

# Zoetis Inc



McGraw Hill Financial

**S&P Recommendation** **BUY** ★★★★★

**Price**  
\$31.17 (as of Dec 12, 2013)

**12-Mo. Target Price**  
\$36.00

**Investment Style**  
Large-Cap Growth

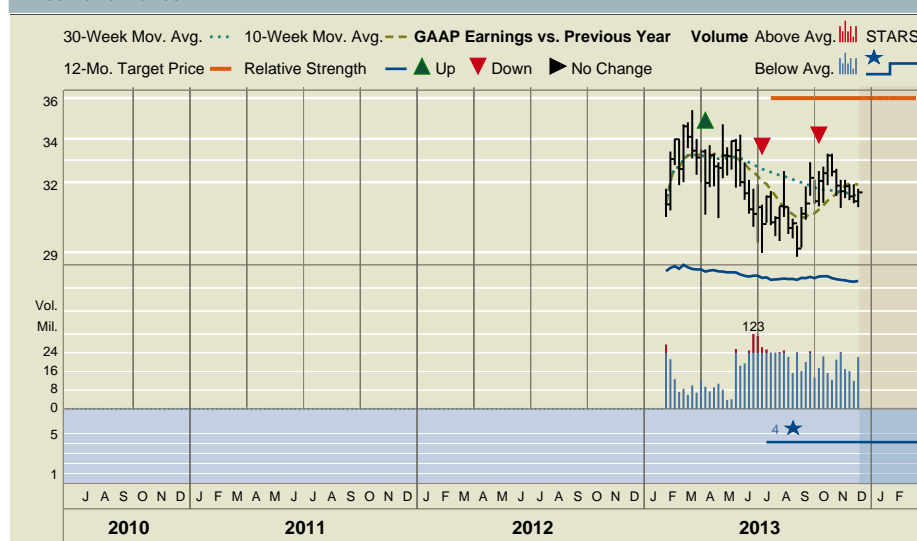
**GICS Sector** Health Care  
**Sub-Industry** Pharmaceuticals

**Summary** This global leader in the animal health products industry emerged as a separate entity following its spin-off from Pfizer in June 2013.

## Key Stock Statistics (Source S&P, Vickers, company reports)

52-Wk Range	\$35.42–28.81	S&P Oper. EPS 2013E	1.42	Market Capitalization(B)	\$15.585	Beta	NA
Trailing 12-Month EPS	\$0.78	S&P Oper. EPS 2014E	1.70	Yield (%)	0.83	S&P 3-Yr. Proj. EPS CAGR(%)	16
Trailing 12-Month P/E	40.0	P/E on S&P Oper. EPS 2013E	22.0	Dividend Rate/Share	\$0.26		
\$10K Invested 5 Yrs Ago	NA	Common Shares Outstg. (M)	500.0	Institutional Ownership (%)	92		

## Price Performance



## Qualitative Risk Assessment

LOW	MEDIUM	HIGH
<p>Our risk assessment reflects key positives we see such as the company's leading position in the global animal health space, with strong product diversity and geographic reach. Helped by new products, Zoetis has also compiled a record of robust profit growth in recent years. ZTS is also less exposed to the R&amp;D, patent and reimbursement issues faced by big pharma. However, these factors are balanced, in our view, by potential bans and restrictions on the use of antibiotics in food-producing animals in the U.S. and Europe.</p>		

## Quantitative Evaluations

S&P Quality Ranking								NR
D	C	B-	B	B+	A-	A	A+	

<b>Relative Strength Rank</b>	MODERATE
45	
LOWEST = 1	HIGHEST = 99

Analysis prepared by Equity Analyst **Herman Saftlas** on Dec 12, 2013, when the stock traded at **\$31.09**.

## Highlights

- We expect sales for 2014 to advance about 6% from the \$4.5 billion that we estimate for 2013. Positive trends for the livestock products business, in our opinion, include planned herd expansions by farmers in 2014, and likely abatement of the drought conditions that have impacted many global regions in recent years. Livestock or farm animal products accounted for 65% of ZTS sales in 2012. We also project gains in sales of products for companion animals, reflecting a growing trend of pet ownership both in the U.S. and abroad, and contributions from new products.
- We expect gross margins in 2014 to improve slightly from the 64.5% that we estimate for 2013, benefiting from higher prices and manufacturing efficiencies. Reflecting ongoing cost efficiencies, we expect modest improvement in SG&A and R&D expense ratios. However, depreciation and interest expense are likely to rise modestly, in our opinion.
- Following a projected effective tax rate similar to the 29.5% indicated for 2013, we forecast adjusted EPS to rise to \$1.70 in 2014, from the \$1.42 that we estimate for 2013.

