

Zoetis Inc. (ZTS)

Overweight

Releasing The Animal From Within; Initiating At Overweight And \$40 PT

CONCLUSION

We are initiating coverage of Zoetis with an Overweight rating and \$40 PT. We have a positive outlook on the animal health industry and believe further upside in ZTS will be driven by margin expansion, capital allocation, and strategic acquisitions. We believe our target valuation of 24.5x FY14E EPS is justified based on: 1) mid-to-high single digit base growth without the risk of government reimbursement; 2) the stable and mature nature of the industry with solid demand and growth opportunities; and 3) scarcity value for a high quality, large-cap animal health stock. While last year's harsh drought could create a slight headwind during 1H13, it also makes comps easier during 2H13.

- **Zoetis - the global diversified leader in animal health medications and vaccines.** Zoetis is the leading manufacturer of production and companion animal medications and vaccines with a presence in over 120 countries. Our Overweight rating is predicated on our favorable outlook for the industry given long-term demand drivers and growth opportunities, along with ZTS' leading position and focus on expanding in emerging markets. We believe our estimates could be conservative with potential upside driven by margin expansion and strategic M&A into faster growth segments such as diagnostics. Since Zoetis was part of Pfizer during the Q4 earnings cycle, we expect its 2012 10K to be filed in late March and Q1 earnings should be reported in late April.
- **Successful spin-out of Pfizer commanding a premium valuation, which is warranted in our view.** While Pfizer still owns ~80% of ZTS, one of the primary drivers for earnings growth over the next few years is margin expansion driven by leveraging its infrastructure, rationalizing costs as a stand-alone company (e.g. real-estate footprint and other operating costs), as well as savings attributed to shifting from a defined benefit plan to a defined contribution. As ZTS executes on some of its strategic initiatives and creates new development partnerships, we believe its valuation will be in line with other animal health stocks such as MWIV, IDXX and ABAX.
- **Coverage of the animal health industry is differentiated.** We believe our coverage of the animal health industry provides a unique perspective to the ZTS story versus looking at the company as a pharmaceutical spin-out. Our coverage of companies like MWIV, one of ZTS' largest customers, WOOF, PETS, as well as the other major companion animal health distributors, HSIC and PDCO, will help gauge end-user demand. We also have colleagues that cover IDXX, ABAX, and the agriculture industry, which allows for collaborative research, highlighted by our proprietary semi-annual vet survey.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Risks include increased regulatory pressures, adverse weather conditions, lower utilization of products, increased competition, and macro economic factors.

COMPANY DESCRIPTION

Zoetis is the leading global manufacturer of animal health medications and vaccines.

PRICE: US\$33.82
TARGET: US\$40.00
(24.5x FY14E EPS)

Kevin K. Ellich

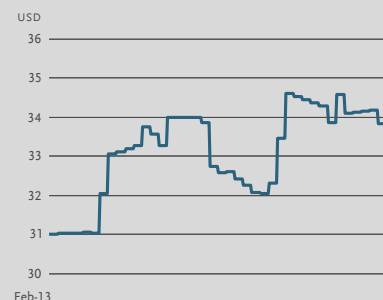
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Changes	Previous	Current
Rating		Overweight
Price Tgt		US\$40.00
FY13E Rev (mil)	—	US\$4,504.3
FY14E Rev (mil)	—	US\$4,762.1
FY13E EPS	—	US\$1.42
FY14E EPS	—	US\$1.62
52-Week High / Low	US\$34.89 / US\$26.00	
Shares Out (mil)	500.0	
Market Cap. (mil)	US\$16,910.0	
Book Value/Share	US\$8.54	
Net Cash Per Share	US\$0.53	
Debt to Total Capital	75%	
Div (ann)	US\$0.26	
Yield	0.77%	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2012E	1,047.0A	1,094.0A	1,019.0A	1,171.0	4,331.0	3.9x	0.30A	0.35A	0.31A	0.25	1.21	28.0x
2013E	1,073.2	1,132.3	1,080.1	1,218.7	4,504.3	3.8x	0.34	0.36	0.36	0.35	1.42	23.8x
2014E	1,121.4	1,193.2	1,147.2	1,300.3	4,762.1	3.6x	0.38	0.41	0.40	0.43	1.62	20.9x

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**ZOETIS – INITIATING COVERAGE WITH AN
OVERWEIGHT RATING AND \$40 PRICE TARGET**

Investment Thesis

We are initiating coverage of Zoetis with an Overweight rating and \$40 price target, which is based on 24.5x our FY14 EPS estimate of \$1.62. Zoetis is the leader in the animal health medications and vaccines market. Two-thirds of the company's revenues are derived from the production animal or livestock market, while the remaining one-third is attributable to the companion animal market. Zoetis is a diversified animal health company with a presence in 120 countries, and minimal customer and product concentration in a stable, mature market with solid demand and growth drivers.

We have a favorable outlook on the animal health market due to mid-single digit organic growth in the companion animal business and similar-to-slightly faster growth in the livestock market driven by the growing worldwide population, the need to drive greater productivity and increased yields in developed countries, and increased demand for quality proteins in developing markets. Companion animal market growth is driven by increased pet ownership trends, increased willingness by pet owners to spend more money on companion animals, increased utilization of pet insurance and wellness plans, and the substitution effect from younger couples waiting to start families and "empty-nesters" looking for companionship.

Our Overweight rating on Zoetis is based on our positive outlook on the animal health industry and believe further upside in ZTS will be driven by margin expansion, capital allocation, and strategic acquisitions that will push estimates higher. We believe our target valuation of 24.5x FY14E EPS, is justified based on the following factors: 1) mid-to-high single digit base growth without the risk of government reimbursement; 2) the stable and mature nature of the industry with solid demand and growth opportunities; and 3) the scarcity value for a high quality, large-cap animal health stock. While last year's harsh drought could create a slight headwind during 1H13, it also makes comps easier during 2H13.

While ZTS' valuation is relatively high compared to pharmaceutical manufacturers, its valuation is more in-line with other animal health stocks, such as MWI Vet Supply (MWIV), IDEXX (IDXX), and Abaxis (ABAX), which trade at FY2 P/E multiples of 23x, 24x, and 34x, respectively. We believe ZTS' valuation is justified since it is the industry leader with a well-established product portfolio and a global presence with a strong sales force and other distribution channels.

What We Like

- **Zoetis is a market leader in the animal health industry.** Zoetis is the market leader with its best in class animal health product portfolio. It is the leading innovator for vaccines, pharmaceuticals, and biopharmaceuticals with strong collaborations worldwide. The company is the partner of choice as its size helps leverage new production development and its sales force helps market to several customers in over 120 countries.
- **Research and Development pipeline.** Zoetis' core driver of growth is its background in research and development, which stems from its history as a subsidiary of Pfizer. The company separated its animal health R&D unit from Pfizer's human health business in 2003 and has faced minimal disruptions. Its R&D efforts are headquartered in Kalamazoo, MI and are led by Catherine Knupp, who had been with Pfizer for 11 years and is a veterinarian. Zoetis has a number of satellite facilities strategically spread

throughout the world that are usually co-located with manufacturing operations. The separation agreement with Pfizer allows for continued access to its proprietary compound library, which we believe is a competitive advantage.

- **Leader in product development with a focus on brand lifecycle development.** We believe another strength of Zoetis is its new product development and brand lifecycle development strategy. The company works on new chemical entities, new antigens and biopharmaceuticals for disease treatment and prevention, while adapting existing products for use in new species through new combinations and reformulations. The animal health project lifecycle is shorter than the human health development lifecycle. We estimate it takes about 6 to 10 years for an animal health product to come to market versus approximately 9 to 15 years for human healthcare.
- **Opportunity to expand operating margins.** We believe Zoetis can drive significant operating margin expansion over the next couple years driven by leveraging infrastructure, rationalizing costs as a stand-alone company and by switching to a defined contribution plan from defined benefit. Zoetis also plans on implementing a new ERP system. We estimate every 50 bps of operating margin expansion above our FY13 operating margin estimate of 24.64% could add an additional \$0.03 to annual EPS.
- **Strong management team with significant experience in the animal health industry.** Zoetis' senior management team has 80 collective years of experience in the animal health industry (average of 7 years) and over 160 years collectively at Pfizer (average of almost 15 years). We have confidence in the company's leadership and Area President's to execute and enhance shareholder value as a stand-alone company.
- **Capital deployment.** We believe Zoetis will use its cash flow to enhance shareholder value through distribution of dividends and strategic acquisitions to enhance growth and expand in ancillary segments such as diagnostics and branded generics.

Risks / What We Worry About

- **Increased restrictions or bans on use of antibiotics used in livestock production.** The FDA issued guidance in April of 2012 that calls for "voluntary" elimination of antibiotics in animal feed for growth promotion. While antibiotics can still be used in production animals to prevent and treat diseases, further limitations or restrictions could adversely impact Zoetis' revenues. As of 2011, \$1.2 billion or approximately 28% of Zoetis' revenues were attributable to antibiotics. It is unclear what percentage of the \$1.2 billion in sales of antibiotics was used to promote growth in production animals.
- **Adverse weather conditions and reduced availability of grazing pastures could result in lower herd sizes.** Significant drought conditions could increase the price of animal feed, such as corn, and force livestock producers to cull or reduce the size of their herds, which would result in lower demand for the company's products. Additionally, reduced availability of grazing pastures due to drought or land development could result in lower herd sizes.
- **Lower utilization of products related to adverse effects on food consumption.** Changes in trends relating to food consumption could reduce the demand for animal proteins, such as red meats, poultry, and milk.
- **Remaining Pfizer ownership creates an overhang and could lead to future pressure on the stock.** Pfizer has the right to make tax-free distributions to its stockholders of its equity interest in Zoetis which can be done through a dividend to all of Pfizer's stockholders or in exchange for either Pfizer shares or other securities.
- **Infectious disease outbreak in food producing animals.** An outbreak of disease carried by animals could lead to death of the animals or precautionary slaughtering of animals, which would result in lower demand for the company's medications and vaccines.

Additionally, an outbreak of disease in a particular animal could result in less demand for the food that particular animal produces.

- **Macro economic concerns could decrease the demand for Zoetis' products.** The challenging economic environment could limit growth as the companion and production animal markets are driven by overall economic development, which could decrease the demand for Zoetis' products.
- **Research & development challenges.** The R&D pipeline is the company's future driver of growth. If Zoetis is unable to develop/acquire new products or successfully launch products Zoetis could experience market share losses and reduced sales.
- **Increased competition could result in pricing pressure.** The animal health industry is highly competitive with new products entering the market frequently. While Zoetis is a leader in the animal health industry, additional competition could result in pricing pressure and reduced profitability.
- **Separation from Pfizer and challenges as a stand-alone company with public company costs.** While we have confidence Zoetis will be successful as a stand-alone company, Zoetis will be faced with new challenges as a public company that could divert management's time away from focusing on growing the business.
- **Zoetis derives a significant portion of its revenues from foreign markets.** In 2011, 61% of Zoetis' revenues were denominated in foreign currencies including the Euro, Brazilian Real and Australian Dollar, among others. Adverse fluctuations in these currencies relative to the U.S. dollar could negatively impact sales and profitability. In 2011, FX has a 3% benefit on revenues, while for the first nine months of 2012, foreign currency had an unfavorable impact of 4%.

