as high as $40 and as low as $30 by the end of 2014.

Exhibit 44
Zoetis Inc.
Discounted Free Cash Flow

	2014	2015	2016	2017	2018	2019	2020
Free Cash Flow/Share	$1.50	$1.52	$1.74	$1.83	$2.05	$2.22	$2.42
% debt	*64%*	*55%*	*49%*	*44%*	*40%*	*36%*	*33%*
% equity	*36%*	*45%*	*51%*	*56%*	*60%*	*64%*	*67%*
WACC	5.83%	6.39%	6.79%	7.13%	7.42%	7.66%	7.86%
Discount Periods	0.25	1.25	2.25	3.25	4.25	5.25	6.25
PV	**$1.48**	**$1.41**	**$1.50**	**$1.46**	**$1.51**	**$1.51**	

Cost of Debt (After Tax)	3.50%
Cost of Equity	10.00%

Source: William Blair & Company, L.L.C. estimates

Exhibit 45
Zoetis Inc.
Discounted Free Cash Flow

Discount Rate	*LT Growth Rate* 0.00%	1.00%	2.00%	3.00%	4.00%	5.00%
6.0%	$37.41	$43.44	$52.49	$67.57	$97.72	$188.20
7.0%	$31.95	$36.05	$41.80	$50.41	$64.76	$93.47
8.0%	$27.94	$30.87	**$34.78**	**$40.24**	$48.45	$62.12
9.0%	$24.89	$27.06	**$29.85**	**$33.57**	$38.78	$46.59
10.0%	$22.50	$24.15	$26.22	$28.88	$32.43	$37.40
11.0%	$20.59	$21.88	$23.46	$25.43	$27.97	$31.35

Source: William Blair & Company, L.L.C. estimates

In summary, based on our current expectation for long-term earnings growth of 10%, valuations appear to be full based on historical comparisons. Given this predictable earnings growth outlook and full multiple, we are initiating coverage with a Market Perform rating.

Exhibit 46
Zoetis Inc.
Earnings Model
($ in millions, except per share data)

Fiscal year ends December 31	2010	2011	2012	Q1'13	Q2'13	Q3'13	Q4'13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total Revenue	**3,582**	**4,233**	**4,336**	**1,090**	**1,114**	**1,103**	**1,205**	**4,512**	**4,760**	**5,032**	**5,333**	**5,651**	**5,987**	**6,343**	**6,723**
Total Y/Y growth	**29.0%**	**18.2%**	**2.4%**	**4.1%**	**1.8%**	**8.2%**	**2.5%**	**4.1%**	**5.5%**	**5.7%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**
Acquisition Impact	22.0%	9.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FX Impact	3.0%	3.0%	-3.0%	-1.0%	-2.0%	-1.0%	-1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operational Growth - constant dollar	**4.0%**	**6.2%**	**5.4%**	**5.1%**	**3.8%**	**9.2%**	**1.0%**	**4.8%**	**5.2%**	**5.7%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**
Cost of Goods Sold	1,403	1,605	1,549	398	400	383	422	1,603	1,677	1,761	1,851	1,954	2,058	2,166	2,284
Gross Profit	**2,179**	**2,628**	**2,787**	**692**	**714**	**720**	**783**	**2,909**	**3,083**	**3,272**	**3,481**	**3,697**	**3,929**	**4,177**	**4,439**
Selling, General & Administrative	1,365	1,443	1,450	322	339	359	395	1,415	1,456	1,528	1,606	1,682	1,765	1,852	1,948
Research & Development	411	407	399	90	91	91	112	384	402	422	447	473	497	525	551
Amortization of intangible assets	17	20	15	4	3	4	4	15	19	24	26	27	27	25	20
Total operating expenses	1,793	1,870	1,864	416	433	454	511	1,814	1,878	1,974	2,079	2,182	2,289	2,403	2,520
Operating Income	**386**	**758**	**923**	**276**	**281**	**266**	**272**	**1,095**	**1,206**	**1,298**	**1,402**	**1,515**	**1,640**	**1,774**	**1,920**
Interest and Other Expense/(Income), net	(57)	6	10	24	29	22	28	103	105	95	90	88	86	84	84
Pretax Income	443	752	913	252	252	244	245	993	1,101	1,202	1,312	1,427	1,554	1,690	1,836
Income Tax Expense	168	249	373	73	74	72	73	292	325	355	387	421	458	499	542
Net Income (excl. nonrecurring items)	**275**	**503**	**540**	**179**	**178**	**172**	**171**	**700**	**776**	**848**	**925**	**1,006**	**1,095**	**1,191**	**1,294**
Nonrecurring Items (net of tax)	(165)	(258)	(103)	(39)	(50)	(41)	(70)	(200)	(112)	(50)	-	-	-	-	-
Net Income	**110**	**245**	**437**	**140**	**128**	**131**	**101**	**500**	**664**	**798**	**925**	**1,006**	**1,095**	**1,191**	**1,294**
EPS (excl. nonrecurring items)	**$0.55**	**$1.01**	**$1.08**	**$0.36**	**$0.36**	**$0.34**	**$0.34**	**$1.40**	**$1.55**	**$1.70**	**$1.88**	**$2.06**	**$2.27**	**$2.50**	**$2.74**
EPS (as reported)	**$0.22**	**$0.49**	**$0.87**	**$0.28**	**$0.26**	**$0.26**	**$0.20**	**$1.00**	**$1.32**	**$1.60**	**$1.88**	**$2.06**	**$2.27**	**$2.50**	**$2.74**
Weighted Avg. Shares Outstanding (Diluted)	500.000	500.000	500.000	500.111	500.217	500.354	500.354	500.354	501.354	497.354	492.404	487.484	482.604	477.454	472.004

