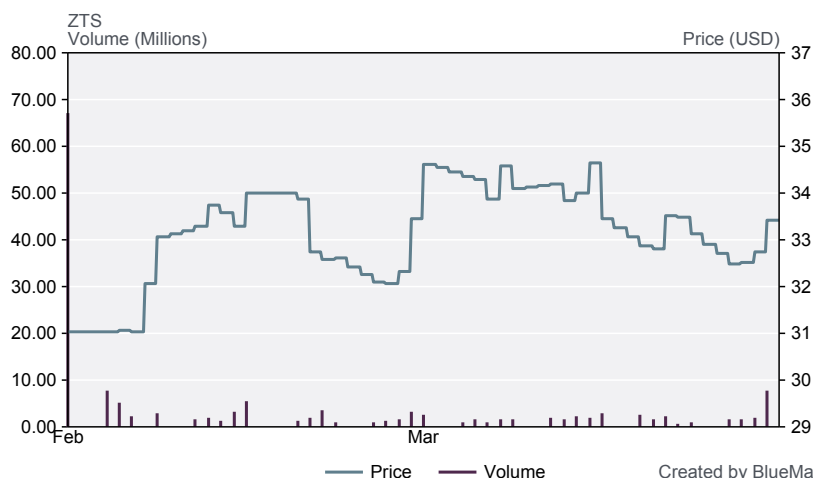


Zoetis Inc.

ZTS - BUY- Our Investment Thesis Remains Intact Despite 4Q12 Miss

March 29, 2013

- ZTS reported 4Q12 EPS of \$0.11, which was \$0.16 lower than consensus and \$0.19 below our estimate. The miss was driven by the complex nature of allocations associated with the carve-out process that resulted in higher than anticipated SG&A and taxes (\$0.10 downside on higher taxes).
- ZTS standalone results in 2013+ will not include the one-time allocations seen in 4Q12. Sales and gross margin in 4Q12 were good and not affected by the one-time allocations, which provides some visibility into the performance of ZTS standalone. ZTS still expects the tax rate to decrease in 2013.
- **2012 key points from 10-K:** 1) +2% YOY sales growth, +5% base biz, +1% acquisition, -4% currency; 2) sales: 65% livestock, 35% companion animal; 3) top-selling product was 7% of sales, top 10 products were 39% of sales; 4) 59% of sales were international, emerging markets were 26%.
- **Potential Stock-Moving Catalysts:** 1) ZTS will report 1Q13 on 4/30/13 and provide 2013 guidance; 2) operating margin expansion; 3) new product launches; 4) business development; 5) expansion into adjacent categories; 6) U.S. drought subsidies; 7) strong flea and tick season.
- **We are hosting a conference call on April 11 at 10:30 a.m. ET** to discuss "The Situation and Outlook for the Livestock Sector in 2013 and Its Impact on the Animal Health Industry." To join, dial 1-866-823-5040; Toll & Outside of U.S./Canada: 1-719-457-6935; Conference ID: 4724546.



LOUISE CHEN ANALYST
 louise.chen@guggenheimpartners.com 212 381 4195
 MARGOT SCHACTER ASSOCIATE
 margot.schacter@guggenheimpartners.com 212 918 8754

ZTS BUY

COMPANY UPDATE

Investment Thesis: Growth

SHARE PRICE \$33.40
 PRICE TARGET \$40.00

Revenue (\$M) (FY Dec)	1Q	2Q	3Q	4Q	FY
2012	1,047.0	1,094.0	1,019.0	1,176.0	4,336.0
Prior	—	—	—	1,171.0	4,331.0
2013	1,073.3E	1,131.7E	1,073.3E	1,212.5E	4,490.9E
Prior	1,082.0E	1,140.9E	1,082.0E	1,222.4E	4,527.4E
2014	—	—	—	—	4,760.0E
Prior	—	—	—	—	4,820.5E

Adjusted EPS (FY Dec)	1Q	2Q	3Q	4Q	FY
2012	0.29	0.37	0.31	0.11	1.08
Prior	—	—	—	0.30	1.27
P/E	—	—	—	—	30.9x
2013	—	—	—	—	1.36E
Prior	—	—	—	—	1.40E
P/E	—	—	—	—	24.6x
2014	—	—	—	—	1.57E
Prior	—	—	—	—	1.61E
P/E	—	—	—	—	21.3x

Market Data & Valuation Multiples

52-Week Range	\$26.00 - \$35.42
Shares Out (M)	99.0
Market Cap (M)	\$16,700

SCENARIO	VALUATION	INVESTMENT THESIS
Bull Case	2013E EPS: \$1.50 12-Month Bull Case Scenario: \$45 Upside/Downside Potential: 35%	<ul style="list-style-type: none"> • 5-year sales and EPS CAGRs of 10% and 20%, respectively • Over 400 bps of margin expansion from 2012 to 2014 • Business development in 2013 • Greater potential for dividend increase
Base Case	2013E EPS: \$1.36 12-Month Base Case Scenario: \$40 Upside/Downside Potential: 20%	<ul style="list-style-type: none"> • 5-year sales and EPS CAGRs of 7% and 15%, respectively • 380 bps of margin expansion from 2012 to 2014 • No additional business development in 2013 • 1% dividend yield in 2013 and 2014
Bear Case	2013E EPS: \$1.25 12-Month Bear Case Scenario: \$32 Upside/Downside Potential: -4%	<ul style="list-style-type: none"> • 5-year sales and EPS CAGRs of 5% and 10%, respectively • Below 300 bps of margin expansion from 2012 to 2014 • No additional business development in 2013 • Greater potential for dividend decrease