## Investment Rationale/Risk

- Created through the spin-off of the former animal health division of Pfizer (PFE 28, Buy), Zoetis ranks as the world's leading producer of drugs, vaccines and related items for farm and companion animals. We expect Zoetis, boosted by growth in the market, new products and margin enhancements, to continue its strong EPS growth trend in the years ahead. Results should also benefit from manufacturing capacity additions, and expansion in emerging markets. We also expect new products to remain a key focus, with some 10% of the workforce dedicated to R&D.
- Risks to our recommendation and target price include the possibility of greater regulatory scrutiny of the use of antibiotics in cattle and other farm animals, as well as increased inroads from OTC animal health products.
- Our 12-month target price of \$36 reflects a premium P/E of 21.2X our \$1.70 EPS estimate for 2014. We believe this premium valuation to the average large capitalization drug group multiple is reasonable given ZTS's lead position in a non-insurance reimbursement business that is not subject to the R&D, patent and reimbursement issues that encumber the drug sector.

## Revenue/Earnings Data

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2013	1,090	1,114	1,103	--	--
2012	1,047	1,094	1,019	1,176	4,336
2011	983.0	1,074	1,049	1,127	4,233
2010	--	--	--	--	3,582
2009	--	--	--	--	2,760
2008	--	--	--	--	--

Earnings Per Share (\$)	2013	2012	2011	2010	2009	2008
	0.28	0.26	0.26	0.36	1.42	0.87
	0.22	0.35	0.32	-0.02	--	--
	--	--	--	--	--	--
	--	--	--	--	--	--
	--	--	--	--	--	--

Fiscal year ended Dec. 31. Next earnings report expected: NA. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

## Dividend Data (Dates: mm/dd Payment Date: mm/dd/yy)

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.065	03/28	03/29	05/01	06/06/13
0.065	06/20	07/30	08/01	09/02/13
0.065	09/12	10/30	11/01	12/02/13

Dividends have been paid since 2013. Source: Company reports.

Please read the Required Disclosures and Analyst Certification on the last page of this report.

# Zoetis Inc

## Business Summary December 12, 2013

**CORPORATE OVERVIEW.** Zoetis is a global leader in the discovery, development, manufacture and marketing of animal health medicines and vaccines, with a focus on both livestock and companion animals. The company markets a diverse range of products for livestock species of cattle (both beef and dairy), swine, poultry, sheep and fish; and for companion animal species of dogs, cats and horses. Chief product categories are anti-infectives, vaccines, parasiticides, medicated feed additives, and other pharmaceutical products. ZTS also offers diagnostics, devices and other animal health products and services.

Formerly the animal health division of Pfizer, Zoetis became a separate entity with its own stock through the completion of the initial public offering by Pfizer of some 99 million Zoetis Class A shares (a 19.8% interest) in early February 2013. Subsequently, in late June 2013, Pfizer divested its remaining 80.2% interest in Zoetis to PFE holders through an exchange of about 401 million Class B ZTS shares for some 405 million PFE common shares.

The company directly markets products in about 70 countries, with products sold in another 50 nations through non-direct channels. Sales in the U.S. accounted for about 41% of total revenues in 2012; Europe, Africa and the Middle East for 25%; Canada and Latin America for 18%; and Asia/Pacific for 16%. Emerging markets such as Brazil, China, India and other developing regions represented 26% of revenues in 2012.

Livestock or farm animal products (mainly cattle and swine) accounted for 65% of total sales in 2012, comprising items for cattle (37%), swine (14%), poultry (12%), and fish and sheep (2%). Selected livestock products include Ceftiofur and Draxxin antibiotics for cattle, swine and sheep; Bovishield, Improvac, Respirex and Rispoval vaccines for cattle and swine; and Cydectin and Dectomax parasiticides for cattle and sheep. Key long-term macro drivers for livestock products include growth in global population, rising standards of living, and rising demand for improved nutrition, particularly animal protein.