MARGIN ANALYSIS:	2010	2011	2012	Q1'13	Q2'13	Q3'13	Q4'13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Gross Profit	60.8%	62.1%	64.3%	63.5%	64.1%	65.3%	65.0%	64.48%	64.77%	65.01%	65.28%	65.43%	65.63%	65.85%	66.03%
SG&A	38.1%	34.1%	33.4%	29.5%	30.4%	32.5%	32.8%	31.37%	30.59%	30.36%	30.12%	29.77%	29.49%	29.20%	28.98%
R&D	11.5%	9.6%	9.2%	8.3%	8.2%	8.3%	9.3%	8.5%	8.5%	8.4%	8.4%	8.4%	8.3%	8.3%	8.2%
Amortization of intangibles	0.5%	0.5%	0.3%	0.4%	0.3%	0.4%	0.3%	0.3%	0.4%	0.5%	0.5%	0.5%	0.5%	0.4%	0.3%
EBITDA	15.9%	22.7%	25.9%	30.0%	29.8%	26.3%	24.7%	27.64%	30.01%	29.95%	30.25%	31.06%	31.39%	31.72%	32.05%
Operating Income	**10.8%**	**17.9%**	**21.3%**	**25.3%**	**25.2%**	**24.1%**	**22.6%**	**24.28%**	**25.33%**	**25.78%**	**26.29%**	**26.81%**	**27.39%**	**27.97%**	**28.55%**
Tax Rate	38.0%	33.1%	40.8%	29.0%	29.4%	29.5%	30.0%	29.46%	29.50%	29.50%	29.50%	29.50%	29.50%	29.50%	29.50%
Net Income	7.7%	11.9%	12.5%	16.4%	16.0%	15.6%	14.2%	15.52%	16.31%	16.84%	17.34%	17.80%	18.30%	18.78%	19.25%

GROWTH METRICS:	2010	2011	2012	Q1'13	Q2'13	Q3'13	Q4'13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total Revenue	29.0%	18.2%	2.4%	4.1%	1.8%	8.2%	2.5%	4.1%	5.504%	5.7%	6.0%	6.0%	6.0%	6.0%	6.0%
Organic Revenue - constant currency	**4.0%**	**6.2%**	**5.4%**	**5.1%**	**3.8%**	**9.2%**	**1.0%**	**4.8%**	**5.2%**	**5.7%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**
Gross Profit		20.6%	6.1%	5.0%	0.3%	7.9%	4.6%	4.4%	6.0%	6.1%	6.4%	6.2%	6.3%	6.3%	6.3%
SG&A		5.7%	0.5%	-2.7%	-3.4%	8.8%	-9.8%	-2.4%	2.9%	4.9%	5.1%	4.7%	5.0%	4.9%	5.2%
R&D		-1.0%	-2.0%	-3.2%	0.0%	-3.2%	-7.4%	-3.7%	4.8%	4.7%	6.1%	5.7%	5.1%	5.7%	5.0%
EBITDA		68.7%	16.6%	17.2%	3.4%	0.8%	26.7%	11.0%	14.6%	5.5%	7.0%	8.8%	7.1%	7.1%	7.1%
Operating Income		96.4%	21.8%	19.5%	5.2%	11.3%	46.4%	18.7%	10.1%	7.6%	8.1%	8.0%	8.2%	8.2%	8.2%
Net Income (excluding nonrecurring items)		83.1%	7.4%	17.8%	1.1%	11.7%	189.4%	29.6%	10.8%	9.2%	9.1%	8.8%	8.9%	8.8%	8.6%
EPS (excluding nonrecurring items)		83.1%	7.4%	17.7%	1.1%	11.6%	189.2%	29.5%	10.6%	10.1%	10.2%	9.9%	10.0%	9.9%	9.9%
Diluted Shares Outstanding		0.00%	0.00%	0.02%	0.04%	0.07%	0.07%	0.07%	0.20%	-0.80%	-1.00%	-1.00%	-1.00%	-1.07%	-1.14%