Source: Guggenheim Securities, LLC

VALUATION METHODOLOGY AND RISKS

We use a blend of Price to Earnings (P/E), Discounted Cash Flow (DCF), and Sum-of-the-Parts analyses to get to our 12-month price target of \$40. Using a P/E analysis, we arrive at a 12-month value of \$35. We apply a 22 multiple to our 2014E EPS of \$1.57. Our DCF analysis arrives at a 12-month value of \$42. We use a WACC of 9.6% and an exit multiple of 12.2 times EBIT. Using a Sum-of-the-Parts analysis, we arrive at a 12-month value of \$45. We have excluded any redundant overhead to determine what each division would be worth if the company were broken up and/or acquired.

Risks to our valuation include: 1) separation from Pfizer (PFE, NC, \$28.86) is more expensive or takes longer than anticipated; 2) operating margin expansion is below the Street expectation of 400bps between 2012 and 2014; and 3) increasing generic competition for key drugs that do not have patent protection.

VARIANCE ANALYSIS

(in millions of \$US, except per share amounts)

	Actual 4Q12		Guggenheim Estimate 4Q12		Variance	Comments
	Amount	% Change YOY	Amount	% Change YOY		
U.S.	482.0	7.3%	416.1	-7.3%	65.9	Increased demand for premium anti-infectives and swine medicated feed additives, strong flea and tick season
EuAIME	297.0	1.4%	345.0	17.7%	(48.0)	Adverse economic conditions and pressure from restrictions on antibacterials
CLAR	220.0	-1.3%	254.8	14.2%	(34.8)	Foreign exchange 7% negative impact
APAC	177.0	9.3%	155.1	-4.2%	21.9	New launches, salesforce expansion and promotional campaigns
Total Revenue	1,176.0	4.3%	1,171.0	3.9%	5.0	
COGS	427.0	7.8%	435.5	10.0%	(8.5)	Favorable product mix, plant network optimization, yield improvements and overall cost reductions
Gross Profit	749.0	2.5%	735.5	0.6%	13.5	
SG&A	440.0	3.8%	395.5	-6.7%	44.5	Reflects anomalies of the carve out process
R&D	121.0	10.0%	119.5	8.6%	1.5	
Other Operating Expenses	6.0	-50.0%	3.0	-50.0%	3.0	
Operating Income	182.0	-9.5%	217.5	8.2%	(35.5)	
Non Operating Items	(8.0)	-11.1%	(7.0)	-22.2%	(1.0)	
Pre-Tax Income	174.0	-9.4%	210.5	9.6%	(36.5)	
Taxes	117.0	69.6%	57.8	-16.2%	59.2	Tax consequences related to certain legal entity actions, largely non-recurring, reflects anomalies of the carve out process
Tax Rate	67.2%	87.1%	27.5%	-23.6%	39.8	
Other Non-Operating Items	-	-11.1%	(1.0)	-22.2%	1.0	
Net Income	57.0	-53.3%	151.7	24.4%	(94.7)	
Averages Shares	500.0	NM	500.0	NM	-	
Cash EPS	\$0.11	NM	\$0.30	NM	-\$0.19	
Margin Analysis						
Revenues	100.0%		100.0%			
COGS	36.3%		37.2%			
Gross Margin	63.7%		62.8%			
SG&A	37.4%		33.8%			
R&D	10.3%		10.2%			
Net Income	4.8%		13.0%			

Source: Guggenheim Securities, LLC and Company reports

CATALYST CALENDAR

Date	Driver	Upcoming Event
2013		
2H13	U.S. Drought	Expected to be over and U.S. business to return to normal
2H13	Global ERP	Deployment initiated with 2+ year anticipated build out period
2014		
2Q14	Infrastructure support	Expires
December 2014	Transactional Finance support	Phases out as Zoetis shared services is established
2014	Revolution	Compound patent on selamectin expires in U.S., Canada, and Europe
2014	Directors Class I	Term expiration
2015		
2H15+	Global ERP	Build out completed
2015	2015 ASEAN Free Trade Zone	Triggers additional growth
2015	Directors Class II	Term expiration
2015	Global Supply	Full transition to Zoetis
2015	Ceftiofur	U.S. patents start to expire in 2015
2016+		
2016	Transitional service agreements with Pfizer	Expires
2016	Dectomax (antiparasitic)	Injectable formulation patent expires in U.S.
2016	Directors Class III	Term expiration
2020	R&D Collaboration and License Agreement w/Pfizer	Expires (7 years from IPO date)
2020	Dectomax (antiparasitic)	Process patent expires in U.S.
2021	Draxxin	U.S. patent set to expire
2023	Convenia	U.S. patent set to expire