Products for companion pets, primarily dogs and cats, represented 35% of 2012 sales. Principal brands include Clavamox, Covinia and Terramycin anti-infectives; Vanguard vaccines; and Revolution/Stronghold parasiticide. Growth in this business is driven by economic development and related increases in disposable income, increasing pet ownership, companion animals living longer, increasing medical treatment of companion animals, and advances in animal health medicines and vaccines.

**CORPORATE STRATEGY.** The company may pursue acquisitions, technology licensing arrangements, and strategic alliances or divestitures of some of its businesses as part of an overall strategy to drive growth. Leveraging its broad global footprint, Zoetis strives to provide customers with innovative products and services. ZTS also places great emphasis on R&D, which has spawned an extensive and diversified product portfolio. In line with the latter strategy, the company is pursuing the development of new vaccines for emerging infectious diseases in animals.

**COMPETITIVE LANDSCAPE.** Zoetis was the largest player in an estimated \$22 billion global animal health market in 2011 (latest available), with about an 18% market share. Other key competitors include Merck Animal Health; Merial, the animal health division of Sanofi S.A.; Elanco, the animal health division of Eli Lilly; Bayer Animal Health; and Novartis Animal Health.

**FINANCIAL TRENDS.** On January 28, 2013, the company issued \$3.65 billion aggregate principal amount of senior notes in a private placement. As of September 30, 2013, Zoetis had total current assets of \$3.1 billion (including \$389 million in cash and cash equivalents), long-term debt of \$3.64 billion, and stockholders equity of \$866 million. In November 2013, management projected revenues of between \$4.475 billion and \$4.525 billion for 2013. Guidance for 2013 also included adjusted cost of sales of about 35.5% of sales; adjusted SG&A of between \$1.405 billion and \$1.425 billion; adjusted R&D in the \$380 million to \$390 million area; a tax rate of about 29.5%; and adjusted EPS of \$1.38-\$1.42. These figures exclude projected acquisition-related and other nonrecurring costs of between \$220 million and \$240 million.

## Corporate Information

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**Telephone**  
973-822-7000.

**Website**  
<http://www.zoetis.com>

### Officers

**Chrmn**  
M.B. McCallister

**EVP, CFO & Chief  
Acctg Officer**  
R.A. Passov

**CEO**  
J.R. Alaix

**EVP, Secy & General  
Counsel**  
H.C. Chen

**Pres & EVP**  
K.C. Peck

### Board Members

J. R. Alaix  
M. B. McCallister  
L. M. Parent

F. A. D'Amelio  
G. Norden  
W. C. Steere, Jr.

**Domicile**  
Delaware

**Founded**  
1952

**Employees**  
9,300

**Stockholders**  
32,145

## Zoetis Inc

## Quantitative Evaluations

<b>S&amp;P Fair Value Rank</b>	NR	1	2	3	4	5
LOWEST Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5). HIGHEST						

**Fair Value Calculation** NA

<b>Investability Quotient Percentile</b>	82
LOWEST = 1 ZTS scored higher than 82% of all companies for which an S&P Report is available. HIGHEST = 100	

**Volatility** NA

**Technical Evaluation** NA

<b>Insider Activity</b>	NA	UNFAVORABLE	NEUTRAL	FAVORABLE
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## Expanded Ratio Analysis

	2012	2011	2010	2009
Price/Sales	Nil	Nil	Nil	NA
Price/EBITDA	Nil	Nil	Nil	NA
Price/Pretax Income	Nil	Nil	Nil	NA
P/E Ratio	Nil	Nil	Nil	NA
Avg. Diluted Shares Outstg (M)	500.0	500.0	500.0	NA

Figures based on calendar year-end price

## Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	2.43	16.44	NA	NA
Net Income	77.96	NM	NA	NA

## Ratio Analysis (Annual Avg.)

Net Margin (%)	10.06	6.30	3.82	NA
% LT Debt to Capitalization	11.01	13.65	NA	NA
Return on Equity (%)	11.26	NA	NA	NA