Valuation

Our \$40 price target is derived by applying a P/E multiple of 24.5x to our FY14 EPS estimate of \$1.62. Given the limited trading history of ZTS shares, we based our target multiple off of ZTS' animal health peer group and our discounted cash flow analysis. While our target multiple represents a premium to its animal health peer group of approximately 20x FY14E and pharmaceutical manufacturer peer group of 14.5x FY14E, we believe our target valuation is warranted given the company's leading position in the market and potential for operating margin expansion over the next couple years. Our target valuation is more in-line with select industry peers that include MWIV, IDXX and ABAX (currently trade at 23x, 24x and 34x FY14E EPS, respectively), which we believe are more comparable to ZTS as they are for the most part pure play animal health companies. Additionally, we believe WOOF is not a strong comparable given the lack of growth, nor are HSIC and PDCO given the companies derive the majority of their respective revenue from the dental market.

We also conducted a discounted cash flow (DCF) analysis, which supports our \$40 price target. Key assumptions in our DCF analysis include a 3.0% terminal growth rate and a weighted average cost of capital of 7.5%. Our DCF sensitivity analysis can be found in Exhibit 4.

Exhibit 1

ANIMAL HEALTH COMPARABLE COMPANIES

		3/11/13	Mkt. Cap	EV	Daily Avg.	P/E			EV/EBITDA			EV/Sales			
Ticker	Company Name	Price	(mm's)	(mm's)	Vol. (mm's)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	
HSIC	Henry Schein	\$89.92	\$7,900	\$8,311	429.8	20.3x	18.4x	16.7x	10.9x	10.3x	9.6x	0.9x	0.9x	0.8x	
PDCO	Patterson Companies	\$37.17	\$4,038	\$4,340	406.9	18.7x	17.1x	15.4x	10.9x	10.4x	9.7x	1.2x	1.2x	1.1x	
MWIV	MWI Veterinary Supply	\$131.75	\$1,685	\$1,738	80.6	29.3x	26.1x	23.2x	17.3x	15.4x	13.5x	0.8x	0.7x	0.7x	
WOOF	VCA Antech	\$23.16	\$2,047	\$2,609	802.5	17.0x	15.4x	14.5x	8.5x	7.8x	7.4x	1.5x	1.4x	1.3x	
PETS	PetMed Express	\$13.53	\$271	\$225	338.4	16.5x	15.4x	15.4x	8.3x	7.8x	NE	1.0x	0.9x	NE	
IDXX	IDEXX Laboratories	\$91.83	\$5,021	\$5,011	418.9	28.9x	25.9x	23.8x	15.2x	14.1x	13.3x	3.9x	3.6x	3.4x	
ABAX	Abaxis	\$45.80	\$1,009	\$939	159.2	61.1x	44.9x	34.2x	32.3x	24.9x	19.4x	5.3x	4.3x	4.1x	
ZTS	Zoetis	\$34.18	\$17,090	\$20,380	1,447.8	28.2x	24.1x	21.1x	18.6x	16.2x	14.4x	4.7x	4.5x	4.3x	
NA = Not Applicable						Mean	27.4x	23.3x	20.4x	14.8x	13.0x	12.1x	2.1x	1.9x	1.9x
NM = Not Meaningful						Median	20.3x	18.4x	16.7x	10.9x	10.4x	11.5x	1.2x	1.2x	1.2x
NE = No Estimate						Max	61.1x	44.9x	34.2x	32.3x	24.9x	19.4x	5.3x	4.3x	4.1x
						Min	16.5x	15.4x	14.5x	8.3x	7.8x	7.4x	0.8x	0.7x	0.7x

Source: Company reports, FactSet, Thomson One Analytics, Piper Jaffray Estimates

Exhibit 2

ANIMAL HEALTH PHARMA MANUFACTURER COMPARABLE COMPANIES

		3/11/13	Mkt. Cap	EV	Daily Avg.	P/E			EV/EBITDA			EV/Sales		
Ticker	Company Name	Price	(mm's)	(mm's)	Vol. (mm's)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E
Animal Health Drugs														
MRK	Merck	\$43.66	\$131,957	\$136,385	16,601.0	11.4x	12.0x	11.5x	NA	7.3x	7.0x	2.9x	2.9x	2.9x
LLY	Eli Lilly (Elanco)	\$55.07	\$62,472	\$62,319	5,010.6	16.2x	14.1x	19.7x	NA	9.5x	12.6x	2.8x	2.7x	3.1x
NVS	Novartis	\$68.99	\$166,999	\$178,606	1,782.0	13.1x	13.6x	12.4x	10.6x	10.3x	9.8x	3.2x	3.1x	3.0x
BAYZF	Bayer	\$102.30	\$83,819	\$93,031	NA	14.9x	13.2x	12.0x	8.0x	8.1x	7.6x	1.8x	1.7x	1.6x
VRBCF	Virbac	\$216.04	\$1,811	\$1,918	NA	21.3x	18.4x	16.7x	12.1x	9.7x	9.0x	2.1x	1.8x	1.7x
ZTS	Zoetis	\$34.18	\$17,090	\$20,380	1,447.8	28.2x	24.1x	21.1x	18.6x	16.2x	14.4x	4.7x	4.5x	4.3x
NA = Not Applicable					Mean	15.4x	14.3x	14.5x	10.3x	9.0x	9.2x	2.6x	2.5x	2.5x
NM = Not Meaningful					Median	14.9x	13.6x	12.4x	10.6x	9.5x	9.0x	2.8x	2.7x	2.9x
NE = No Estimate					Max	21.3x	18.4x	19.7x	12.1x	10.3x	12.6x	3.2x	3.1x	3.1x
					Min	11.4x	12.0x	11.5x	8.0x	7.3x	7.0x	1.8x	1.7x	1.6x

Source: Company reports, FactSet, Thomson One Analytics, Piper Jaffray Estimates

Exhibit 3

ZOETIS DISCOUNTED CASH FLOW ANALYSIS

DCF Analysis (\$'s in millions)	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	1,109.9	1,256.6	1,398.6	1,545.4	1,692.2	1,836.1	1,973.8	2,102.1
Tax Rate	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%
NOPAT	788.0	892.2	993.0	1,097.2	1,201.5	1,303.6	1,401.4	1,492.5
Depreciation and Amortization	146.4	157.1	166.4	174.7	183.4	192.6	202.2	212.3
CapEx	160.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0
Working Capital	114.6	119.2	124.0	129.0	134.1	139.5	145.1	150.9
Free Cash Flow	659.8	760.1	865.4	973.0	1,080.8	1,186.7	1,288.5	1,383.9
Discount Factor	0.9302	0.8653	0.8050	0.7488	0.6966	0.6480	0.6028	0.5607
Year	1	2	3	4	5	6	7	8
PV of Free Cash Flow	613.7	657.8	696.6	728.6	752.8	769.0	776.7	776.0
Sum of PV of FCF	5,771.1							

Terminal Value

Terminal Growth	3.0%
WACC	7.5%
Free Cash Flow	1,425.5
Terminal Value	31,676.9
PV of Terminal Value	17,761.3
Enterprise Value	23,532.4
Less: Debt	3,640.0
Plus: Cash	347.2
Equity Value	20,239.6
Shares Outstanding	500
Intrinsic Value	\$40.48

Source: Company reports, Piper Jaffray Estimates

Exhibit 4

DISCOUNTED CASH FLOW SENSITIVITY ANALYSIS

		Terminal Growth						
	\$40.48	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	6.0%	\$44.92	\$50.03	\$56.60	\$65.37	\$77.64	\$96.05	\$126.73
	6.5%	\$39.42	\$43.38	\$48.33	\$54.69	\$63.17	\$75.05	\$92.86
	7.0%	\$34.94	\$38.07	\$41.90	\$46.69	\$52.85	\$61.06	\$72.55
	7.5%	\$31.21	\$33.74	\$36.77	\$40.48	\$45.11	\$51.07	\$59.02
	8.0%	\$28.06	\$30.13	\$32.58	\$35.52	\$39.10	\$43.59	\$49.36
	8.5%	\$25.37	\$27.09	\$29.09	\$31.46	\$34.30	\$37.78	\$42.12
	9.0%	\$23.04	\$24.48	\$26.14	\$28.08	\$30.38	\$33.13	\$36.50

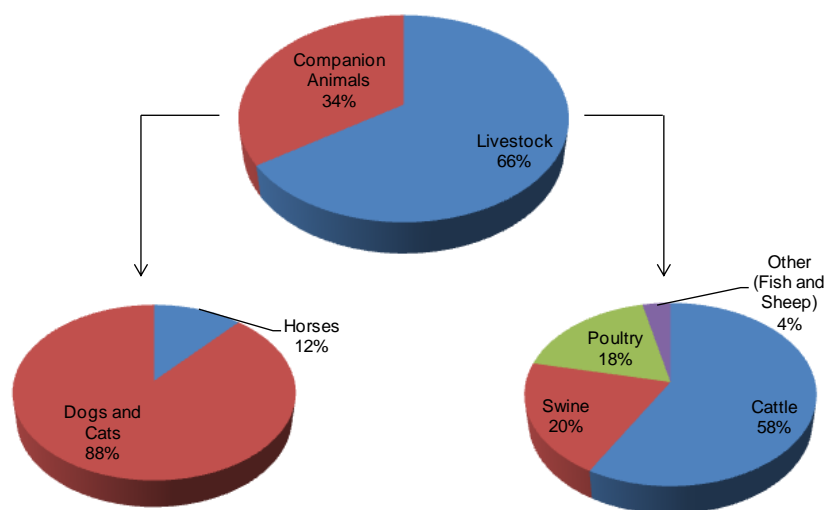
Source: Piper Jaffray Estimates

Business Overview

Zoetis is an industry leader in the discovery, development and manufacturing of veterinary vaccines and medications. It has a presence in 120 countries employing more than 9,000 people, including over 1,000 veterinary research and development scientists and specialists. In 2011, approximately two-thirds (66%) of its revenues were derived from livestock or the production animal market, while one-third (34%) came from the companion animal market. According to industry consultant Vetnosis, Zoetis had leading market share of the top 10 animal health companies based on 2011 revenues with approximately 23% (\$4,233 million in revenues) compared to the second-largest animal health manufacturer, Merck, at 19% (\$3,253 million in revenues).

Exhibit 5

ZTS REVENUE BY BUSINESS SEGMENT, 2011



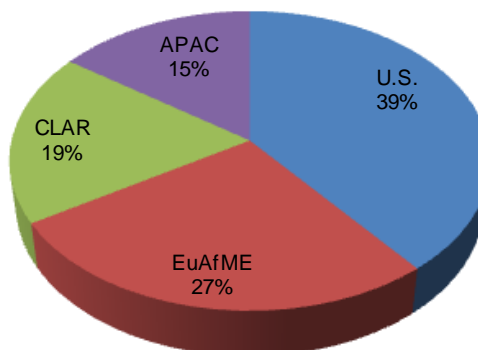
Source: Company reports

Pfizer entered the animal health market in the early 1950's with Terramycin, an antibiotic, and by the early 1990's Pfizer Animal Health generated approximately \$500 million in revenues. Over the years, the company has successfully acquired businesses with important products in development.