E=William Blair & Company, L.L.C estimate
Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 47
Zoetis Inc.
Revenue Model
($ in millions, except per share data)

	2010	2011	2012	Q1'13	Q2'13	Q3'13	Q4'13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue, by Geography															
U.S. Revenue	1,384	1,659	1,776	454	437	495	499	1,885	1,983	2,068	2,154	2,250	2,346	2,444	2,548
Total Y/Y growth		20%	7.1%	7%	4%	10%	3%	6.1%	5.21%	4.27%	4.19%	4.45%	4.24%	4.21%	4.24%
Acquisition Impact				0%	0%	0									
FX Impact				0%	0%	-									
Operational Growth - constant dollar				7%	4%	0									
% Total Revenue			41%	42%	39%	45%	41%	42%	42%	41%	40%	40%	39%	39%	38%
US - Livestock			921	245	204	275	251	975	1,020	1,061	1,103	1,148	1,197	1,247	1,300
Total Y/Y growth				2%	6%	11%	4%	5.8%	4.69%	3.95%	4.00%	4.12%	4.22%	4.21%	4.23%
Acquisition Impact				0%	0%	0%									
FX Impact				0%	0%	0%									
Operational Growth - constant dollar				2%	6%	11.0%									
% US Rev			52%	54%	47%	56%	50%	52%	51%	51%	51%	51%	51%	51%	51%
US - Companion Animal			855	209	233	220	248	910	963	1,007	1,051	1,102	1,149	1,197	1,248
Total Y/Y growth				13%	2%	10%	3%	6.5%	5.78%	4.61%	4.38%	4.80%	4.25%	4.20%	4.25%
Acquisition Impact				0%	0%	0.0%									
FX Impact				0%	0%	0.0%									
Operational Growth - constant dollar				13%	2%	10%									
% US Rev			48%	46%	53%	44%	50%	48%	49%	49%	49%	49%	49%	49%	49%
EuAfME Revenue	1020	1144	1,096	290	278	270	303	1,141	1,190	1,256	1,331	1,405	1,483	1,566	1,657
Total Y/Y growth		12%	-4%	5%	-2%	12%	2%	4.1%	4.33%	5.50%	6.00%	5.58%	5.55%	5.57%	5.80%
CLAR Revenue	664	788	769	171	213	171	223	778	829	889	956	1,031	1,115	1,207	1,305
Total Y/Y growth		19%	-2%	-1%	1%	4%	1%	1.2%	6.6%	7.2%	7.6%	7.9%	8.1%	8.2%	8.1%
APAC Revenue	514	642	695	175	186	167	180	708	758	820	891	964	1,043	1,126	1,213
Total Y/Y growth		25%	8%	1%	4%	1%	2%	1.9%	7.0%	8.3%	8.6%	8.1%	8.2%	8.0%	7.7%
Total Revenue	3,582	4,233	4,336	1,090	1,114	1,103	1,205	4,512	4,760	5,032	5,333	5,651	5,987	6,343	6,723
Total Y/Y growth	29.0%	18.2%	2.4%	4.1%	1.8%	8.2%	2.5%	4.1%	5.5%	5.7%	6.0%	6.0%	6.0%	6.0%	6.0%
Acquisition Impact	22.0%	9.0%	0.0%	0.0%	0.0%	0.0%									
FX Impact	3.0%	3.0%	-3.0%	-1.0%	-2.0%	-1.0%	-1.5%								
Operational Growth - constant dollar	4.0%	6.2%	5.4%	5.1%	3.8%	9.2%	1.0%	4.8%	5.2%	5.7%	6.0%	6.0%	6.0%	6.0%	6.0%
Revenue, by Segment															
Livestock	2,233	2,778	2,806	706	670	706	$752	2,834	2,988	3,171	3,370	3,580	3,808	4,050	4,311
Total Y/Y growth		*24%*	*1.0%*	2%	1%	7%	-5%	*1%*	*5%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Acquisition Impact				0%	0%	0%									
FX Impact				-1%	-2%	-1%									
Operational Growth - constant dollar				3%	3%	8%									
% Total Revenue	*62%*	*66%*	*65%*	65%	60%	64%	62%	63%	63%	63%	63%	63%	64%	64%	64%
Companion Animal	1,349	1,455	1,530	384	444	397	453	1,678	1,772	1,862	1,963	2,071	2,179	2,293	2,412
Total Y/Y growth		7.9%	5.2%	8%	3%	10%	18%	*10%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Acquisition Impact				0%	0%	*0.3%*									
FX Impact				0%	-2%	*-1.0%*									
Operational Growth - constant dollar				8%	5%	*11.0%*									
% Total Revenue	37.7%	34.4%	35.3%	35%	40%	36%	38%	37.2%	37.2%	37.0%	36.8%	36.6%	36.4%	36.1%	35.9%
Geography Income (excludes Corporate, Unallocated Expenses)															