## Company Financials Fiscal Year Ended Dec. 31

Per Share Data (\$)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Tangible Book Value	4.35	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cash Flow	1.27	NA	NA	NA	NA	NA	NA	NA	NA	NA
Earnings	0.87	NA	NA	NA	NA	NA	NA	NA	NA	NA
S&P Core Earnings	0.85	0.49	0.08	NA	NA	NA	NA	NA	NA	NA
Dividends	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Payout Ratio	Nil	NA	NA	NA	NA	NA	NA	NA	NA	NA
Prices:High	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Prices:Low	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
P/E Ratio:High	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
P/E Ratio:Low	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

## Income Statement Analysis (Million \$)

Revenue	4,336	4,233	3,582	2,760	NA	NA	NA	NA	NA	NA
Operating Income	1,063	905	587	424	NA	NA	NA	NA	NA	NA
Depreciation	200	205	185	124	NA	NA	NA	NA	NA	NA
Interest Expense	31.0	36.0	37.0	26.0	NA	NA	NA	NA	NA	NA
Pretax Income	710	394	178	-148	NA	NA	NA	NA	NA	NA
Effective Tax Rate	38.6%	37.1%	37.6%	NM	NA	NA	NA	NA	NA	NA
Net Income	436	245	110	-100	NA	NA	NA	NA	NA	NA
S&P Core Earnings	428	245	42.4	NA	NA	NA	NA	NA	NA	NA

## Balance Sheet &amp; Other Financial Data (Million \$)

Cash	317	79.0	63.0	NA	NA	NA	NA	NA	NA	NA
Current Assets	2,864	2,311	2,116	NA	NA	NA	NA	NA	NA	NA
Total Assets	6,262	5,711	5,284	NA	NA	NA	NA	NA	NA	NA
Current Liabilities	1,123	843	808	NA	NA	NA	NA	NA	NA	NA
Long Term Debt	509	575	673	NA	NA	NA	NA	NA	NA	NA
Common Equity	4,026	3,720	3,344	NA	NA	NA	NA	NA	NA	NA
Total Capital	4,623	4,311	4,055	NA	NA	NA	NA	NA	NA	NA
Capital Expenditures	126	135	124	135	NA	NA	NA	NA	NA	NA
Cash Flow	636	450	295	24.0	NA	NA	NA	NA	NA	NA
Current Ratio	2.6	2.7	2.6	NA	NA	NA	NA	NA	NA	NA
% Long Term Debt of Capitalization	11.0	13.3	16.6	Nil	NA	NA	NA	NA	NA	NA
% Net Income of Revenue	10.1	5.8	3.1	NM	NA	NA	NA	NA	NA	NA
% Return on Assets	7.3	4.5	NA	NA	NA	NA	NA	NA	NA	NA
% Return on Equity	11.3	6.9	NA	NA	NA	NA	NA	NA	NA	NA

Data as orig repts.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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## Sub-Industry Outlook

Our fundamental outlook for the pharmaceuticals sub-industry for the next 12 months is neutral. Although the sector continues to face top-line pressure from patent expirations on many top-selling drugs, as well as from foreign exchange fluctuations, we believe overall industry profits should hold up relatively well, helped by expanding sales of new innovative drug therapies and margin improvements accruing from cost restructurings and merger synergies. EPS comparisons should also benefit from common share repurchases.

While we see recently implemented health care reform legislation continuing to negatively affect industry profitability, we see benefits accruing from significant expansion of the market stemming from new coverage provided to about 27 million currently uninsured Americans starting in 2014. We favor the shares of firms with well defined growth prospects and generous dividend yields, as we believe they should perform relatively well over the coming quarters.

Despite near-term effects from patent expirations and regulatory pressures on drug pricing, we still think long-term prospects for the industry remain favorable. Pharmaceuticals remains one of the widest-margin U.S. industries, with prospects enhanced by demographic growth in the elderly (which account for about 33% of industry sales) and new drugs stemming from discoveries in genomics and biotechnology. Although FDA approvals of new molecular entities so far in 2013 have been below comparable year-earlier levels, we see a pickup in new approvals in 2014.