Zoetis has a sales force of approximately 3,400 employees and directly markets its portfolio of over 300 product lines to the production animal market and veterinarians in 70 countries. Zoetis breaks out its reportable business segments by four geographic regions including: the United States, Europe/Africa/Middle East, Canada/Latin America, and Asia/Pacific, which accounted for approximately 39%, 27%, 19% and 15% of 2011 revenues, respectively. The company continues to work on expanding its business in emerging markets, such as Brazil, China, and India, to name a few, as these markets accounted for 27% of 2011 revenues.

Exhibit 6

ZTS REVENUE BY GEOGRAPHY, 2011

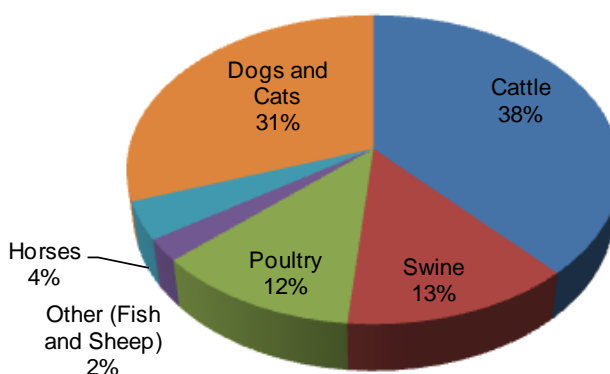


Source: Company reports

Within the livestock business, the company's medications and vaccines primarily serve cattle (both beef and dairy), swine, poultry, sheep and fish, which accounted for approximately 38%, 13%, 12% and 2% of 2011 total revenues, respectively. Products for these species primarily prevent and treat various conditions that result in quality and cost-effective production of animal proteins. Within the companion animal business, Zoetis' primary species include dogs and cats, which accounted for 31% of 2011 revenues, while horses (equine) accounted for 4% of 2011 revenues. Medications and vaccines for companion animals are primarily used to extend and improve the quality of life for the animal.

Exhibit 7

ZTS REVENUES BY SPECIES, 2011



Source: Company reports

How Zoetis Makes Money

Zoetis makes money by selling its vaccines and medications to veterinarians and livestock producers. Zoetis collects the payment directly from livestock producers or veterinarians and does not rely on third parties including insurance companies and government payors. We believe this selling relationship is more favorable and generally results in less pricing pressure than human health, however there is greater sensitivity to macroeconomic factors. The company utilizes its sales force of approximately 3,400 people, which is comprised of sales representatives and technical and veterinary operations specialists, to directly market products to the veterinarians and livestock producers. However, it is important to note, for certain markets in which Zoetis does not have a direct commercial presence, the company does rely on distributors, MWI Veterinary Supply and Animal Health International/Lextron, to provide the logistics and sales/marketing support. We believe directly marketing its products to the customer provides an advantage to Zoetis as the frequent interaction builds and strengthens relationships, while helping identify unmet needs of customers.

Customers

Zoetis' primary customers include companion animal veterinarians, production animal veterinarians, and livestock producers. The company also sells its products to veterinary distributors and retail outlets. While the company's customer concentration is fairly diversified, Zoetis' two largest customers are both distributors, MWI Veterinary Supply (MWIV) and privately held Animal Health International (acquired by Lextron in 2011), each accounting for approximately 8% of total sales.

According to MWIV's most recent 10-Q (FQ1 2013), Pfizer animal health (Zoetis) products accounted for 21% of MWIV's total revenues or approximately \$120 million (+8.5% y/y), while Pfizer's livestock products accounted for 12% of MWIV's sales or approximately \$69 million (+6.3% y/y). In CY2012, MWIV's revenues attributable to Zoetis increased 8.5% y/y to \$424.5 million from \$391.3 million, while we estimate Zoetis' sales to MWIV increased 2.2% y/y to approximately \$346.5 million from roughly \$339 million in CY2011. In 2010, Pfizer's animal health products accounted for 20% of total Animal Health International sales or approximately \$134 million.

Exhibit 8

MWIV REVENUES ATTRIBUTABLE TO PFIZER ANIMAL HEALTH

	FY07	FY08	FY09	FY10	FY11	FY12	1Q13
	<u>9/30/07</u>	<u>9/30/08</u>	<u>9/30/09</u>	<u>9/30/10</u>	<u>9/30/11</u>	<u>9/30/12</u>	<u>12/31/12</u>
Pfizer Animal Health: % of total revs	21.0%	23.0%	24.0%	25.0%	24.0%	20.0%	21.0%
Revenues from Pfizer Animal Health	\$149.123	\$191.214	\$225.920	\$307.336	\$375.682	\$415.029	\$120.298
Pfizer Animal Health revenue growth		28.2%	18.2%	36.0%	22.2%	10.5%	8.5%
Pfizer livestock agreements: % of total revs	17.0%	17.0%	14.0%	12.0%	13.0%	11.0%	12.0%
Pfizer livestock revenues	\$120.719	\$141.332	\$131.786	\$147.521	\$203.494	\$228.266	\$68.742
Pfizer livestock revenue growth		17.1%	(6.8%)	11.9%	37.9%	12.2%	6.3%

Source: MWIV filings

Operating Segments by Geography

Asia Pacific

-Mkt. size \$4.25 B

-Growth 7.5%

-% of revs. 15%

-2011 base growth
12%

-Est. 2016 mkt. size
\$6.25 B

Source: Vetnosis

Zoetis' Asia Pacific region (APAC) generated revenues of approximately \$642 million in 2011 and accounted for 15% of total revenues. We believe APAC has been and will likely continue to be one of Zoetis' fastest growing regions due to the company's focus on emerging markets. Base revenue growth in 2011 and the first nine months of 2012 were 12% and 8%, respectively. According to Vetnosis, the animal health medicines and vaccines market in the APAC region is estimated at approximately \$4.25 billion and is expected to grow at a CAGR of 7.5% to \$6.25 billion in 2016. Growth is expected to be driven by population growth, increased modernization in animal production, and demand for high quality protein due to growing affluence.

Countries in which Zoetis operates within the APAC region include:

- Australia
- Japan
- New Zealand
- South Korea
- India
- China/Hong Kong
- Northeast Asia
- Southeast Asia
- South Asia

Recently, Australia has experienced good growth in the livestock market, specifically dairy cattle, from intramammary products, while the companion animal business in Australia has been driven by growth in parasiticides. We believe Zoetis will continue to focus on emerging markets in APAC including SE Asia, China and India, among others. Additionally, in China and India, Zoetis has expanded its field sales force, which should help the company capture incremental market share, in our view.

Canada / Latin
America

Mkt. size \$3.69 B

-Growth 7.9%

-% of revs. 19%

-2011 base growth
9%

-Est. 2016 mkt. size
\$5.4 B

Source: Vetnosis

The Canada/Latin America (CLAR) region generated revenues of approximately \$788 million in 2011 and accounted for 19% of total revenues. In 2011, CLAR had base revenue growth of 9% and for the first nine months of 2012 base revenue growth was 4%. According to Vetnosis, the animal health medicines and vaccines market in the CLAR region is estimated at approximately \$3.69 billion and is expected to grow at a CAGR of 7.9% to \$5.4 billion in 2016. Sales in the CLAR region will be driven by continued population growth and an emerging middle class that should drive demand for meat protein, as well as increased pet ownership. Additionally, more pets in Latin America are receiving medication than in previous years, which should continue to drive growth, in our view.

Countries or areas in which Zoetis operates within the CLAR region include:

- Canada
- Brazil
- Mexico
- Central America
- Other South American countries, which we believe include:
 - Argentina
 - Chile
 - Columbia
 - Venezuela

While Brazil has seen some increased competition in the cattle market, marketing initiatives continue to help drive increased demand for poultry medicinal feed additives. Additionally, strong demand of Improvac/Improvast, a swine vaccine that reduces boar taint without the need of surgical castration, has helped offset some pressure in the Brazilian cattle market. That said, we believe the majority of revenues in the CLAR region are derived from Brazil, Canada and Mexico.

Europe / Africa /
Middle East

Mkt. size \$7.47 B
-Growth 4.4%
-% of revs. 27%
-2011 base growth
3%
-Est. 2016 mkt. size
\$9.26 B

Source: Vetnosis

The Europe/Africa/Middle East (EuAfME) region generated revenues of approximately \$1,144 million in 2011 and accounted for approximately 27% of total revenues. EuAfME is the second-largest operating segment behind the U.S. and has been the weakest growing segment for the first nine months of 2012. In 2011 base revenue growth was approximately 3%, while during the first nine months of 2012, base revenue growth was just under 1%. Weak growth in this region is primarily due to continued macroeconomic pressures and restrictions on antibacterials in production animals in Western Europe. That said, we believe Zoetis will continue to focus on faster growing emerging markets within the region to help offset the aforementioned headwinds. *For more information on the restrictions relating to antibiotic use in production animals please see our industry section on pg. 26.* According to Vetnosis, the animal health medicines and vaccines market in the EuAfME region is estimated at approximately \$7.47 billion and is expected to grow at a 4.4% CAGR to \$9.26 billion in 2016.

Countries or areas in which Zoetis operates within the EuAfME region include:

- United Kingdom
- Germany
- France
- Italy
- Spain
- Northern Europe
- Central Europe
- Russia
- Turkey
- South Africa

U.S.

Mkt. size \$6.49 B
-Growth 4.5%
-% of revs. 39%
-2011 base growth
7%
-Est. 2016 mkt. size
\$8.08 B

Source: Vetnosis

The U.S. region generated revenues of approximately \$1,659 million in 2011 and accounted for approximately 39% of total revenues, which was the company's largest operating segment based on revenues. Base revenue growth in 2011 was 7%, while base revenue growth for the first nine months of 2012 was 6%. According to Vetnosis, the animal health medicines and vaccine market is estimated at \$6.49 billion and is expected to grow at a CAGR of 4.5% to \$8.08 billion in 2016. While the drought in the U.S. is expected to negatively impact the production animal market, we believe there continues to be strong demand and growth for exports across the livestock segments. Swine has recently been a strong contributor to growth due to an outbreak of gut infections in late stage pigs and due to the launch of an improved swine vaccine that prevents porcine circovirus type 2, which is a virus that could lead to pneumonia. The U.S. production animal business could also be negatively impacted by regulations of antibiotics in production animals. *For more information on this topic please see pg. 26.* In the companion animal segment, the macro environment can negatively affect consumer confidence and therefore pet owner willingness to spend money. Based on our diligence (semi-annual vet surveys), we believe spending on companion animal pets has held relatively stable since many pet owners consider pets to be a part of the family and go to great lengths to keep them healthy and living longer.

**Research and
Development /
Product Portfolio**

Zoetis' core driver of growth is its background in research and development, which stems from its history as a subsidiary of Pfizer. The company separated its animal health R&D unit from Pfizer's human health business in 2003 and has faced minimal disruptions, which is evident by the company receiving one-fourth of all animal health medicine approvals granted by the FDA and roughly one-fifth of all animal health vaccine approvals granted by the USDA, from 2004 to 2011. Zoetis has a number of satellite facilities strategically spread throughout the world that are usually co-located with manufacturing operations. The company's global manufacturing network is listed in Exhibit 9, while a list of Pfizer sites that will continue to manufacture Zoetis products are listed in Exhibit 10.