U.S.	**656**	**820**	**921**	234	254	285	294	**1,067**	**1,130**	**1,225**	**1,315**	**1,384**	**1,430**	**1,491**	**1,554**
Y/Y Growth		25%	12%	8%	12%	23%	20%	16%	6%	8%	7%	5%	3%	4%	4%
Segment Margin %		49%	52%	52%	58%	58%	59%	57%	57%	59%	61%	62%	61%	61%	61%
EuAfME	**328**	**365**	**375**	117	91	92	100	**400**	**432**	**462**	**490**	**524**	**554**	**591**	**626**
Y/Y Growth		11%	3%	13%	3%	1%	9%	7%	8%	7%	6%	7%	6%	7%	6%
Segment Margin %		32%	34%	40%	33%	34%	33%	35%	36%	37%	37%	37%	37%	38%	38%
CLAR	**203**	**275**	**253**	52	78	56	69	**255**	**275**	**306**	**335**	**369**	**400**	**439**	**480**
Y/Y Growth		35%	-8%	-4%	1%	6%	0%	1%	8%	11%	9%	10%	8%	10%	9%
Segment Margin %		35%	33%	30%	37%	33%	31%	33%	33%	34%	35%	36%	36%	36%	37%
APAC	**146**	**196**	**236**	75	71	57	45	**248**	**307**	**346**	**379**	**409**	**443**	**481**	**524**
Y/Y Growth		34%	20%	6%	13%	-3%	5%	5%	24%	13%	9%	8%	8%	9%	9%
Segment Margin %		31%	34%	43%	38%	34.1%	25%	35%	40%	42%	42%	42%	42%	43%	43%
Operating Expenses	**947**	**898**	**862**	202	213	224	236	**875**	**937**	**1,042**	**1,116**	**1,172**	**1,187**	**1,229**	**1,264**
Y/Y Growth			-4%	-6%	13%	14%	-10%	2%	7%	11%	7%	5%	1%	3%	3%
Total Operating Income	**386**	**758**	**923**	**276**	**281**	**266**	**272**	**1,095**	**1,206**	**1,298**	**1,402**	**1,515**	**1,640**	**1,774**	**1,920**
Y/Y Growth		**96%**	**22%**	19%	5%	11%	46%	**19%**	**10%**	**8%**	**8%**	**8%**	**8%**	**8%**	**8%**
Operating Margin %	10.8%	17.9%	21%	25%	25%	24%	23%	24%	25%	26%	26%	27%	27%	28%	29%
Segment Income															
Companion	**609**	**702**	**774**	207	236	216	232	**891**	**969**	**1,053**	**1,128**	**1,199**	**1,255**	**1,325**	**1,396**
Y/Y Growth		15.3%	10.2%	10%	10%	14%	27%	15.1%	8.8%	8.6%	7.2%	6.3%	4.6%	5.6%	5.4%
Segment Margin %	45.1%	48.2%	50.6%	54%	53%	54%	51%	53.1%	54.7%	56.5%	57.5%	57.9%	57.6%	57.8%	57.9%
% Total Income	45.7%	42.4%	43.3%	43.2%	47.9%	44.0%	45.6%	45.2%	45.2%	45.0%	44.8%	44.6%	44.4%	44.1%	43.8%
Production	**724**	**954**	**1,011**	271	258	274	276	**1,080**	**1,174**	**1,287**	**1,390**	**1,487**	**1,573**	**1,678**	**1,788**
Y/Y Growth		31.7%	5.99%	5%	7%	11%	4%	6.76%	8.70%	9.61%	8.01%	7.03%	5.73%	6.73%	6.53%
Segment Margin %	32.4%	34.4%	36.0%	38%	38%	39%	37%	38.1%	39.3%	40.6%	41.2%	41.5%	41.3%	41.4%	41.5%
% Total Income	54.3%	57.6%	56.7%	57%	52%	56%	54%	54.8%	54.8%	55.0%	55.2%	55.4%	55.6%	55.9%	56.2%
Operating Expenses	**947**	**898**	**862**	202	213	224	236	**875**	**937**	**1,042**	**1,116**	**1,172**	**1,187**	**1,229**	**1,264**
Y/Y Growth															
Total Operating Income	**386**	**758**	**923**	276	281	266	272	**1,095**	**1,206**	**1,298**	**1,402**	**1,515**	**1,640**	**1,774**	**1,920**
Y/Y Growth		96%	22%					19%	10%	8%	8%	8%	8%	8%	8%
Operating Margin %	10.8%	18%	21%	25.3%	25.2%	24.1%	22.6%	24%	25%	26%	26%	27%	27%	28%	29%
Depreciation and Amortization	185	205	200	$51	$51	24	25	152	223	210	211	240	239	238	235
EBITDA	**571**	**963**	**1,123**	**327**	**332**	**290**	**298**	**1,247**	**1,429**	**1,507**	**1,613**	**1,755**	**1,879**	**2,012**	**2,155**
D&A margin	**5.2%**	**4.8%**	**4.6%**	4.7%	4.6%	2.2%	2.1%	**3.4%**	**4.7%**	**4.2%**	**4.0%**	**4.2%**	**4.0%**	**3.8%**	**3.5%**
D&A growth		**11%**	**-2%**	6.3%	-5.6%	-50.5%	-48.4%	**-24%**	**46.9%**	**-6%**	**1%**	**14%**	**0%**	**-1%**	**-1%**