Year to date through November 22, the S&P Pharmaceuticals Index was up 33.0%, versus a 27.0% rise in the S&P 1500 Composite Index. We expect prospects for the generic/specialty drug

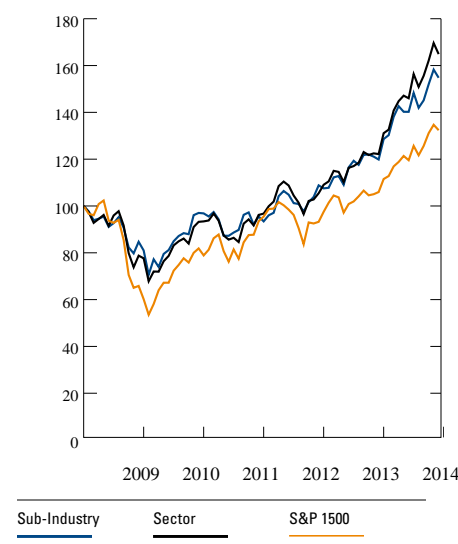
group to remain favorable. We see a large number of major drugs losing patent protection over the next few years, providing significant opportunities for this group. We favor companies with rich generic pipelines, especially those with first-to-file generics with the potential for 180 days of marketing exclusivity, and competence in litigating complex patent issues.

--Herman B. Saftlas

## Stock Performance

**GICS Sector: Health Care**  
**Sub-Industry: Pharmaceuticals**

Based on S&P 1500 Indexes  
Month-end Price Performance as of 11/29/13



**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

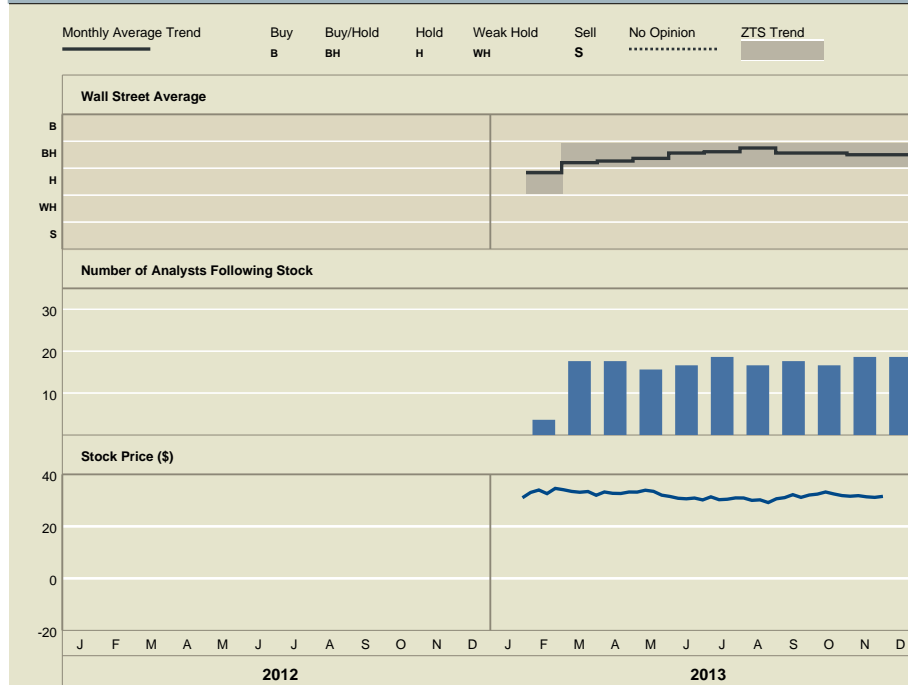
## Sub-Industry : Pharmaceuticals Peer Group\*: Based on market capitalizations within GICS Sub-Industry