Source: Guggenheim Securities, LLC and Company reports

FINANCIAL MODEL

Zoetis - Quarterly Income Statement Analysis 2009-2019E

(\$ in Millions)	2009	2010 ¹	2011 ²	2012 ³	1Q13E	2Q13E	3Q13E	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	CAGR 14E-19E
(Year Ended December 31)																				
Total Revenue	2,760.0	3,582.0	4,233.0	4,336.0	1,073.3	1,131.7	1,073.3	1,212.5	4,490.9	1,125.7	1,186.9	1,149.7	1,297.7	4,760.0	5,112.4	5,479.0	5,863.2	6,271.4	6,710.0	7.1
COGS	1,001.0	1,318.0	1,581.0	1,549.0	386.4	407.4	375.7	424.4	1,593.9	399.5	410.7	397.8	449.0	1,647.0	1,758.7	1,862.9	1,970.0	2,082.1	2,200.9	
Gross Profit	1,759.0	2,264.0	2,652.0	2,787.0	686.9	724.3	697.7	788.2	2,897.0	726.2	776.2	751.9	848.7	3,113.0	3,353.7	3,616.2	3,893.2	4,189.3	4,509.1	
R&D	365.0	411.0	407.0	399.0	90.9	95.6	91.7	111.9	390.0	96.7	101.7	97.5	119.1	415.0	434.6	465.7	498.4	533.1	570.3	
SG&A	1,057.0	1,365.0	1,447.0	1,452.0	330.9	347.9	333.7	407.5	1,420.0	342.5	360.2	345.5	421.9	1,470.0	1,543.5	1,620.7	1,669.3	1,719.4	1,753.8	
Amortization of Intangibles	16.0	17.0	20.0	15.0	3.3	3.3	3.3	3.3	13.0	3.0	3.0	3.0	3.0	12.0	11.0	10.0	9.0	8.0	7.0	
Other (Income)/Expense	(1.0)	(25.0)	(28.0)	(21.0)	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	0.0	0.0	
Total Operating Expense	1,437.0	1,768.0	1,846.0	1,845.0	425.0	446.7	428.6	522.7	1,823.0	442.2	464.8	446.0	544.0	1,897.0	1,989.1	2,096.4	2,176.7	2,260.4	2,331.1	
Operating Income	322.0	496.0	806.0	942.0	261.9	277.6	269.1	265.4	1,074.0	294.0	311.4	305.9	304.7	1,216.0	1,364.7	1,519.8	1,716.5	1,928.8	2,178.0	12.4
Interest Income	0.0	0.0	0.0	0.0	0.8	0.8	0.8	0.8	3.2	1.8	1.9	1.9	1.9	7.4	12.7	20.3	25.3	35.9	40.8	
Interest Expense	(26.0)	(37.0)	(36.0)	(31.0)	(29.1)	(29.1)	(29.1)	(29.1)	(116.6)	(29.1)	(29.1)	(29.1)	(29.1)	(116.6)	(116.6)	(112.0)	(112.0)	(97.9)	(97.9)	
Non-Operating Items	(26.0)	(37.0)	(36.0)	(31.0)	(28.4)	(28.4)	(28.3)	(28.3)	(113.4)	(27.4)	(27.3)	(27.3)	(27.2)	(109.2)	(103.9)	(91.6)	(86.6)	(62.0)	(57.2)	
Pre-tax Income	296.0	459.0	770.0	911.0	233.6	249.2	240.7	237.1	960.6	266.6	284.1	278.7	277.5	1,106.9	1,260.8	1,428.1	1,629.8	1,866.8	2,120.8	
Tax Rate	36.5%	39.9%	34.3%	40.8%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	28.5%	28.0%	27.5%	27.0%	26.5%	
Taxes	108.0	183.0	264.0	372.0	67.7	72.3	69.8	68.8	278.6	77.3	82.4	80.8	80.5	321.0	359.3	399.9	448.2	504.0	562.0	
Net Income (before non-controlling interest)	188.0	276.0	506.0	539.0	165.8	177.0	170.9	168.3	682.0	189.3	201.7	197.8	197.0	785.9	901.5	1,028.3	1,181.6	1,362.8	1,558.8	
Net Income attributable to noncontrolling interest	(1.0)	1.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0	
Adjusted Net Income	189.0	275.0	503.0	539.0	165.8	177.0	170.9	168.3	682.0	189.3	201.7	197.8	197.0	785.9	900.5	1,027.3	1,180.6	1,361.8	1,557.8	
Average Shares	500.0	500.0	500.0	500.0	500.0	500.1	500.1	500.2	500.1	500.2	500.3	500.3	500.4	500.3	500.4	500.5	500.6	500.7	500.8	
Adjusted Diluted EPS	\$0.55	\$1.01	\$1.08	\$1.08	\$0.33	\$0.35	\$0.34	\$0.34	\$1.36	\$0.38	\$0.40	\$0.40	\$0.39	\$1.57	\$1.80	\$2.05	\$2.36	\$2.72	\$3.11	14.6
% Change																				
Total Revenue	29.8%	18.2%	2.4%	2.5%	3.4%	5.3%	3.1%	3.6%	4.9%	4.9%	7.1%	7.0%	7.0%	6.0%	7.4%	7.2%	7.0%	7.0%	7.0%	
COGS	31.7%	20.0%	-2.0%	-0.4%	6.7%	6.7%	-0.6%	2.9%	0.8%	0.8%	5.9%	5.8%	5.8%	3.3%	6.8%	5.9%	5.8%	5.7%	5.7%	
Gross Profit	28.7%	17.1%	5.1%	4.2%	1.7%	4.6%	5.2%	3.9%	7.2%	7.2%	7.8%	7.7%	7.7%	7.5%	7.7%	7.8%	7.7%	7.6%	7.6%	
R&D	12.6%	-1.0%	-2.0%	-2.3%	5.0%	-2.5%	-7.5%	-2.3%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	4.7%	7.2%	7.0%	7.0%	7.0%	
SG&A	29.1%	6.0%	0.3%	0.0%	-0.9%	1.1%	-7.4%	-2.2%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	5.0%	5.0%	3.0%	3.0%	2.0%	
Amortization of Intangibles	6.3%	17.6%	-25.0%	-18.8%	8.3%	-18.8%	-18.8%	-13.3%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-8.3%	-9.1%	-10.0%	-11.1%	-12.5%	
Operating Income	54.0%	62.5%	16.9%	13.9%	-1.2%	8.1%	45.8%	14.0%	12.2%	12.2%	13.7%	14.8%	14.8%	13.2%	12.2%	11.4%	12.9%	12.4%	12.9%	
Non-Operating Items	42.3%	-2.7%	-13.9%	254.8%	254.4%	304.9%	254.2%	265.9%	-3.6%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-4.8%	-11.8%	-5.4%	-28.4%	-7.9%	
Pre-tax Income	55.1%	67.8%	18.3%	5.2%	-8.7%	-0.5%	36.3%	5.4%	14.2%	14.0%	15.8%	17.0%	17.0%	15.2%	13.9%	13.3%	14.1%	14.5%	13.6%	
Tax Rate	9.3%	-14.0%	19.1%	-15.3%	-12.0%	-21.1%	-56.9%	-29.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-1.7%	-1.8%	-1.8%	-1.8%	-1.9%	
Taxes	69.4%	44.3%	40.9%	-10.9%	-19.7%	-21.6%	-41.2%	-25.1%	14.2%	14.0%	15.8%	17.0%	17.0%	15.2%	11.9%	11.3%	12.1%	12.5%	11.5%	
Net Income attributable to noncontrolling interest			-100.0%																	
Net Income	45.5%	82.9%	7.2%	14.4%	-3.3%	11.0%	195.3%	26.5%	14.2%	14.0%	15.8%	17.0%	17.0%	15.2%	14.6%	14.1%	14.9%	15.3%	14.4%	
Adjusted Diluted EPS	NM	NM	NM	14.4%	-3.3%	11.0%	195.2%	26.5%	14.1%	14.0%	15.7%	17.0%	17.0%	15.2%	14.6%	14.1%	14.9%	15.3%	14.4%	