Sources: William Blair & Company, L.L.C. estimates and company reports

Exhibit 48
Zoetis Inc.
Balance Sheet Model
($ in millions, except per share data)

	2011	2012	Q1'13	Q2'13	Q3'13E	Q4'13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Cash and Cash Equivalents	$79	$317	$468	$369	$663	$650	$650	$905	$1,022	$1,321	$1,584	$1,915	$2,257	$2,659
Accounts Receivable	871	900	861	1,137	1,042	1,071	1,071	992	973	1,189	1,512	1,656	1,887	2,061
Inventories	1,063	1,345	1,120	1,257	1,106	1,218	1,218	1,284	1,350	1,363	1,362	1,575	1,668	1,826
Current Deferred Tax Assets	96	101	83	92	92	93	93	95	97	99	101	103	105	107
Other Current Assets	202	201	410	227	232	236	236	256	277	300	324	351	380	411
Total Current Assets	2,311	2,864	2,942	3,082	3,136	3,269	3,269	3,532	3,718	4,271	4,882	5,600	6,296	7,064
PP&E, net	1,243	1,241	1,237	1,252	1,267	1,282	1,282	1,388	1,502	1,626	1,760	1,905	2,062	2,232
Identifiable Intangible Assets, net	928	868	855	834	838	842	842	859	877	894	912	931	949	969
Goodwill	989	985	985	982	982	982	982	982	982	982	982	982	982	982
Noncurrent Deferred Tax Assets	143	216	63	54	54	55	55	56	57	58	59	60	61	63
Other Noncurrent Assets	97	88	60	57	57	57	57	57	57	57	57	57	57	57
Total Assets	5,711	6,262	6,142	6,261	6,334	6,487	6,487	6,874	7,193	7,889	8,653	9,535	10,409	11,367
Accounts Payable	214	319	275	587	532	609	609	469	363	409	464	556	577	575
Current Portion of Long-Term Debt	0	73	6	12	12	12	12	12	12	12	12	12	12	12
Income Taxes Payable	18	30	49	83	83	83	83	83	83	83	83	83	83	83
Accrued Compensation and Related Items	150	194	132	157	157	157	157	157	157	157	157	157	157	157
Other Current Liabilities	461	507	825	482	501	521	521	610	713	835	976	1,142	1,336	1,563
Total Current Liabilities	843	1,123	1,287	1,321	1,285	1,383	1,383	1,331	1,329	1,496	1,692	1,950	2,166	2,390
Long-Term Debt	575	509	3,640	3,640	3,615	3,565	3,565	3,205	2,925	2,845	2,765	2,705	2,665	2,645
Noncurrent Deferred Tax Liabilities	311	323	337	308	308	308	308	308	308	308	308	308	308	308
Other Taxes Payable	122	159	33	38	38	38	38	38	38	38	38	38	38	38
Other Noncurrent Liabilities	124	107	121	131	138	144	144	176	213	259	315	383	466	566
Total Liabilities	1,975	2,221	5,418	5,438	5,384	5,438	5,438	5,058	4,813	4,946	5,118	5,384	5,643	5,947