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Zoetis Inc'A'</b>	<b>ZTS</b>	<b>15,585</b>	<b>31.17</b>	<b>35.42/28.81</b>	<b>NA</b>	<b>0.8</b>	<b>40</b>	<b>NA</b>	<b>NR</b>	<b>82</b>	<b>10.1</b>	<b>11.0</b>
Auxilium Pharmaceuticals	AUXL	1,008	20.41	22.14/13.87	0.81	Nil	9	NA	C	84	21.7	NA
Cadence Pharmaceuticals	CADX	797	9.32	10.09/4.45	1.35	Nil	NM	NA	NR	6	NM	37.6
Hospira Inc	HSP	6,650	40.25	42.60/28.71	0.89	Nil	NM	37.90	B-	85	1.1	35.9
Impax Laboratories	IPXL	1,497	23.09	24.28/14.41	0.73	Nil	14	17.30	C	66	9.6	NA
Jazz Pharmaceuticals Plc	JAZZ	6,668	115.39	121.15/49.63	1.93	Nil	20	128.10	NR	92	44.6	27.1
Mallinckrodt plc	MNK	3,009	52.16	53.39/41.00	NA	Nil	51	NA	NR	60	2.7	NA
Mylan Inc	MYL	15,983	41.86	44.73/26.91	0.73	Nil	28	50.50	A-	66	9.4	60.7
Nektar Therapeutics	NKTR	1,237	10.74	14.47/6.70	0.57	Nil	NM	NA	C	7	NM	74.4
Pacira Pharmaceuticals	PCRX	1,649	49.18	56.94/15.19	1.57	Nil	NM	NA	NR	55	NM	28.1
Prestige Brands Hldgs	PBH	1,782	34.83	36.00/19.04	1.66	Nil	21	27.10	NR	20	10.5	67.0
Sagent Pharmaceuticals	SGNT	630	22.56	24.40/13.39	1.22	Nil	25	NA	NR	62	NM	NA
Santarus Inc	SNTS	2,000	31.95	32.25/10.29	1.28	Nil	19	29.60	B-	89	8.5	10.6
ViroPharma Inc	VPHM	3,257	49.71	49.79/22.12	1.78	Nil	NM	NA	B-	77	1.3	17.6
Vivus Inc	VVUS	1,007	10.03	15.62/8.00	1.33	Nil	NM	NA	C	74	NM	NA

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

# Zoetis Inc

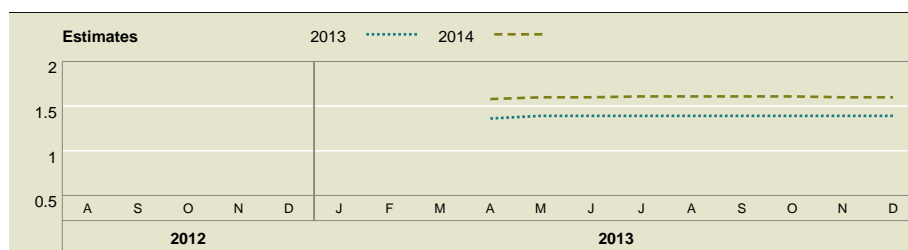
## Analysts' Recommendations



Of the total 18 companies following ZTS, 18 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	8	44	8	9
Buy/Hold	5	28	5	3
Hold	3	17	3	3
Weak Hold	1	6	1	1
Sell	1	6	1	1
No Opinion	0	0	0	0
<b>Total</b>	<b>18</b>	<b>100</b>	<b>18</b>	<b>17</b>

## Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2014	1.61	1.70	1.54	16	19.4
2013	1.40	1.42	1.38	15	22.3
<b>2014 vs. 2013</b>	<b>▲ 15%</b>	<b>▲ 20%</b>	<b>▲ 12%</b>	<b>▲ 7%</b>	<b>▼ -13%</b>
Q4'14	0.40	0.44	0.38	6	77.9
Q4'13	0.34	0.36	0.32	12	91.7
<b>Q4'14 vs. Q4'13</b>	<b>▲ 18%</b>	<b>▲ 22%</b>	<b>▲ 19%</b>	<b>▼ -50%</b>	<b>▼ -15%</b>

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

## Wall Street Consensus Opinion

### BUY/HOLD

## Companies Offering Coverage

Argus Research Company  
 BMO Capital Markets, U.S. Equity Research  
 Barclays  
 BofA Merrill Lynch  
 Citigroup Inc  
 Deutsche Bank  
 Gabelli & Company, Inc.  
 Goldman Sachs  
 Guggenheim Securities, LLC  
 Hilliard Lyons  
 ISI Group Inc.  
 JP Morgan  
 Jefferies LLC  
 Morgan Stanley  
 Morningstar Inc.  
 Piper Jaffray Companies  
 S&P Capital IQ Equity Research  
 William Blair & Company L.L.C.