Source: Guggenheim Securities, LLC and Company Reports

(1) 2010 revenues include \$640MM of revenues from full year impact of FDAH acquisition. "Adjusted Net Income" excludes purchase accounting adjustments, acquisition related costs and certain significant items. Organic sales growth was 7%.

(2) 2011 revenues include \$329MM of revenues from KAH acquisition. "Adjusted Net Income" excludes purchase accounting adjustments, acquisition related costs and certain significant items. Organic sales growth was 7%.

(3) 2012 revenues include extra month of revenues of \$37MM from KAH acquisition. "Adjusted Net Income" excludes purchase accounting adjustments, acquisition related costs and certain significant items. Organic sales growth was 6%.

The higher effective tax rate in 2012 is due to the non-recurrence of \$9.5MM of tax benefit in 2011.

Zoetis - Quarterly Margin Analysis 2009-2019E

	2009	2010	2011	2012	1Q13E	2Q13E	3Q13E	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	36.3%	36.8%	37.3%	35.7%	36.0%	36.0%	35.0%	35.0%	35.5%	34.6%	34.6%	34.6%	34.6%	34.6%	34.4%	34.0%	33.6%	33.2%	32.8%
Gross Margin	63.7%	63.2%	62.7%	64.3%	64.0%	64.0%	65.0%	65.0%	64.5%	65.4%	65.4%	65.4%	65.4%	65.4%	65.6%	66.0%	66.4%	66.8%	67.2%
R&D	13.2%	11.5%	9.6%	9.2%	8.5%	8.4%	8.5%	9.2%	8.7%	8.6%	8.6%	8.5%	9.2%	8.7%	8.5%	8.5%	8.5%	8.5%	8.5%
SG&A	38.3%	38.1%	34.2%	33.5%	30.8%	30.7%	31.1%	33.6%	31.6%	30.4%	30.3%	30.0%	32.5%	30.9%	30.2%	29.6%	28.5%	27.4%	26.1%
Oper. Inc.	11.7%	13.8%	19.0%	21.7%	24.4%	24.5%	25.1%	21.9%	23.9%	26.1%	26.2%	26.6%	23.5%	25.5%	26.7%	27.7%	29.3%	30.8%	32.5%
Operating Expenses	52.1%	49.4%	43.6%	42.6%	39.6%	39.5%	39.9%	43.1%	40.6%	39.3%	39.2%	38.8%	41.9%	39.9%	38.9%	38.3%	37.1%	36.0%	34.7%
Non-Oper. Items	-0.9%	-1.0%	-0.9%	-0.7%	-2.6%	-2.5%	-2.6%	-2.3%	-2.5%	-2.4%	-2.3%	-2.4%	-2.1%	-2.3%	-2.0%	-1.7%	-1.5%	-1.0%	-0.9%
Pretax Income	10.7%	12.8%	18.2%	21.0%	21.8%	22.0%	22.4%	19.6%	21.4%	23.7%	23.9%	24.2%	21.4%	23.3%	24.7%	26.1%	27.8%	29.8%	31.6%
Net Income	6.8%	7.7%	11.9%	12.4%	15.5%	15.6%	15.9%	13.9%	15.2%	16.8%	17.0%	17.2%	15.2%	16.5%	17.6%	18.8%	20.2%	21.7%	23.2%