Noncontrolling Interest	16	15	15	23	23	23	23	23	23	23	23	23	23	23
Common Stock - Class A			1	5	5	5	5	5	5	5	5	5	5	5
Common Stock - Class B			4				-	-	-	-	-	-	-	-
Additional Paid-in Capital			812	869	869	869	869	869	869	869	869	869	869	869
Accumulated Other Comprehensive Loss	-65	-157	(121)	(183)			-	-	-	-	-	-	-	-
Retained Earnings (Deficit)	3,785	4,183	13	109	240	341	341	1,005	1,803	2,728	3,734	4,830	6,021	7,316
Other					(187)	(189)	(189)	(86)	(321)	(682)	(1,097)	(1,575)	(2,152)	(2,793)
Total Stockholders' Equity	$3,736	$4,041	$724	$823	$950	$1,049	$1,049	$1,816	$2,379	$2,943	$3,534	$4,151	$4,766	$5,420
Total Liabilities and Stockholders' Equity	5,711	6,262	6,142	6,261	6,334	6,487	6,487	6,874	7,193	7,889	8,653	9,535	10,409	11,367
Key Metrics:														
Total Debt-to-Capital Ratio	13%	13%	83%	82%	79%	77%	77%	64%	55%	49%	44%	40%	36%	33%
Total Debt / EBITDA		0.47	2.88	2.83	2.70	2.50	2.50	2.13	1.82	1.63	1.48	1.35	1.24	
Working Capital (excl. cash & ST investments)	$1,293	$1,424	1,187	1,392	1,187	1,236	$1,236	$1,201	$1,270	$1,356	$1,506	$1,632	$1,769	$1,908
Committed Capital	$2,963	$3,167	2,943	3,059	2,883	2,963	$2,963	$3,195	$3,461	$3,769	$4,170	$4,581	$5,040	$5,545
A/P days (calculated)	NA	65	62	132	125	130	112	99	83	88	96	97	96	94
A/R DSO (calculated)	NA	74	71	92	85	80	82	76	76	76	79	86	94	95
DIOH (calculated)	NA	289	253	283	260	260	264	260	250	244	234	240	246	251
ROE	26.9%	13.9%	30.1%	92.0%	77.6%	68.5%	27.5%	54.2%	40.4%	34.8%	31.1%	28.5%	26.7%	25.4%
ROA	17.6%	9.0%	11.5%	11.5%	10.9%	10.7%	11.0%	11.6%	12.1%	12.3%	12.2%	12.0%	11.9%	11.9%
ROCC	51.2%	30.1%	36.1%	37.5%	35.8%	37.3%	35.7%	39.2%	39.0%	38.8%	38.2%	37.5%	36.9%	36.3%
ROIC (qrtly ratios are LTM)	21.1%	11.2%	12.6%	12.8%	13.8%	16.3%	16.3%	18.3%	18.9%	19.6%	20.1%	20.6%	21.1%	21.7%
Cash per Share (including ST investments)	$0.16	$0.63	$0.94	$0.74	$1.33	$1.30	$1.30	$1.81	$2.05	$2.68	$3.25	$3.97	$4.73	$5.63
Tangible Book Value per share	$5.62	$6.35	($0.26)	($0.02)	$0.22	$0.41	$0.41	$1.91	$3.02	$4.16	$5.38	$6.67	$7.99	$9.43
Book Value per share (including goodwill)	$7.47	$8.08	$1.45	$1.65	$1.90	$2.10	$2.10	$3.62	$4.78	$5.98	$7.25	$8.60	$9.98	$11.48

Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 49
Zoetis Inc.
Balance Sheet Model
($ in millions, except per share data)