Exhibit 9

ZOETIS GLOBAL MANUFACTURING NETWORK

<u>Anchor Sites</u>		<u>Satellite Sites</u>	
<u>Site</u>	<u>Location</u>	<u>Site</u>	<u>Location</u>
Catania	Italy	Campinas	Brazil
Charles City	Iowa, U.S.	Durham	North Carolina, U.S.
Chicago Heights	Illinois, U.S.	Eagle Grove	Iowa, U.S.
Guarulhos	Brazil	Hannibal	Missouri, U.S.
Haridwar	India	Hsinchu	Taiwan
Jilin	China	Laurinburg	North Carolina, U.S.
Kalamazoo	Michigan, U.S.	Longmont	Colorado, U.S.
Lincoln	Nebraska, U.S.	Medolla	Italy
Louvain-la-Neuve	Belgium	Salisbury	Maryland, U.S.
Melborne	Australia	San Diego	California, U.S.
Olot	Spain	Shenzhen	China
Suzhou	China	Van Buren	Arkansas, U.S.
Willow Island	West Virginia, U.S.	Victoria	British Columbia, Canada
		Wellington	New Zealand
		White Hall	Illinois, U.S.
		Yantai	China

Source: Company reports

Exhibit 10

PFIZER SITES THAT WILL MANUFACTURE ZOETIS PRODUCTS

<u>Site</u>	<u>Location</u>
Amboise	France
Andover	Massachusetts, U.S.
Ascoli	Italy
Cairo	Egypt
El Jadida	Morocco
Guarulhos	Brazil
Istanbul	Turkey
Jakarta	Indonesia
Kalamazoo	Michigan, U.S.
Nagoya	Japan
Puurs	Belgium
Ringaskiddy	Ireland
Valencia	Venezuela
West Ryde	Australia

Source: Company reports

Zoetis invests the majority of its R&D dollars on brand lifecycle development and the remainder on new product development. The branded lifecycle development leverages existing animal health products by adding new species or claims, receiving approvals in new countries and creating new combinations and reformulations, whereas new product development works on new chemical entities, new antigens and biopharmaceuticals for disease treatment and prevention. We believe the separation for Pfizer will benefit Zoetis' R&D pipeline as more time and resources can be allocated to animal health, whereas most other competitors are still part of a larger pharmaceutical company. Additionally, Zoetis' direct marketing strategy makes it easier to understand the customer's needs, which helps Zoetis develop products more cost effectively.

Another benefit of the separation as it relates to R&D is that following the separation, Pfizer is expected to allow Zoetis continued access to its proprietary compound library, which we believe is a competitive advantage. If Zoetis is able to identify certain compounds, the company will need to request permission from Pfizer to perform limited research activities, otherwise known as intent to access. In order to do further research Zoetis needs to receive approval in principle, which would then be followed by an option to enter into a licensing agreement with Pfizer. With all that said, and assuming a product is commercialized, Zoetis will pay Pfizer an upfront payment, a milestone payment upon regulatory approval in a major market, and royalties on net sales.

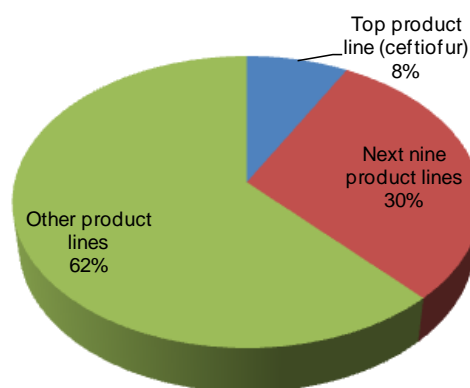
The animal health project lifecycle is typically shorter than the human health development lifecycle. We estimate it could take approximately 6 to 10 years for an animal health product to come to market versus approximately 9 to 15 years for human healthcare. Additionally, R&D for animal health is generally less expensive. Animal health drug development typically requires fewer clinical studies, fewer clinical subjects and is already performed in the target species.

As a result of Zoetis' strong R&D pipeline the company has a portfolio that consists of more than 300 product lines that are marketed to livestock producers and veterinarians.

Additionally, sales from various product lines within the portfolio are fairly diverse relative to other animal health manufacturers in the industry, which we view favorably. Zoetis' top product line that accounted for the largest percentage of sales, or 8%, as of 2011 was Ceftiofur, which is an antibiotic used in cattle, horses, sheep and swine. The next nine top selling product lines accounted for 30% of sales, while its remaining products accounted for 62%. A more detailed illustration of Zoetis' product lines in both the livestock and companion animal markets that generated sales greater than 1% in 2011 are outlined in Exhibit 13 and 14.

Exhibit 11

ZTS REVENUE BY PRODUCT LINE, 2011



Source: Company reports

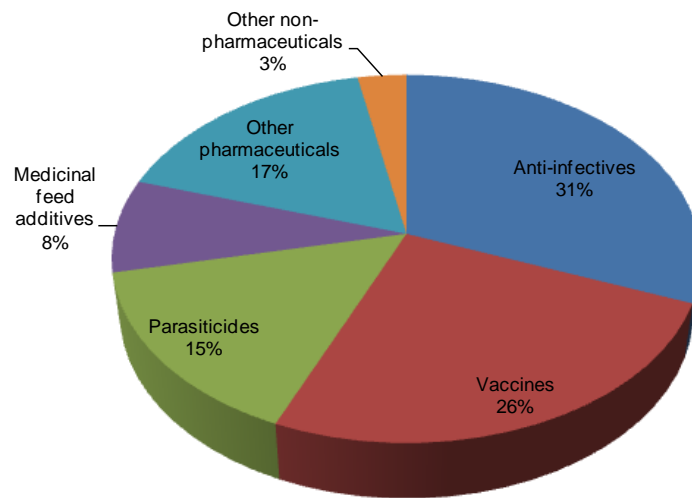
Zoetis' product portfolio consists of approximately 4,000 patents and 2,000 pending patent applications in over 60 countries. While Zoetis does not have significant revenue contribution from any one particular product line, the company does have some patent expiration timelines. The company's leading product line, Ceftiofur, has formulation and use patents that begin to expire in the U.S. in 2015, while other patents for the product line last until 2024. Draxxin, a livestock antibiotic, has patents that last until 2021 in the U.S, while Convenia, an anti-infective for dogs and cats, has patents that last until 2023 in the U.S.

Zoetis divides its products into six different categories including anti-infectives (31% of 2011 sales), vaccines (26%), parasiticides (15%), medicinal feed additives (8%), other pharmaceuticals (17%) and other non-pharmaceuticals (3%). Each product group helps with the following for animals:

- Anti-infectives: prevent, kill or slow growth of certain bacteria or fungi
- Vaccines: help prevent respiratory, gastrointestinal and reproductive tract diseases
- Parasiticides: help eliminate and prevent parasites
- Medicinal feed additives: provides nutrients and medicine to livestock animals in feed
- Other pharmaceutical products: used for pain, sedation, oncology, and vomiting

Exhibit 12

ZTS REVENUE BY PRODUCT CATEGORY, 2011



Source: Company reports

Exhibit 13

ZOETIS LIVESTOCK PRODUCTS THAT ACCOUNTED FOR >1% OF 2011 REVENUES

Livestock

<u>Product line / product</u>	<u>Primary Species</u>	<u>Description</u>
Vaccines:		
Bovishield line	Cattle	Aid in preventing diseases, including infectious bovine rhinotracheitis (IBR), bovine viral diarrhea (BVD, Types 1 and 2), parainfluenza3 (PI3) virus and bovine respiratory syncytial virus (BRSV), Leptospira borgpetersenii, L. pomona, L. grippotyphosa, L. canicola and L. icterohaemorrhagiae, depending on formulation
Improvac / Improvest	Swine	Vaccination to reduce boar taint, as an alternative to surgical castration
RespiSure line	Swine	Aid in preventing chronic pneumonia caused by Mycoplasma hyopneumoniae
Rispoval line	Cattle	Aid in preventing three key viruses involved in cattle pneumonia—BRSV, PI3 and BVD—as well as other respiratory diseases, depending on formulation
Parasiticides:		
Cydectin	Cattle, Sheep	Injectable or pour-on endectocide to treat and control internal and external cattle parasites, including gastrointestinal roundworms, lungworms, cattle grubs, mites and lice
Dectomax	Cattle, Sheep	Injectable or pour-on endectocide, characterized by extended duration of activity, for the treatment and control of internal and external parasite infections
Anti-infectives:		
Aureomycin	Cattle, Poultry, Sheep, Swine	Provides livestock producers treatment and convenience against a wide range of respiratory, enteric and reproductive diseases
BMD	Cattle, Poultry, Swine	Aid in preventing and controlling enteritis, thereby increasing rate of weight gain and improving feed efficiency
Ceftiofur line	Cattle, Horses, Sheep, Swine	Broad-spectrum cephalosporin antibiotic active against Gram-positive and Gram-negative bacteria, including β -lactamase-producing strains, with some formulations producing a single course of therapy in one injection
Draxxin	Cattle, Swine	Single-dose low-volume antibiotic for the treatment and prevention of bovine and swine respiratory disease, infectious bovine kerato conjunctivitis and bovine foot rot
Lincomycin line	Swine, Poultry	Aid in preventing and treating Chronic Respiratory Disease associated with Mycoplasma and coliform infections in growing chickens and for the treatment of swine dysentery (bloody scours) associated with Brachyspira (Serpulina) hyodysenteriae
Spectramast	Cattle	Aid in preventing and treating mastitis, delivered via intramammary administration. Same active ingredient as the ceftiofur line
Terramycin	Cattle, Poultry, Sheep, Swine	Antibiotic for the treatment of susceptible infections
Other:		
Eazi-Breed CIDR	Cattle, Sheep	Progesterone-releasing device for the control of the estrus cycle
Embrex devices	Poultry	Devices for enhancing hatchery operations efficiency through in ovo detection and vaccination
Lutalyse	Cattle, Swine	For estrus control or in the induction of parturition or abortion

Source: Company reports

Exhibit 14

ZOETIS COMPANION PRODUCTS THAT ACCOUNTED FOR >1% OF 2011 REVENUES

Companion Animal Products

Product line / product

Vaccines:

Vanguard 4-way Lepto	Dogs	Compatible with Vanguard High Titer and protects against leptospirosis caused by <i>Leptospira canicola</i> , <i>L. grippityphosa</i> , <i>L. icterohaemorrhagiae</i> and <i>L. pomona</i>
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Vanguard High Titer	Dogs	Aid in preventing canine distemper caused by canine distemper virus, infectious canine hepatitis caused by canine adenovirus type 1, respiratory disease caused by canine adenovirus type 2, canine parainfluenza caused by canine parainfluenza virus and canine parvoviral enteritis caused by canine parvovirus
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Parasiticides:

Revolution	Cats, Dogs	Protects against adult fleas, flea larvae, heartworm, ear mites and other parasites such as sarcoptic mites and American ticks for dogs and roundworms and hookworms for cats
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Anti-infectives:

Clavamox / Synulox	Cats, Dogs	A broad-spectrum antibiotic and the first and only potentiated penicillin approved for use in dogs and cats
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Convenia	Cats, Dogs	Anti-infective for the treatment of common bacterial skin infections that provides a course of treatment in a single injection
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Terramycin	Cats, Dogs, Horses	Antibiotic for the treatment of susceptible ophthalmic infections
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Other:

Rimadyl	Dogs	For the relief of pain and inflammation associated with osteoarthritis and for the control of postoperative pain associated with soft tissue and orthopedic surgeries
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Source: Company reports

For comparative purposes, we list below in Exhibit 15 what we believe to be some of Zoetis' competitors' key products.