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Quarterly Revenue Model 2009-2019E

(\$ in Millions)																			
(Year Ended December 31)	2009	2010	2011	2012	1Q13E	2Q13E	3Q13E	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E
US	1,105.0	1,384.0	1,659.0	1,776.0	443.6	467.7	443.6	501.1	1,855.9	463.5	488.7	463.5	523.6	1,939.4	2,026.7	2,117.9	2,213.2	2,312.8	2,416.9
EuA/ME	880.0	1,020.0	1,144.0	1,096.0	264.6	279.0	264.6	298.9	1,107.0	275.1	290.1	275.1	310.8	1,151.2	1,203.0	1,257.2	1,313.8	1,372.9	1,434.7
CLAR	451.0	664.0	788.0	769.0	187.5	197.7	187.5	211.8	784.4	196.8	207.5	196.8	222.4	823.6	881.3	942.9	1,008.9	1,079.6	1,155.1
APAC	324.0	514.0	642.0	695.0	177.7	187.4	177.7	200.8	743.7	190.2	200.5	190.2	214.8	795.7	851.4	911.0	974.8	1,043.0	1,116.0
Pipeline	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.0	26.0	50.0	100.0	150.0	202.5	253.1	303.8
Other New Products	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	0.0	50.0	100.0	150.0	210.0	283.5
Total Revenues	2,760.0	3,582.0	4,233.0	4,336.0	1,073.3	1,131.7	1,073.3	1,212.5	4,490.9	1,125.7	1,186.9	1,149.7	1,297.7	4,760.0	5,112.4	5,479.0	5,863.2	6,271.4	6,710.0
% Change																			
US		25.2%	19.9%	7.1%	4.4%	11.1%	-1.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
EuA/ME		15.9%	12.2%	-4.2%	-3.8%	-1.4%	9.8%	0.6%	1.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
CLAR		47.2%	18.7%	-2.4%	8.4%	-6.3%	13.6%	-3.7%	2.0%	5.0%	5.0%	5.0%	5.0%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%
APAC		58.6%	24.9%	8.3%	2.1%	4.7%	7.7%	13.4%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Total Revenues		29.8%	18.2%	2.4%	2.5%	3.4%	5.3%	3.1%	3.6%	4.9%	4.9%	7.1%	7.0%	6.0%	7.4%	7.2%	7.0%	7.0%	7.0%

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Annual Revenue Model 2009-2019E

(\$ in Millions)	Year Ended December 31st,											2010/	2011/	2012/	2013E/	2014E/	2015E/	2016E/	2017E/	2018E/	2019E/	CAGR
	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	14E-19E
Base Business																						
Livestock	607.8	761.2	912.5	959.0	1,002.2	1,047.3	1,094.4	1,143.7	1,195.1	1,248.9	1,305.1	25.2%	19.9%	5.1%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Companion	497.3	622.8	746.6	817.0	853.7	892.1	932.3	974.2	1,018.1	1,063.9	1,111.8	25.2%	19.9%	9.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
US	1,105.0	1,384.0	1,659.0	1,776.0	1,855.9	1,939.4	2,026.7	2,117.9	2,213.2	2,312.8	2,416.9	25.2%	19.9%	7.1%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Livestock	624.8	724.2	812.2	767.2	774.9	805.9	842.1	880.0	919.6	961.0	1,004.3	15.9%	12.2%	-5.5%	1.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Companion	255.2	295.8	331.8	328.8	332.1	345.4	360.9	377.2	394.1	411.9	430.4	15.9%	12.2%	-0.9%	1.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
EuAIME	880.0	1,020.0	1,144.0	1,096.0	1,107.0	1,151.2	1,203.0	1,257.2	1,313.8	1,372.9	1,434.7	15.9%	12.2%	-4.2%	1.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Livestock	360.8	531.2	630.4	607.5	627.5	658.9	705.0	754.4	807.2	863.7	924.1	47.2%	18.7%	-3.6%	3.3%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Companion	90.2	132.8	157.6	161.5	156.9	164.7	176.3	188.6	201.8	215.9	231.0	47.2%	18.7%	2.5%	-2.9%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
CLAR	451.0	664.0	788.0	769.0	784.4	823.6	881.3	942.9	1,008.9	1,079.6	1,155.1	47.2%	18.7%	-2.4%	2.0%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Livestock	236.5	375.2	468.7	500.4	542.9	580.9	621.5	665.0	711.6	761.4	814.7	58.6%	24.9%	6.8%	8.5%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Companion	87.5	138.8	173.3	194.6	200.8	214.8	229.9	246.0	263.2	281.6	301.3	58.6%	24.9%	12.3%	3.2%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
APAC	324.0	514.0	642.0	695.0	743.7	795.7	851.4	911.0	974.8	1,043.0	1,116.0	58.6%	24.9%	8.3%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Pipeline	0.0	0.0	0.0	0.0	0.0	50.0	100.0	150.0	202.5	253.1	303.8	NM	NM	NM	NM	NM	100.0%	50.0%	35.0%	25.0%	20.0%	43.5%
Other New Products	0.0	0.0	0.0	0.0	0.0	0.0	50.0	100.0	150.0	210.0	283.5	NM	NM	NM	NM	NM	NM	100.0%	50.0%	40.0%	35.0%	NM
Total Revenues	2,760.0	3,582.0	4,233.0	4,336.0	4,490.9	4,760.0	5,112.4	5,479.0	5,863.2	6,271.4	6,710.0	29.8%	18.2%	2.4%	3.6%	6.0%	7.4%	7.2%	7.0%	7.0%	7.0%	7.1%