	2010	2011	2012	Q1'13	Q2'13	Q3'13E	Q4'13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Cash Flow from Operating Activities:															
Net Income (Loss)	$111	$248	$436	$140	$128	$131	$101	$500	$664	$798	$925	$1,006	$1,095	$1,191	$1,294
Depreciation and Amortization	$185	$205	$200	$51	$51	$24	$25	$152	$223	$210	$211	$240	$239	$238	$235
Share-Based Compensation Expense	$16	$19	$28	$11	$20	$7	$7	$45	$28	$31	$33	$35	$36	$37	$38
Change in Assets and Liabilities	100	($117)	(149)	68	(183)	205	(49)	41	(59)	(166)	(184)	(250)	(229)	(242)	(246)
Other Adjustments to reconcile Net Income	(158)	142	(61)	11	(28)	-	-	(17)	-	-	-	-	-	-	-
Net Operating Cash Flow	**$254**	**$497**	**$454**	**$281**	**($12)**	**$367**	**$84**	**$720**	**$856**	**$873**	**$985**	**$1,031**	**$1,142**	**$1,224**	**$1,322**
% of Net Income	*229%*	*200%*	*104%*	*201%*				*144%*	*129%*	*109%*	*106%*	*102%*	*104%*	*103%*	*102%*
Y/Y Growth		*96%*	*-9%*					*59%*	*19%*	*2%*	*13%*	*5%*	*11%*	*7%*	*8%*
Cash Flow from Investing Activities:															
Investment in PP&E (CAPEX), net	(124)	(135)	(126)	(22)	(52)	(15)	(15)	(104)	(106)	(114)	(124)	(134)	(145)	(157)	(170)
Acquisition of Business	(81)	(345)	-	-	-			-	-	-	-	-	-	-	-
Other	(7)	(3)	(12)	-	-			-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	**($212)**	**($483)**	**($138)**	**($22)**	**($52)**	**($15)**	**($15)**	**($104)**	**($106)**	**($114)**	**($124)**	**($134)**	**($145)**	**($157)**	**($170)**
Net Sale (Purchase) of Investments	203	34	3	-	-	-	-	-	-	-	-	-	-	-	-
GAAP Net Cash Used in Investing Activities	**($9)**	**($449)**	**($135)**	**($22)**	**($52)**	**($15)**	**($15)**	**($104)**	**($106)**	**($114)**	**($124)**	**($134)**	**($145)**	**($157)**	**($170)**
Cash Flow from Financing Activities:															
Issuance of Debt		(143)	-	173	(96)	(25)	(50)	2	(360)	(280)	(80)	(80)	(60)	(40)	(20)
Cash Dividends Paid	(207)	(416)	(63)	-	(33)	(33)	(33)	(98)	(168)	(218)	(295)	(350)	(388)	(442)	(461)
Proceeds from Issuance of Stock				-	-			-	34	(144)	(187)	(204)	(216)	(244)	(269)
Other	(70)	529	(15)	(281)	97			(184)	-	-	-	-	-	-	-
Net Cash Generated in Financing Activities	**($277)**	**($30)**	**($78)**	**($108)**	**($32)**	**($58)**	**($83)**	**($280)**	**($495)**	**($642)**	**($562)**	**($634)**	**($665)**	**($726)**	**($749)**
FX changes in cash	($4)	($2)	($3)	-	(3)			($3)	$0	$0	$0	$0	$0	$0	$0
Net increase (decrease) in cash and equivalents	**($36)**	**$16**	**$238**	**$151**	**($99)**	**$294**	**($13)**	**$333**	**$255**	**$116**	**$299**	**$263**	**$332**	**$341**	**$403**
Beginning Cash (including short-term investments)	$99	$63	$79	$317	$468	$369	$663	$317	$650	$905	$1,022	$1,321	$1,584	$1,915	$2,257
Change in Short-term Investments	($36)	$16	$238	$151	($99)	$294	($13)	$333	$255	$116	$299	$263	$332	$341	$403
Ending Cash (including short-term investments)	$63	$79	$317	$468	$369	$663	$650	$650	$905	$1,022	$1,321	$1,584	$1,915	$2,257	$2,659
Free Cash Flow (=Oper. Cash Flow - CAPEX)	**$130**	**$362**	**$328**	**$259**	**($64)**	**$352**	**$69**	**$616**	**$750**	**$758**	**$861**	**$897**	**$997**	**$1,067**	**$1,152**
Y/Y Growth		*178%*	*-9%*					*88%*	*22%*	*1%*	*14%*	*4%*	*11%*	*7%*	*8%*
% of Net income		*146%*	*75%*					*123%*	*113%*	*95%*	*93%*	*89%*	*91%*	*90%*	*89%*
Free Cash Flow per Share	**$0.26**	**$0.72**	**$0.66**	**$0.52**	**($0.13)**	**$0.70**	**$0.14**	**$1.23**	**$1.50**	**$1.52**	**$1.74**	**$1.83**	**$2.05**	**$2.22**	**$2.42**