Exhibit 15

SELECT COMPETITOR PRODUCTS

<u>Product</u>	<u>Species</u>	<u>Category</u>
<u>Novartis Animal Health</u>		
Atopica	Companion	Dermatitis
Denagard	Production	Antibiotic
Deramaxx	Companion	Pain
Interceptor	Companion	Parasites
Sentinel	Companion	Fleas, Heartworm & other parasites
ViraShield 6	Production	Vaccine
<u>Merck Animal Health</u>		
Vista	Production	Vaccine
Actiyl	Companion	Flea & Tick
Safe-Guard	Production	Parasites
Circumvent PCV	Production	Vaccine
<u>Merial Animal Health (Sanofi)</u>		
Frontline	Companion	Flea & Tick
Heartgard	Companion	Heartworm
<u>Elanco</u>		
Trifexis	Companion	Fleas, Heartworm & other parasites
Tylan Injection	Production	Antibiotic
Rumensin	Production	Feed Additive
Paylean	Production	Feed Additive
<u>Bayer Animal Health</u>		
K9 Advantix	Companion	Flea & Tick
Baytril 100	Production	Antibiotic
Advantage Multi	Companion	Fleas, Heartworm & other parasites
<u>Boehringer Ingelheim</u>		
Benestermycin	Production	Antibiotic
Metacam	Production/Companion	Pain
<u>Virbac</u>		
IVERHART MAX	Companion	Parasites
PYRETHRIN DIP	Companion	Flea & Tick
CLINTABS	Companion	Antibiotic
RILEXINE	Companion	Antibiotic

Source: Respective Company Website

Recent / Significant Acquisitions

While acquisitions might not be of the same size and scale as they were when Zoetis was part of Pfizer, we believe the company will continue to pursue smaller acquisition opportunities to expand its presence in complementary businesses such as diagnostics, genetics, dairy data management, e-learning and professional consulting. Key acquisitions that recently contributed to the animal health business when it was part of Pfizer are discussed below.

Fort Dodge Animal Health

In October of 2009, Pfizer acquired Wyeth and its subsidiary Fort Dodge Animal Health, which helped diversify Pfizer's animal health product portfolio and broaden its product offering for all species. Particularly, the acquisition helped strengthen its vaccine portfolio, which included a complementary poultry vaccine business. However, as part of the acquisition, Pfizer was required to divest certain animal health assets of Fort Dodge to Boehringer Ingelheim. The primary products Boehringer Ingelheim received included cattle and small animal vaccines and some animal health pharmaceuticals. While the total purchase price of Wyeth was approximately \$68.2 billion, the company estimated that \$2.3 billion of the purchase price was related to Fort Dodge Animal Health, which contributed approximately \$666 million to Zoetis' annual revenues in 2011.

King Animal Health (Alpharma)

In October of 2010, Pfizer announced its intent to acquire King Pharmaceuticals, which included its animal health subsidiary, Alpharma Animal Health. Alpharma expanded Pfizer's poultry solutions by gaining a portfolio of medicated feed additives, water-soluble therapeutics and probiotics. By February 28, 2011, Pfizer had acquired all the shares of King Pharmaceuticals for a total consideration of approximately \$3.6 billion in cash, of which the company estimates \$345 million was related to the animal health business. King Animal Health contributed approximately \$329 million to 2011 annual revenues.

Synbiotics

In December of 2010, Pfizer acquired Synbiotics, which participates in the animal health diagnostics market. Synbiotics develops, manufactures and markets immunodiagnostics tests for both companion and livestock animals. The acquisition of Synbiotics helped bring Pfizer Animal Health closer to becoming a comprehensive provider to the animal health industry, which will help the company provide the best care for livestock and companion animals. Total consideration for Synbiotics was approximately \$20 million in addition to \$4 million in assumed debt.

Company History

- 1952 - An agricultural division was started at Pfizer to promote Terramycin, which is an anti-infective
- 1970's - The animal health R&D unit was formed
- 1988 - Agricultural division was renamed to Pfizer Animal Health
- 1995 - Pfizer expands into vaccines and companion animal market through the acquisition of SmithKline Beecham Animal Health
- 2003 - Pfizer established Kalamazoo, Michigan as its R&D headquarters
- 2003 - Pfizer strengthens cattle portfolio through acquisition of Pharmacia Corporation
- 2007 - Expanded into poultry devices and vaccines through acquisition of Embrex
- 2008 - Entered animal genetics through acquisition of Catapult Pty Ltd.
- 2009 - Acquired Wyeth's Fort Dodge Animal Health, which added key brands for various species
- 2009 - Further expands its emerging market presence by acquiring Vetnax Animal Health in India
- 2010 - Expanded into aquaculture vaccines through acquisition of Microtek International

- 2010 – Enhanced its veterinary diagnostics presence through the acquisition of Synbiotics
- 2011 – Pfizer strengthens its poultry, cattle and swine business with the acquisition of King Pharmaceuticals, which included its animal health subsidiary.
- 2011 – Formed Jilin Pfizer Guoyuan JV which established vaccine manufacturing in China
- 2011 – Pfizer explores strategic options for Animal Health business
- 2012 – Initial S-1 filing with the Securities and Exchange Commission (SEC)

Source: Company filing

Financial Overview

Nine Months Ended
Sept. 30, 2012 Recap

For the first nine months of 2012 compared to the first nine months of 2011, total revenues increased 1.7% y/y to \$3,160 million and were driven by base growth of 5% and acquisition contribution of 1%, partially offset by a 4% headwind due to foreign exchange (FX). APAC revenue increased 8% y/y to \$518 million and was driven by base growth of 8% and acquisition contribution of 2%, partially offset by a 2% FX headwind. U.S. revenues increased 7% y/y to \$1,294 million, driven by base growth of 6% and acquisition contribution of 1%. CLAR revenues decreased 3% y/y to \$549 million and were driven by base growth of 4% and acquisition contribution of 1%, but offset by an 8% FX headwind. EuAfME revenues decreased 6% y/y to \$799 million which consisted of flat base revenue growth and a 1% contribution from acquisitions, while FX had a 7% negative impact.

Adjusted gross margin increased 265 bps y/y to 64.49%, which was driven by favorable product mix, increased operational efficiencies and savings attributable to margin improvement initiatives. Adjusted operating income increased 25.6% y/y to \$760 million, while adjusted operating margin increased ~457 bps y/y to 24.05% primarily driven by reductions in SG&A and R&D expenses. Adjusted net income increased 26.5% y/y to \$482 million, while net margin increased 299 bps y/y to 15.25%.

Debt Issuance

Zoetis increased its debt by issuing \$3,650 million aggregate principal amount through a senior notes offering on January 28th, 2013. The senior notes consist of the following:

- Senior Notes due 2016: \$400 million at 1.150%
- Senior Notes due 2018: \$750 million at 1.875%
- Senior Notes due 2023: \$1,350 million at 3.250%
- Senior Notes due 2043: \$1,150 million at 4.700%

Zoetis also entered into a five-year \$1,000 million senior unsecured revolving credit facility in December of 2012. The company also has the right to increase the credit facility by \$500 million to \$1,500 million, subject to certain conditions. The credit facility bears interest under two options, which will be decided by Zoetis. The first is at a base rate plus an applicable margin, where the base rate is equal to either, 1) the prime rate of JPMorgan Chase Bank, 2) the federal funds rate plus 0.50%, or 3) a Eurodollar rate for a one month interest period plus 1.00%. The second option is a Eurodollar rate reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin. Zoetis also intends to enter into a commercial paper program with a capacity up to \$1,000 million.

Dividend

Zoetis plans to pay a quarterly cash dividend in the amount of \$0.065 per share, which equates to an annual dividend of \$0.26. At the current share price of \$34.18, it represents an approximate yield of 0.76%. We view the dividend favorably as it displays management's commitment to return capital to shareholders.

Foreign Exchange

Zoetis has a significant portion of its revenues and costs exposed to foreign currency

fluctuations. As of 2011, approximately 61% of its revenues were denominated in foreign currencies, with its major currencies consisting of the Euro, Brazilian Real and the Australian dollar. For the first nine months ended Sept. 30th, 2012, FX had a negative 4% impact on total revenues. Based on current exchange rates, we estimate Zoetis could see an approximate 1% negative impact in 1Q13 relating to FX, while the remaining quarters in 2013 could see a modest benefit.

Piper Jaffray FY13
Projections

For FY13, we are projecting EPS of \$1.42 on revenues of \$4,504.3 million (+4.0% y/y). We are projecting U.S. revenues to increase 5.7% y/y to \$1,851.5 million, EuAfME revenues to increase 3.5% y/y to \$1,123.7 million, CLAR revenues to increase 4.2% y/y to \$804.1 million and APAC revenues to increase 5.5% y/y to \$725 million.

Piper Jaffray FY14
Projections

For FY14, we are projecting EPS of \$1.62 on revenues of \$4,762.1 million (+5.7% y/y). We are projecting U.S. revenues to increase 6.3% y/y to \$1,967.9 million, EuAfME revenues to increase 4.1% y/y to \$1,170 million, CLAR revenues to increase 6.7% y/y to \$857.5 million and APAC revenues to increase 5.7% y/y to \$766.6 million.

Piper Jaffray FY15
Projections

For FY15, we are projecting EPS of \$1.83 on revenues of \$5,041.8 million (+5.9% y/y). We are projecting U.S. revenues to increase 6.0% y/y to \$2,086 million, EuAfME revenues to increase 4.1% y/y to \$1,218.3 million, CLAR revenues to increase 7.4% y/y to \$921.1 million and APAC revenues to increase 6.5% y/y to \$816.4 million.

Management Bios

Zoetis has strong management that is led by Juan Ramon Alaix who has been in the pharmaceutical industry since 1991. Mr. Ramon Alaix shifted his focus to the U.S. about nine years ago. Zoetis has a deep management bench with 10 Executive Vice Presidents, including a Group President (Kristin Peck) and four Area Presidents. The majority of management worked for Pfizer at some point in time.

Juan Ramon Alaix – Chief Executive Officer: Mr. Juan Ramon Alaix joined Pfizer in 2003 and has served as President of Pfizer Animal Health since 2006 before being appointed Chief Executive Officer of Zoetis in July of 2012. Prior to Pfizer, he served as regional president of Central/Southern Europe for Pharmacia and also served in general management positions at Rhone-Poulenc in Spain and Belgium. Mr. Juan Ramon Alaix was also elected to a two-year term as president of the International Federation for Animal Health (IFAH) in 2011, while serving as a member of the board and executive committee. He received a graduate degree in economics from the Universidad de Madrid and has 6 years of experience in the animal health industry in addition to 14 years of experience at Pfizer.

Richard A. Passov – Chief Financial Officer: Mr. Passov joined Pfizer as an Assistant Treasurer in 1997 before being promoted to Senior Vice President and Treasurer of Pfizer in 2001. Mr. Passov was appointed Vice President and Chief Financial Officer of Zoetis in July 2012. Prior to Pfizer, Mr. Passov held finance positions at Intel and Sun Microsystems. He earned a bachelors degree in economics and a Masters of Business Administration from the University of California at Los Angeles and also earned a master's degree in operations research from the University of California at Berkeley. Mr. Passov has 12 years of experience at Pfizer.