## Wall Street Consensus vs. Performance

For fiscal year 2013, analysts estimate that ZTS will earn \$1.40. For the 3rd quarter of fiscal year 2013, ZTS announced earnings per share of \$0.26, representing 19% of the total annual estimate. For fiscal year 2014, analysts estimate that ZTS's earnings per share will grow by 15% to \$1.61.

# Zoetis Inc

## Glossary

### S&P STARS

Since January 1, 1987, S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, S&P Capital IQ Equity Research has used STARS® methodology to rank Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), S&P equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

### S&P 12 Month Target Price

The S&P Capital IQ equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

### Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

### S&P Capital IQ EPS Estimates

S&P Capital IQ earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P Capital IQ EPS estimates reflect either forecasts of S&P Capital IQ equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

### S&P Core Earnings

S&P Capital IQ Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the S&P Capital IQ definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

### Qualitative Risk Assessment

The S&P Capital IQ equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P Capital IQ U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

### Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P Capital IQ analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P Capital IQ analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

### S&P Quality Ranking (also known as S&P Earnings & Dividend Rankings)

Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's Earnings and Dividend Rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B- Below Average
A High	C Lower
A- Above Average	D Lowest
B+ Average	NR In Reorganization
B Below Average	

### S&P Fair Value Rank

Using S&P Capital IQ's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

### S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P Capital IQ's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

### Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

### Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

### Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P Capital IQ proprietary measures.

### S&P's IQ Rationale

#### Zoetis Inc'A'

	Raw Score	Max Value
Proprietary S&P Measures	18	115
Technical Indicators	39	40
Liquidity/Volatility Measures	1	20
Quantitative Measures	47	75
<b>IQ Total</b>	<b>105</b>	<b>250</b>

### Volatility

Rates the volatility of the stock's price over the past year.

### Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P Capital IQ's computer models apply special technical methods and formulas to identify and project price trends for the stock.

### Relative Strength Rank



# Zoetis Inc

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P Capital IQ's universe on a rolling 13-week basis.

## Global Industry Classification Standard (GICS)

An industry classification standard, developed by S&P Capital IQ in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

## S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

## Exchange Type

ASE - American Stock Exchange; AU - Australia Stock Exchange; BB - Bulletin Board; NGM - Nasdaq Global Market; NNM - Nasdaq Global Select Market; NSC - Nasdaq Capital Market; NYS - New York Stock Exchange; OTN - Other OTC (Over the Counter); OTC - Over the Counter; QB - OTCQB; QX - OTCQX; TS - Toronto Stock Exchange; TXV - TSX Venture Exchange; NEX - NEX Exchange.

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## Abbreviations Used in S&P Capital IQ Equity Research Reports

CAGR - Compound Annual Growth Rate  
CAPEX - Capital Expenditures  
CY - Calendar Year  
DCF - Discounted Cash Flow  
DDM - Dividend Discount Model  
EBIT - Earnings Before Interest and Taxes  
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization  
EPS - Earnings Per Share  
EV - Enterprise Value  
FCF - Free Cash Flow  
FFO - Funds From Operations  
FY - Fiscal Year  
P/E - Price/Earnings  
P/NAV - Price to Net Asset Value  
PEG Ratio - P/E-to-Growth Ratio  
PV - Present Value  
R&D - Research & Development  
ROCE - Return on Capital Employed  
ROE - Return on Equity  
ROI - Return on Investment  
ROIC - Return on Invested Capital  
ROA - Return on Assets  
SG&A - Selling, General & Administrative Expenses  
SOTP - Sum-of-The-Parts  
WACC - Weighted Average Cost of Capital

**Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).**

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### S&P Capital IQ Global STARS Distribution as of September 30, 2013

Ranking	North America	Europe	Asia	Global
Buy	36.5%	33.5%	32.3%	35.6%
Hold	54.2%	43.5%	59.5%	53.1%
Sell	9.3%	23.0%	8.2%	11.3%
Total	100%	100%	100%	100%

**5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

**3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

**2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

**1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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### S&P Capital IQ Global Quantitative Model Recommendations Distribution as of September 30, 2013

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Buy	40.0%	36.0%	56.9%	46.9%
Hold	20.0%	24.0%	17.8%	19.9%
Sell	40.0%	40.0%	25.3%	33.2%
Total	100%	100%	100%	100%

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