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Cash Flow Analysis 2009-2019E

(\$ in Millions)											
(Year ended December 31)	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Cash flows provided by Operating Activities:											
Net Income	(101.0)	111.0	248.0	436.0	682.0	785.9	901.5	1,028.3	1,181.6	1,362.8	1,558.8
Depreciation and Amortization	124.0	185.0	205.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Other (includes cash separation and internal costs in 2013 and 2014)	(282.0)	(142.0)	161.0	(33.0)	(193.0)	(122.0)	-	-	-	-	-
Net Changes in Working Capital	357.0	100.0	(117.0)	(149.0)	(27.3)	(95.4)	(105.3)	(102.4)	(105.6)	(111.3)	(119.0)
Net cash provided by Operating Activities	98.0	254.0	497.0	454.0	661.7	768.4	996.2	1,125.9	1,276.0	1,451.5	1,639.8
Cash flows from Investing Activities											
Purchases of PP&E	(135.0)	(124.0)	(135.0)	(126.0)	(170.0)	(170.0)	(160.0)	(150.0)	(140.0)	(130.0)	(120.0)
Net proceeds from sale of assets	572.0	203.0	34.0	3.0	-	-	-	-	-	-	-
Acquisitions, net of cash acquired	(2,254.0)	(81.0)	(345.0)	-	-	-	-	-	-	-	-
Other	(4.0)	(7.0)	(3.0)	(12.0)	-	-	-	-	-	-	-
Net cash used in Investing Activities	(1,821.0)	(9.0)	(449.0)	(135.0)	(170.0)	(170.0)	(160.0)	(150.0)	(140.0)	(130.0)	(120.0)
Cash flows from Financing Activities											
(Repayment) or Issuance of long term debt	719.0	-	(143.0)	-	3,141.0	-	-	(400.0)	-	(750.0)	-
Cash dividends paid	(101.0)	(207.0)	(416.0)	(63.0)	(66.2)	(69.5)	(72.9)	(76.6)	(80.4)	(84.4)	(88.6)
Other	1,205.0	(70.0)	529.0	(15.0)	(3,141.0)	-	-	-	-	-	-
Net cash (used in) provided by Financing Activities	1,823.0	(277.0)	(30.0)	(78.0)	(66.2)	(69.5)	(72.9)	(476.6)	(80.4)	(834.4)	(88.6)
Effect of exchange-rate on cash	(7.0)	(4.0)	(2.0)	(3.0)	-	-	-	-	-	-	-
Net (decrease) increase in cash and equivalents	93.0	(36.0)	16.0	238.0	425.6	529.0	763.3	499.3	1,055.6	487.1	1,431.2
Cash and equivalents at beginning of year	6.0	99.0	63.0	79.0	317.0	742.6	1,271.6	2,034.9	2,534.2	3,589.8	4,076.8
Cash and equivalents at end of year	99.0	63.0	79.0	317.0	742.6	1,271.6	2,034.9	2,534.2	3,589.8	4,076.8	5,508.0

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Balance Sheet Analysis 2010-2019E