Kristin C. Peck – Executive Vice President and Group President: Kristin Peck joined Pfizer in 2004 in a strategy role and later became senior vice president of Worldwide Strategy and Innovation. Prior to Pfizer she held positions at the Boston Consulting Group, The Prudential Realty Group, The O'Connor Group and J.P. Morgan. She holds a bachelor's degree from Georgetown University and an MBA from Columbia Business School.

Alejandro Bernal – Executive Vice President and Area President of the Europe, Africa and Middle East Region: Mr. Bernal joined Pfizer Animal Health in 2000 and has held multiple positions including swine manager for Northern Latin America, division director for Central America and Columbia, and regional director of South West Central Latin America before becoming EVP and Areas President of the Europe, Africa and Middle East region. He previously worked at Aurora Dairy Corporation and has 16 years of experience in the animal health industry. He holds a doctorate degree in veterinary medicine, a master's degree in physiology and a Master of Business Administration.

Joyce J. Lee – Executive Vice President and Area President of the Canada and Latin America Region: Prior to her current role, Joyce Lee held numerous positions in her 13 years of experience at Pfizer including, Area President for the CLAR region of Pfizer Animal Health and Vice President of Global Poultry at Pfizer Animal Health. She received a bachelor's degree in business administration from Baylor University and an MBA in healthcare administration from Jacksonville University.

Stefan Weiskopf – Executive Vice President and Area President of the Asia Pacific Region: Stefan Weiskopf joined Pfizer Animal Health in Germany in 1986 where he held numerous positions and eventually was responsible for the company's operations in Germany, Austria and Switzerland. Now he oversees markets in Asia, which range in geography from Japan to Australia and from New Zealand to India. Mr. Weiskopf obtained his veterinary and business degrees in Germany and has 29 years of animal health experience.

Sandra J. Beaty – Executive Vice President of Corporate Affairs: Sandra Beaty is the executive vice president of Corporate Affairs at Zoetis, where she heads the communications and government relations teams. She spent 15 years at Pfizer where she served as the senior vice president of Public Affairs and Policy, and also spent time as an attorney at Boulton, Cummings, Conner and Berry in Nashville, Tennessee. She received a bachelor's degree in business administration from Trevecca Nazarene University and a J.D. from the Nashville School of Law.

Catherine A. Knupp – Executive Vice President and President of Research and Development: Prior to her current role, Catherine Knupp was a vice president of Veterinary Medicine Research and Development at Pfizer Animal Health. She also led Pfizer's Michigan laboratories, chaired the Midwest Exploratory Development Management Team in Pfizer Global Research and Development, and held various positions at Bristol-Myers Squibb. She earned a Doctor of Veterinary Medicine degree, a master's degree in toxicology and a bachelor's degree in veterinary biosciences from the University of Illinois along with another bachelor's degree in chemistry from Western Illinois University. Knupp has 7 years of animal health experience and 11 years of experience at Pfizer.

Clinton A. Lewis – Executive Vice President and President of U.S. Operations: Clinton Lewis joined Pfizer in 1988 as a sales representative and since then has held numerous positions including vice president and general manager of Pfizer's U.S. Anti-Infectives/HIV business unit. He was also elected Chairman of the Animal Health Institute for the 2011-2012 term and has 5 years of animal health experience. He holds a bachelor's degree in biology from Fairfield University and a MBA in marketing from Fairleigh Dickinson University.

Heidi C. Chen – Executive Vice President and General Counsel: Heidi Chen joined Pfizer in 1998 where she held numerous legal positions. Before becoming EVP and General Counsel at Zoetis, she served as vice president and assistant general counsel for Pfizer Inc. and chief counsel for Pfizer Animal Health. She also has private practice experience and serves on the

board of Project for Attorney Retention. She earned a bachelor's of science from Yale University, received a J.D. from Cornell Law School, and participated in Columbia Business School's Executive Education Program. Chen has 4 years of experience in the animal health industry and spent 14 years at Pfizer.

Roxanne Lagano – Executive Vice President and Chief Human Resources Officer: Roxanne Lagano joined Pfizer in 1997 as a manager in Tax Planning and joined Pfizer's Human Resources organization in 2000. Since then she has held numerous positions with increasing responsibility, including Senior Director of Business Transactions and Senior Director, Employee Benefits. She holds a J.D. from Hofstra University School of Law and a B.S. from Long Island University.

Source: Company Website

ANIMAL HEALTH INDUSTRY OVERVIEW

Animal Health

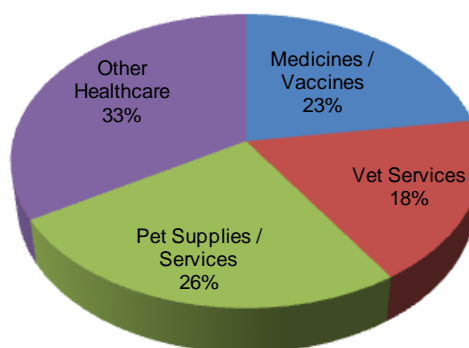
The global animal health industry is a large market estimated to be worth approximately \$92 billion to \$102 billion, according to the research and consulting firm Vetnosis. The market consists of both livestock (production animals) and companion animals, which we discuss in more detail below. Within the global animal health market, there are roughly four different sectors in which companies can participate that vary in market size including:

- Medicines and vaccines: a \$22 billion industry,
- Vet services: a \$15 to \$20 billion industry,
- Pet supplies and services: a \$25 billion industry and
- Other healthcare, which consists of nutrition, genetics/breeding, and livestock diagnostics: a \$30 to \$35 billion industry

While Zoetis does not have exposure to the entire \$100 billion global animal health market, the company's core operations participate in the \$22 billion medicines and vaccines market, which is projected to grow at a compounded annual growth rate (CAGR) of approximately 6% to \$29 billion in 2016, according to Vetnosis. Zoetis also participates in other segments outside of the medicine and vaccine market such as diagnostics, medicinal feed additives and parasiticides.

Exhibit 16

ANIMAL HEALTH SECTORS AS % OF TOTAL, ~\$100 BILLION



Source: Company reports

Livestock (Production) Animal

The livestock or production animal medicine and vaccines market in which Zoetis participates is estimated at approximately \$13.1 billion and is projected to grow at a CAGR of approximately 6%, according to Vetnosis. Species within the production animal market primarily consist of beef cattle, dairy cattle, swine (pigs), poultry (chicken), sheep and fish. These species are then raised in an agricultural setting and later sold for profit and used to produce foods and other various commodities. While being raised, it is the livestock producer's responsibility to keep the animals healthy so the global food supply is not disrupted and the outbreak of infectious diseases in both animals and humans is limited.

We believe the outlook for the production animal market is favorable despite some possible near-term headwinds as a result of the recent drought in the U.S. Key drivers of production animal growth include the growing population, increased demand for animal protein, and productivity improvements.

According to recent projections by the United Nations, the global population will increase by two billion people by 2050, with the vast majority of the growth coming from Asia and other developing countries including Latin America and Sub-Saharan Africa, among others. Asia's population is expected to increase to approximately 5.231 billion in 2050 from 4.167 billion in 2010, while other developing countries are expected to increase to approximately 2.780 billion in 2050 from 1.657 billion in 2010. That said, we view Zoetis' efforts to grow its presence in emerging markets favorably as the company should be able to capitalize on the strong growth trend relative to more developed countries.

Due to significant population growth, demand for animal proteins and dairy products is expected to increase. According to the Food and Agriculture Organization of the United Nations (FAO), in certain markets, per capita consumption of milk has almost doubled, meat consumption has tripled and egg consumption has increased five times since the early 1960's. We believe this trend will likely continue in emerging markets as they continue to grow since per capita consumption of animal proteins and dairy products has been historically lower in emerging markets relative to developed countries.

As demand for animal proteins and dairy products continues to increase, natural resources such as arable land and fresh water needed to raise the livestock remain unchanged, which results in fewer resources available to meet the growing demand. That said, livestock producers need to produce more with less and put a heavy reliance on animal health medications and vaccines which will help increase production efficiency and prevent diseases in herds. Additionally, the cost of animal health medicines and vaccines to livestock producers is relatively small compared to other livestock production costs, such as feed, and helps improve the economic outcome for livestock producers. As an example, the milk yield of dairy cows in North America increased to approximately 10 metric tons per dairy cow in 2010 compared to approximately 3 metric tons per dairy cow in 1961, broiler feed per weight improved 32% to 1.9 in 2010 from 2.5 in 1969, and the number of eggs per hen showed a 30% improvement to 276 in 2009 from 212 from 1958.

Further Limitations Of Antibiotics A Potential Risk

The limited use of antibacterials in production animals, as recommended by the FDA, presents a risk to Zoetis and the production animal industry if restrictions or bans of these products become more prevalent. To provide some background, antibacterials are used to treat or prevent bacterial infections; however, livestock producers also use antibacterials to help promote growth in animals by including low dosages of antibacterials in the animal's feed and water. While the dosages are generally too small to treat or prevent infections, it does however increase the efficiency of the feed and makes the animals larger, which results in greater production yields.

The concern from this tactic is that over time enough antibacterials will get distributed throughout animal herds and promote the growth of bacteria strains that are resistant to treatment by antibiotics. As a result, humans are put at greater risk of diseases and possibly death if they are infected with a drug-resistant strain of a particular disease that cannot be treated through the use of antibiotics.

In April of 2012, FDA issued guidance on the issue that calls for "voluntary" elimination of antibiotics in animal feed for growth promotion. The FDA is now trying to promote judicious use of antibacterials in production animals to treat and prevent diseases under the supervision of a veterinarian. Since most of the antibacterials used can be purchased over

the counter, the veterinarian's involvement and oversight in this process should help ensure judicious use of the products.

While it is still unclear whether further action will be taken to restrict or limit the use of antibacterials, the FDA plans to evaluate the rate of voluntary adoption of the proposed changes after three years and consider further action at that time, if it is warranted. Zoetis, generated approximately \$1.2 billion, or 28% of 2011 sales, from antibacterials for livestock production; however, it is unclear what percentage of those sales was used for growth promotion or for the prevention and treatment of diseases in animals.

Impact of U.S. Drought

The recent drought in the U.S. has been one of the worst in the past 50 years and presents a near-term headwind for medicine and vaccine sales in the production animal industry. Due to the limited amount of rain, both the supply of corn, which is used for animal feed, and the availability of grazing pasture have been reduced. The limited supply of corn has led to an increase in corn prices, which has an impact on the profitability of livestock producers. In order to remain profitable, livestock producers reduce their herd or flock size to lower costs, which also leads to lower sales of medicines and vaccines to treat the reduced number of production animals. Additionally, the limited availability of grazing pastures forces livestock producers to cull their herds, which also limits the use and demand of medicines and vaccines. While it is difficult to estimate the impact of reduced herd sizes, MWI Veterinary Supply, a production animal products distributor, estimates the number of cattle in the industry could be down approximately 5% y/y in 2013, while the USDA estimates the number of cattle could be down 2%. According to the USDA, as of January 1, 2013, cattle inventory in the U.S. totaled 89.3 million, which is the lowest January 1st inventory level of all cattle and calves since 1952 when it was 88.1 million.