Sources: Company reports and William Blair & Company, L.L.C. estimates

Appendix: Market Model Explanation

Summary
To better understand the dynamics of the animal health market on a global basis, we have created a market model that breaks down both the companion animal and production animal markets from the manufacturer's perspective (as opposed to the wholesale distributor or retail consumer) into several components including population-related growth, demographic changes, and pricing. Both segments have been separated into geographic components consistent with those reported by Zoetis, namely the United States, Europe/Africa/Middle East, Canada/Latin America, and Asia-Pacific. In addition, in the production animal segment, we have attempted to break down growth by species (ruminants, swine, and poultry) as changes in consumption of these proteins tend to follow changes in demographics. Our analysis relies primarily on data from the UN's Food and Agriculture Organization, but also includes data from the American Pet Products Association, The European Pet Food Industry Federation, and Vetnosis. We believe that over the long term, growth in production is 5.7%; poultry is the fastest category and beef is the slowest. Companion animal market growth is expected to be 5.3%.

Production Animal Market Details
In our view, protein consumption is poised to increase at a pace that is consistently above that of global GDP for several decades as global population growth and the emergence of a middle class in developing economies lead to a richer diet on a global basis. According to the Food and Agriculture Organization of the United Nations (FAO), consumers in developed economies eat an average of 103 grams of protein per day, compared with just 70 grams per day in developing economies, a difference of nearly 50%. As consumers move into the middle class and into more urban environments, we expect rates of consumption in developing economies to slowly approach those in developed markets, although cultural preferences and financial limitations may influence the type of protein consumed. Typically, as an economy progresses from plant- to animal-based proteins, poultry consumption tends to increase first, followed by pork, and lastly beef.

Given this assumption, we believe the fastest growth in the production animal market will be poultry-based proteins, including meat and eggs. India, in particular, appears poised for the fastest growth given a large population entering the middle class. More generally, Asia appears to be poised for the fastest growth over the next decade, followed by Latin America. Africa is also poised for rapid growth, but given its small base and our inclusion of this consumption with Europe and the Middle East, the growth does not appear to materially change the trajectory of the category. Based on data from the FAO on the expected growth in population and protein consumption in many of these developing economies, we believe poultry will be the fastest-growing global category at 7.2% through 2020 (with growth in the Asia-Pacific region approaching 9.5%), followed by pork consumption growth of about 6.0%, and consumption of ruminants (cattle, mutton, milk) of about 5.0%.

On a geographic basis, developed markets are expected to grow at a more moderate pace; U.S. growth is projected at 4.3%. Europe (which includes Eastern Europe), Africa, and the Middle East are expected to grow 5.3%. Emerging markets such as Latin America (which is combined with Canada in our geographic breakdown) are expected to grow 5.6% over the long term, while Asia-Pacific (which includes Australia and New Zealand) is growing quickest of all at 7.5%. This results in aggregate growth of 5.7%, of which we estimate about 3.0% is price increases and 2.7% is attributable to volume increases.

Companion Animal Market Details
Our companion animal market model is segmented into three categories: dogs, cats, and horses. We believe dogs represent the largest category, as owners tend to be more diligent about visiting the vet than cat owners. We estimate that on a global basis, dog-related spending represents about 58% of the market, cat spending represents about 29%, and horse-related accounts for roughly

13%. These numbers are fairly consistent across geographies in our model. We believe growth of the companion animal market is slightly higher than production in developed markets, but slightly below in developing markets. In the United States, we expect long-term companion market growth of 5.0%, Europe/Africa/Middle East growth of 4.1%, Canada/Latin America growth of 6.2%, and Asia-Pacific growth of 7.9%. Aggregate market growth is expected to be 5.3% in our model, with spending on dogs increasing 5.3%, spending on cats growing 5.4%, and spending on horses growing 5.2%, as ownership of horses tends to be more economically sensitive and thus has been depressed for the past few years.

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DJIA:	16,009.99
S&P 500:	1,795.85
NASDAQ:	3,969.15

The prices of the common stock of other public companies mentioned in this report follow:

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Merck & Co. Inc.	$48.62
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