(\$ in Millions)										
(Year ended December 31)	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Assets										
Cash and Cash Equivalent	63.0	79.0	317.0	742.6	1,271.6	2,034.9	2,534.2	3,589.8	4,076.8	5,508.0
Accounts Receivable, less allowance for doubtful accounts	773.0	871.0	900.0	924.7	980.1	1,011.0	1,042.3	1,074.5	1,108.7	1,145.7
Inventories	995.0	1,063.0	1,345.0	1,278.6	1,321.2	1,410.8	1,494.4	1,580.4	1,670.3	1,765.6
Current deferred tax assets	97.0	96.0	101.0	101.0	101.0	101.0	101.0	101.0	101.0	101.0
Other current assets	188.0	202.0	201.0	208.2	220.7	237.0	254.0	271.8	290.7	311.0
Total Current Assets	2,116.0	2,311.0	2,864.0	3,255.1	3,894.5	4,794.7	5,425.9	6,617.5	7,247.5	8,831.3
Plant, Property & Equipment	1,148.0	1,243.0	1,241.0	1,211.0	1,181.0	1,141.0	1,091.0	1,031.0	961.0	881.0
Identifiable intangibles	924.0	928.0	868.0	868.0	868.0	868.0	868.0	868.0	868.0	868.0
Goodwill	934.0	989.0	985.0	985.0	985.0	985.0	985.0	985.0	985.0	985.0
Other assets	162.0	240.0	304.0	304.0	304.0	304.0	304.0	304.0	304.0	304.0
Total Other Assets	3,168.0	3,400.0	3,398.0	3,368.0	3,338.0	3,298.0	3,248.0	3,188.0	3,118.0	3,038.0
TOTAL ASSETS	5,284.0	5,711.0	6,262.0	6,623.1	7,232.5	8,092.7	8,673.9	9,805.5	10,365.5	11,869.3
Liabilities & Shareholder's Equity										
Accounts Payable and Accrued Expenses	350.0	364.0	513.0	451.2	466.2	497.9	527.4	557.7	589.4	623.0
Other	458.0	479.0	610.0	610.0	610.0	610.0	610.0	610.0	610.0	610.0
Total Current Liabilities	808.0	843.0	1,123.0	1,061.2	1,076.2	1,107.9	1,137.4	1,167.7	1,199.4	1,233.0
Long term debt	673.0	575.0	509.0	3,650.0	3,650.0	3,650.0	3,250.0	3,250.0	2,500.0	2,500.0
Other liabilities	459.0	557.0	589.0	589.0	589.0	589.0	589.0	589.0	589.0	589.0
Total Liabilities	1,940.0	1,975.0	2,221.0	5,300.2	5,315.2	5,346.9	4,976.4	5,006.7	4,288.4	4,322.0
Shareholders Equity	3,344.0	3,720.0	4,026.0	1,307.9	1,902.3	2,730.9	3,682.5	4,783.8	6,062.1	7,532.3
Total Stockholder's Equity	3,344.0	3,720.0	4,026.0	1,307.9	1,902.3	2,730.9	3,682.5	4,783.8	6,062.1	7,532.3
Noncontrolling Interest	-	16.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	5,284.0	5,711.0	6,262.0	6,623.1	7,232.5	8,092.7	8,673.9	9,805.5	10,365.5	11,869.3

Source: Guggenheim Securities, LLC and Company Reports

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

IMPORTANT DISCLOSURES

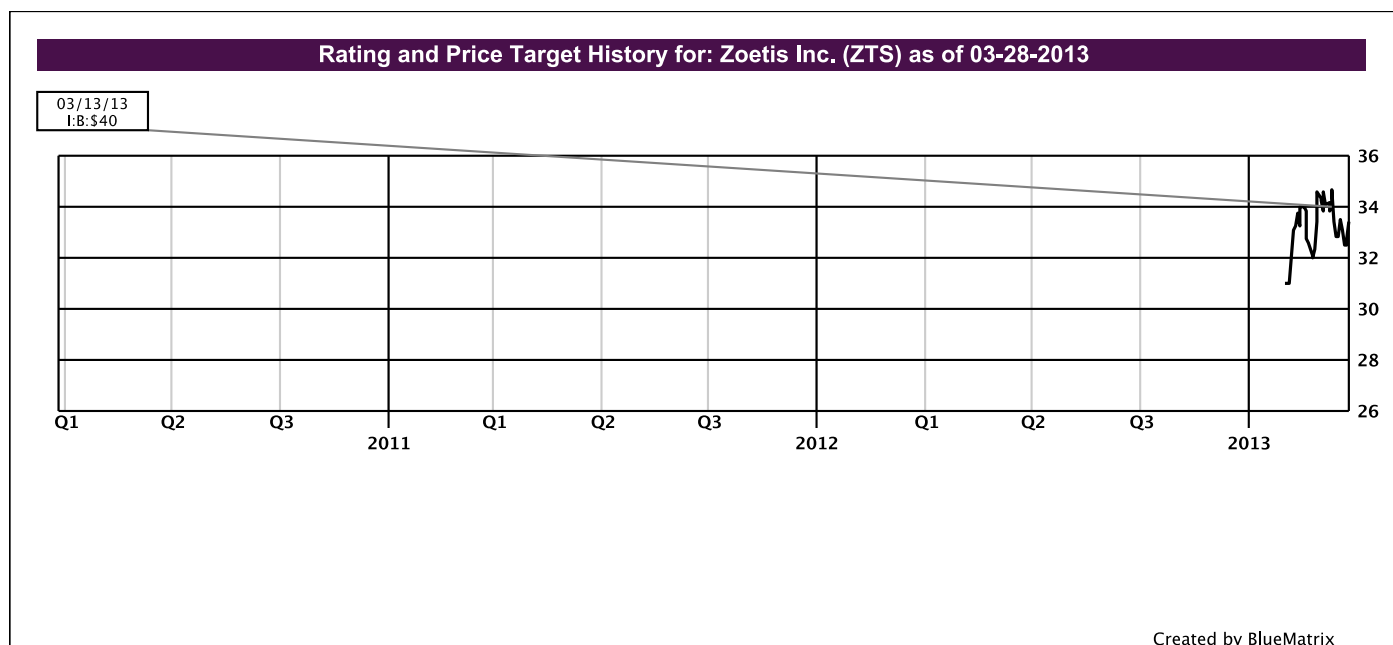
The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenues, which includes investment banking revenues.