Companion Animal

The companion animal medicines and vaccines market in which Zoetis participates is estimated at approximately \$8.9 billion and is projected to grow at a CAGR of approximately 5%, according to Vetnosis. Species within the companion animal market primarily consist of dogs, cats and equine (horses), but also includes birds, fish, and reptiles. The medications and vaccines used in the companion animal market primarily improve and extend the life of pets. We believe trends in the companion animal market remain favorable and growth will be driven by economic development in emerging markets, increasing pet ownership trends as at least 62% of American households own at least one dog or cat, and companion animals living longer, which increases the amount of medical treatment and supplies needed.

We believe emerging markets will grow faster in the companion animal market compared to developed countries, which has been evident over the past five years. In Latin America the dog and cat population increased at a CAGR of 3.3% from 95 million in 2007 to 112 million in 2012, while the U.S. remained relatively flat over the five year time period at approximately 160 million. Average spending on pets also showed significant growth in Latin America as the amount of local currency spent increased at a 10.2% CAGR to \$110 per pet in 2012 from \$68 in 2007, while the U.S. increased at a 3.3% CAGR to \$174 in 2012 from \$148 in 2007, according to Euromonitor data.

The care provided for companion pets has also changed dramatically over the past 50 years, which has helped grow the companion animal market. Today, pets are largely considered a member of the family where pet owners go above and beyond to make sure their pet is healthy and comfortable. The amount of services and treatment options for pets has also expanded significantly to include higher technology antibiotics, pain and inflammation medication, internal medicine, treatment for geriatric and chronic conditions, and electronic solutions to help better manage our pet's health.

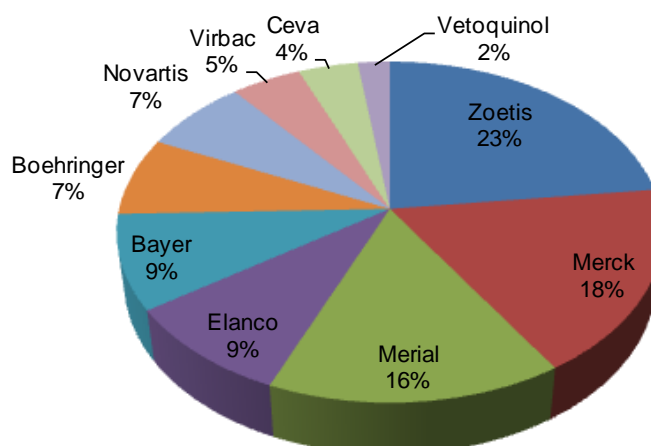
Due to the increased amount of services offered and more of a willingness to spend on pets, the average age of pets has increased dramatically. According to the American Pet Products Manufacturers Association National Pet Owners Survey, the percent of U.S. dogs over the age of six years increased to 44% in 2008 from 32% in 1987, and the percent of U.S. dogs that received medications increased to 78% in 2010 from 57% in 1996. We believe this trend will continue and create greater demand for companion animal medications and vaccines.

Competition

While Zoetis is the leader in the animal health medicines and vaccines market based on 2011 revenues, the company faces significant competition from other animal health drug manufacturers, most of which are a part of larger pharmaceutical companies, much like when Zoetis was part of Pfizer. According to Vetnosis, Zoetis is the industry leader with approximately 23% share of the top 10 animal health companies based on revenues. The other companies include Merck Animal Health at 18%, Merial (part of Sanofi) at 16%, Elanco (part of Eli Lilly) at 9%, Bayer Animal Health at 9%, Boehringer at 7%, Novartis at 7% and Virbac at 5%, Ceva at 4% and Vetoquinol at 2%.

Exhibit 17

ANIMAL HEALTH MANUFACTURER MARKET SHARE, 2011



Source: Company reports

While the basis of competition can vary depending on the region, species or product category, competition is generally based on new product development, price, quality and services to veterinarians, pet owners and livestock producers. According to Vetnosis, Zoetis has the number one market position in all regions of the world except for Western Europe where it is number two. The company also has the number one market position in the anti-infectives and other pharmaceutical (pain, sedation, and internal medicine) product categories, in addition to the number one market position in species of cattle and swine.

Branded Generics

In human health, when a branded drug comes off patent, lower priced generic competition immediately swoops in and negatively impacts future sales of the branded drug. In the animal health medicine and vaccines market that is not necessarily the case, as there tends to be more brand loyalty even after the loss of patent exclusivity, which results in less

pricing pressure compared to human health. For that reason, there is no large company that is specifically focused on generic animal health products in the industry. We believe this is evident by Zoetis' Rimadyl, which lost patent exclusivity in the U.S. in 2001, but has since seen its revenues for the product increase 35% even with generic competition. Eighty percent of Zoetis' 2011 revenues were attributable to products that were either unpatented or covered by a patent that did not provide market exclusivity.

While less generic competition is evident in the companion animal and production animal industries, production animal tends to experience less competition from generics. For livestock producers, the risk/reward trade-off is not necessarily worth switching to a generic medicine or vaccine. Medicines and vaccines only represent a small portion of a producer's total costs, so saving a little bit of money by switching to a generic could have more detrimental effects on the producer's animals if the medicine or vaccines do not properly treat or prevent diseases. That said, we believe livestock producers value brand name medicines and vaccines that they are familiar with and have experience using even after generics enter the market, which will benefit Zoetis given its leading position in the animal health medicine and vaccines industry.

Ancillary Segments

Diagnostics

Veterinary immunodiagnostics, or animal health diagnostics, is a sector within the larger animal health market that helps monitor the health of both companion and production animals by diagnosing infectious diseases and detecting sick animals. While the global animal health diagnostics products industry is relatively small, valued at approximately \$900 million, it is growing at an estimated 8% annually, which is approximately twice the rate of the animal health industry as a whole. Growth in the animal health diagnostics market is primarily driven by an increased interest in companion animal owners monitoring and maintaining the health of their pets. Additionally, livestock producers are placing greater emphasis on diagnostics to help protect and monitor the health of animals.

We believe Zoetis and other animal health companies will continue to focus on growing their respective diagnostic businesses in order to become a more comprehensive solutions provider and a one-stop-shop to the animal health industry. While there are a number of public and private companies that participate in the animal health diagnostics products market, some of the larger players include:

- IDEXX Laboratories
- Abaxis
- Heska
- Zoetis (Synbiotics)
- Life Technologies (formerly Applied Biosystems)
- Prionics

E-Commerce

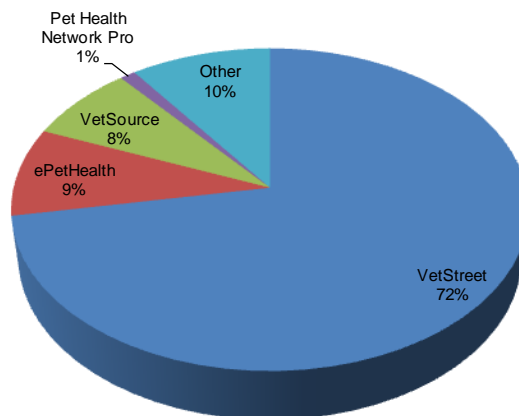
E-Commerce or on-line communication portals provide professional education, on-line communication, and marketing solutions to the veterinary community. As a result, these services generally strengthen the bond or increase the amount of interaction pet owners have with veterinarians and drive incremental visits to the veterinarian while making it easier to monitor the health of pets. We believe Zoetis and other animal health companies could continue to expand within this segment of animal health to become a more comprehensive provider of animal health.

According to our proprietary companion animal veterinary survey, which was published in October of 2012, Vetstreet (owned by VCA Antech) has a dominant position within the market as approximately 72% of veterinarians who used an e-commerce or on-line patient communication portal had Vetstreet as their provider. Other providers in the market place

that were cited in our survey include ePetHealth (Patterson Companies), VetSource (Patterson Companies) and Pet Health Network Pro (IDEXX Laboratories). Although not cited in our survey, Demandforce could also be a key participant in the market.

Exhibit 18

E-COMMERCE PROVIDERS CITED IN PIPER JAFFRAY VET SURVEY



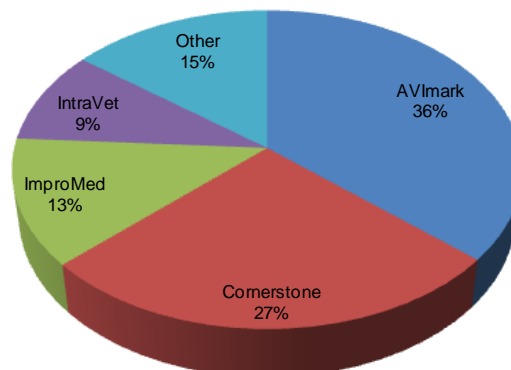
Source: Piper Jaffray

Practice Management

Practice management software systems help veterinarians manage their practice more efficiently by offering electronic medical records, patient treatment history, billing, and appointment calendars, among others services. Much like e-commerce solutions, animal health companies may want to offer practice management solutions to expand the breadth of product offerings and generate incremental revenues. According to our proprietary companion animal veterinary survey, which was completed in October of 2012, AVImark (Butler Schein) captured 36% of the respondents who utilized practice management software followed by Cornerstone (IDEXX Laboratories) with 27%, ImproMed (Butler Schein) with 13%, and IntraVet (Patterson Companies) with 9%.

Exhibit 19

PRACTICE MANAGEMENT PROVIDERS CITED IN PIPER JAFFRAY VET SURVEY



Source: Piper Jaffray

Private Animal Health Companies

Advanced Animal Diagnostics: Advanced Animal Diagnostics enhances the profitability of livestock production and ensures a safe supply of animal protein developing rapid on-farm diagnostics for livestock animals. The company has the ability to rapidly detect diseases ranging from mastitis to endometritis and is located in Morrisville, NC.

Stratford Pharmaceuticals: Stratford Pharmaceuticals offers topical dermatology products, animal health nutritional supplements and feed supplements, which are sold exclusively through veterinarians, for companion animals. The company's products address animal health problems such as arthritis, allergies, hip dysplasia, immune function, muscle development, skin care and general health and well being. The company is based in Oldsmar, FL.

HEARD Systems Pty Ltd: Heard Systems focuses on developing and commercializing a handheld device suitable for farmers or contractors to pregnancy test cows on a farm. Heard Systems device can rapidly diagnose pregnancy by placing their device against to detect fetal heartbeat signals. Traditional methods require cows to be rectally examined by an expert. The company is located in Sydney, Australia.

VetDC, Inc.: VetDC licenses and develops innovative, human technologies for use in companion animals. VetDC can reduce development risk, time and investment by leveraging prior investment of human biopharmaceutical companies. The company's lead product, VDC-1101, is a novel targeted anti-cancer agent and is expected to launch in 2014. The company is located in Fort Collins, CO.

Bock Vet Pharma LLC: Bock Vet Pharma provides nutritional supplements and medications designed to maximize health in dogs and cats. The company's products include Capilex, Lysinex and Deter-X. Bock Vet Pharma is located in St. Louis, MO.

Animal Health Specialties, LLC: Animal Health Specialties has a drug candidate under development to treat Dry Eye in companion animals, which can be used in eye drops as a

primary therapeutic agent, or in combination with other drugs. The company is based in Columbia, MO.

NewMarket Pharmaceuticals LLC: NewMarket Pharmaceuticals specializes in the formulation, development and registration of orally dissolving pharmaceutical products for companion and large animals. The company takes well-established drugs that exist in inefficient or ineffective delivery systems and reformulate them for use in their Direct Systemic Introduction technology, which will produce a new line of animal health products. The company is based in Princeton, NJ.