Guggenheim Securities, LLC managed or co-managed a public offering of securities for Zoetis Inc. during the past 12 months.

Zoetis Inc. is or was during the 12-month period preceding the date of the distribution of this report a client of Guggenheim Securities. Guggenheim Securities, LLC Provided Zoetis Inc. investment banking services.

Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Zoetis Inc. in the next 3 months.

Please refer to this website for company-specific disclosures referenced in this report: [https://guggenheimsecurities.bluematrix.com/sellside/](https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action) Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.



RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

Restricted - Describes issuers where, in conjunction with Guggenheim Securities, LLC engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market

risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	74	50.68%	4	5.41%
Neutral	72	49.32%	4	5.56%
Sell	0	0.00%	0	0.00%

OTHER DISCLOSURES

This research is for our clients and prospective clients only. Other than disclosures relating to Guggenheim Securities and its affiliates, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the research analyst's judgment. Guggenheim Securities conducts a full-service, integrated investment banking and brokerage business, and one or more of its affiliates conduct an investment management business. Guggenheim Securities is a member of SIPC (<http://www.sipc.org>). Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our employees trading for our own account that reflect opinions that are contrary to the opinions expressed in this research. Guggenheim Securities or certain of its affiliates conducts an investment management business, trades for its own account, and conducts an investment business, and may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research. We and our affiliates also may sell to or buy from customers on a principal basis the securities described herein. We and our affiliates also do business with, or that relates to, companies covered in Guggenheim Securities' research, and may have a position in the debt of the company or companies discussed herein.

This research is not an offer to sell or the solicitation of an offer to buy any security. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

TACTICAL TRADING IDEA DISCLAIMER

Guggenheim Securities, LLC produces "Tactical Trade Ideas" that identify short-term, catalyst-driven trading opportunities impacting companies within the Firm's coverage universe. Tactical Trade Ideas may exist on companies in this report and may be contrary to the analyst's published rating.

Copyright © 2013 by Guggenheim Securities, LLC, ("Guggenheim") a FINRA registered broker-dealer. All rights reserved. The contents of this report are based upon information or are obtained from sources that Guggenheim generally considers reliable, but Guggenheim makes no representations or warranties with respect to their accuracy, completeness, timeliness, suitability or otherwise, and assumes no responsibility to update them for subsequent events or knowledge. Guggenheim is not responsible for your use of this information.

Contact Information

NEW YORK SALES & TRADING DESK
212 292 4700

EQUITY TRADING DESK
212 292 4701

MEDIA INQUIRIES
312 977 4029

EMAIL
general@guggenheimmcm.com

Locations

NEW YORK
330 Madison Avenue
New York, NY 10017

CHICAGO
222 West Adams Street
Chicago, IL 60606

BOSTON
500 Boylston St, 13th Floor
Boston, MA 02116

LOS ANGELES
15821 Ventura Blvd
Encino, CA 91436
999 Corporate Drive
Ladera Ranch, CA 92694

DALLAS
1717 McKinney Avenue
Suite 870
Dallas, TX 75202

NASHVILLE
104 Woodmont Blvd
Suite 203
Nashville, TN 37205

HERNANDO
1288 Byhalia Road
Suite 2
Hernando, MS 38632

Guggenheim Equity Research

AUTOMOTIVE

Matthew Stover, Analyst
matthew.stover@guggenheimpartners.com
617 859 4605

Brendon Mason, Associate
brendon.mason@guggenheimpartners.com
617 859 4624

ENERGY: EXPLORATION & PRODUCTION

Rob Cordray, Analyst
robert.cordray@guggenheimpartners.com
972 638 5509

ENERGY: OIL SERVICES & EQUIPMENT

Darren Gacia, Analyst
darren.gacia@guggenheimpartners.com
212 293 3054

Michael LaMotte, Analyst
michael.lamotte@guggenheimpartners.com
214 613 6700

Robert Miller, Associate
robert.miller@guggenheimpartners.com
972 638 5504

FINANCIAL INDUSTRY GROUP

Rahul Agarwal, Associate
rahul.agarwal@guggenheimpartners.com
615 208 1221

David Darst, Analyst
david.darst@guggenheimpartners.com
615 208 1224

Marty Mosby, Analyst
marty.mosby@guggenheimpartners.com
662 469 9595

Mason Mosby, Associate
mason.mosby@guggenheimpartners.com
662 469 9595

HEALTHCARE: BIOTECH

Bret Holley, Analyst
bret.holley@guggenheimpartners.com
212 293 2820

HEALTHCARE: PHARMACEUTICALS

Louise Chen, Analyst
louise.chen@guggenheimpartners.com
212 381 4195

Margot Schacter, Associate
margot.schacter@guggenheimpartners.com
212 918 8754

RETAIL & CONSUMER

Steven Forbes, Associate
steven.forbes@guggenheimpartners.com
212 381 4188

John Heinbockel, Analyst
john.heinbockel@guggenheimpartners.com
212 381 4135

U.S. TELECOM/ CABLE

Sabina Nyckowski, Associate
sabina.nyckowski@guggenheimpartners.com
212 292 4778

Shing Yin, Analyst

shing.yin@guggenheimpartners.com
212 3814162