EZ Med Holdings, Inc.: EZ Med Holdings specializes in manufacturing animal health soft chews, which offers flexibility on formulas, ingredients and delivery characteristics, such as shape, size and color. The company currently manufactures over 100 formulations and provides full research and development for customers. EZ Med Holdings is located in Oldsmar, FL.

Aratana Therapeutics: Aratana Therapeutics is a biopharmaceutical company positioned to deliver new medicines for cats and dogs. The company licenses and develops proprietary, patent-protected compounds acquired from human pharmaceutical and biotech companies and develops strategies for the animal health market. The company is located in Kansas City, KS.

Creative Science, LLC: Creative Science identifies and develops products to address the unmet needs of animals. The company currently provides products to more than 12,000 veterinary hospitals and plans to launch new products in 2013. The company is located in Ballwin, MO.

Pacific Vet Group: Pacific Vet Group develops, manufactures and markets products for the poultry industry. The company was founded in 1997 and now serves customers in Japan, Philippines, Malaysia, Indonesia, Thailand, Korea, Mexico and the U.S. Some products include EarlyBird, FloraMax-B11, Optimizer, PVG Tabs and Sporulin. The company is headquartered in Fayetteville AR.

Precision Science: Precision Science manufactures pharmaceuticals, nutraceuticals, and medicated feed products for the animal health industry. The company is located in Phoenix, AZ.

Public Animal Health Companies

ImmuCell Corporation (Ticker: ICCG): ImmuCell is a biotechnology company that develops, manufactures, and sells products to improve animal health and productivity in the dairy and beef industries. The company is focused on Calf Health and Intelligent Mastitis Management. For Calf Health, its product is called First Defense, which helps protect against calf scours. The company is based in Portland, ME.

Kane Biotech Inc. (Ticker: KNE): Kane Biotech is a biotechnology company that engages in the development and commercialization of products that prevent and remove microbial biofilms. DispersinB is the company's technology for veterinary and human wound care. Kane Biotech is located in Winnipeg, Manitoba, Canada.

Avivagen Inc. (Ticker: VIV): Avivagen is dedicated to developing science-based, natural health products for animals. The company's technologies are based on Natural Health Optimizers, which work with and support the natural systems that exist within the body to maintain optimal health. Avivagen's major technology is Fully Oxidized Beta-Carotene (OxC-beta). The company is located in Ottawa, Ontario.

Period	FY09	FY10	FY11	1Q12	2Q12	3Q12	4Q12E	FY12E	1Q13E	2Q13E	3Q13E	4Q13E	FY13E	1Q14E	2Q14E	3Q14E	4Q14E	FY14E	FY15E
Ending	12/31/09	12/31/10	12/31/11	3/31/12	6/30/12	9/30/12	12/31/12	12/31/12	3/31/13	6/30/13	9/30/13	12/31/13	12/31/13	3/31/14	6/30/14	9/30/14	12/31/14	12/31/14	12/31/15
Revenues	\$2,760.0	\$3,582.0	\$4,233.0	\$1,047.0	\$1,094.0	\$1,019.0	\$1,171.0	\$4,331.0	\$1,073.2	\$1,132.3	\$1,080.1	\$1,218.7	\$4,504.3	\$1,121.4	\$1,193.2	\$1,147.2	\$1,300.3	\$4,762.1	\$5,041.8
Change, yr/yr		29.8%	18.2%	6.5%	1.9%	-2.9%	3.9%	2.3%	2.5%	3.5%	6.0%	4.1%	4.0%	4.5%	5.4%	6.2%	6.7%	5.7%	5.9%
Change, qtr/qtr				-7.1%	4.5%	-6.9%	14.9%		-8.4%	5.5%	-4.6%	12.8%		-8.0%	6.4%	-3.9%	13.3%		
Cost of sales	1,001.0	1,318.0	1,581.0	388.0	382.0	352.0	445.0	1,567.0	386.4	404.8	375.4	429.6	1,596.1	395.3	420.6	392.9	445.4	1,654.2	1,727.3
Gross Profit	1,759.0	2,264.0	2,652.0	659.0	712.0	667.0	726.0	2,764.0	686.9	727.5	704.8	789.1	2,908.2	726.1	772.6	754.3	855.0	3,107.9	3,314.5
Gross Margin	63.73%	63.20%	62.65%	62.94%	65.08%	65.46%	62.00%	63.82%	64.00%	64.25%	65.25%	64.75%	64.57%	64.75%	64.75%	65.75%	65.75%	65.26%	65.74%
SG&A	1,057.0	1,365.0	1,447.0	331.0	351.0	330.0	408.7	1,420.7	332.7	353.8	334.8	396.1	1,417.4	336.4	363.9	349.9	412.8	1,463.1	1,519.2
R&D	365.0	411.0	407.0	93.0	91.0	94.0	125.9	403.9	92.8	93.4	91.8	118.8	396.9	96.4	97.2	97.5	117.0	408.2	416.8
Amortization of intangibles	16.0	17.0	20.0	4.0	3.0	4.0	5.0	16.0	4.0	4.0	4.0	4.0	16.0	4.0	4.0	4.0	4.0	16.0	16.0
Restructuring	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	0.0	0.0	0.0	0.0
Other expenses/(income)	(1.0)	(25.0)	(28.0)	(6.0)	(7.0)	(10.0)	(7.0)	(30.0)	(8.0)	(8.0)	(8.0)	(8.0)	(32.0)	(9.0)	(9.0)	(9.0)	(9.0)	(36.0)	(36.0)
Total operating expenses	1,437.0	1,768.0	1,846.0	422.0	438.0	418.0	532.6	1,810.6	421.5	443.2	422.7	510.9	1,798.3	427.9	456.2	442.4	524.9	1,851.3	1,916.0
Adj. Operating Income	322.0	496.0	806.0	237.0	274.0	249.0	193.5	953.5	265.3	284.2	282.1	278.2	1,109.9	298.2	316.4	311.9	330.1	1,256.6	1,398.6
Adj. Operating Margin	11.67%	13.85%	19.04%	22.64%	25.05%	24.44%	16.52%	22.01%	24.72%	25.10%	26.12%	22.83%	24.64%	26.60%	26.52%	27.19%	25.38%	26.39%	27.74%
Interest expense	26.0	37.0	36.0	8.0	8.0	7.0	8.0	31.0	25.6	29.1	29.1	29.1	113.1	29.1	29.1	29.1	29.1	116.6	112.0
Income before taxes	296.0	459.0	770.0	229.0	266.0	242.0	185.5	922.5	239.7	255.1	253.0	249.1	996.8	269.1	287.3	282.7	300.9	1,140.0	1,286.6
Pretax Margin	10.72%	12.81%	18.19%	21.87%	24.31%	23.75%	15.84%	21.30%	22.34%	22.53%	23.42%	20.44%	22.13%	24.00%	24.08%	24.65%	23.14%	23.94%	25.52%
Income taxes	108.0	183.0	264.0	76.0	90.0	89.0	61.2	316.2	69.5	74.0	73.4	72.2	289.1	78.0	83.3	82.0	87.3	330.6	373.1
Tax Rate	36.49%	39.87%	34.29%	33.19%	33.83%	36.78%	33.00%	34.28%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%
Net Income	188.0	276.0	506.0	153.0	176.0	153.0	124.3	606.3	170.2	181.1	179.6	176.8	707.8	191.1	204.0	200.7	213.7	809.4	913.5
less: net income attributable to noncont	(1.0)	1.0	3.0	1.0	0.0	(1.0)	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
Net Income attributable to Zoetis	189.0	275.0	503.0	152.0	176.0	154.0	124.3	606.3	170.2	181.1	179.6	176.8	707.8	191.1	204.0	200.7	213.7	809.4	913.5
Net Margin	6.85%	7.68%	11.88%	14.52%	16.09%	15.11%	10.61%	14.00%	15.86%	16.00%	16.63%	14.51%	15.71%	17.04%	17.09%	17.50%	16.43%	17.00%	18.12%
Diluted EPS	\$0.38	\$0.55	\$1.01	\$0.30	\$0.35	\$0.31	\$0.25	\$1.21	\$0.34	\$0.36	\$0.36	\$0.35	\$1.42	\$0.38	\$0.41	\$0.40	\$0.43	\$1.62	\$1.83
Diluted Shares	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
Dividend			\$0.83	\$0.104	\$0.020	\$0.002	\$0.000	\$0.13	\$0.065	\$0.065	\$0.065	\$0.065	\$0.26	\$0.065	\$0.065	\$0.065	\$0.065	\$0.26	\$0.26
Dividend yield									0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Payout			82.7%	34.2%	5.7%	0.6%	0.0%	10.4%	19.1%	17.9%	18.1%	18.4%	18.4%	17.0%	15.9%	16.2%	15.2%	16.1%	14.2%
Depreciation and amortization	103.0	122.0	137.0	32.9	37.0	37.0	38.1	144.9	34.9	36.8	35.1	39.6	146.4	37.0	39.4	37.9	42.9	157.1	166.4
Adjusted EBITDA	426.0	617.0	940.0	268.9	311.0	287.0	231.5	1,098.4	300.2	321.0	317.2	317.8	1,256.3	335.2	355.8	349.7	373.0	1,413.8	1,564.9
Adjusted EBITDA Margin	15.43%	17.23%	22.21%	25.68%	28.43%	28.16%	19.77%	25.36%	27.97%	28.35%	29.37%	26.08%	27.89%	29.90%	29.82%	30.49%	28.68%	29.69%	31.04%
Margin Analysis:																			
Cost of sales	36.27%	36.80%	37.35%	37.06%	34.92%	34.54%	38.00%	36.18%	36.00%	35.75%	34.75%	35.25%	35.43%	35.25%	35.25%	34.25%	34.25%	34.74%	34.26%
SG&A	38.30%	38.11%	34.18%	31.61%	32.08%	32.38%	34.90%	32.80%	31.00%	31.25%	31.00%	32.50%	31.47%	30.00%	30.50%	30.50%	31.75%	30.72%	30.13%
R&D	13.22%	11.47%	9.61%	8.88%	8.32%	9.22%	10.75%	9.33%	8.65%	8.25%	8.50%	9.75%	8.81%	8.60%	8.15%	8.50%	9.00%	8.57%	8.27%
Total operating expenses	52.07%	49.36%	43.61%	40.31%	40.04%	41.02%	45.48%	41.80%	39.28%	39.15%	39.13%	41.92%	39.92%	38.15%	38.23%	38.56%	40.37%	38.88%	38.00%
Depreciation and amortization	3.73%	3.41%	3.24%	3.14%	3.38%	3.63%	3.25%	3.35%	3.25%	3.25%	3.25%	3.25%	3.25%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%
Yr/Yr Growth:																			
Cost of Sales		31.7%	20.0%	5.4%	-10.5%	-9.7%	12.4%	-0.9%	-0.4%	6.0%	6.6%	-3.5%	1.9%	2.3%	3.9%	4.7%	3.7%	3.6%	4.4%
Gross Profit		28.7%	17.1%	7.2%	10.0%	1.2%	-0.7%	4.2%	4.2%	2.2%	5.7%	8.7%	5.2%	5.7%	6.2%	7.0%	8.3%	6.9%	6.6%
SG&A		29.1%	6.0%	-1.2%	-2.2%	0.3%	-3.6%	-1.8%	0.5%	0.8%	1.5%	-3.1%	-0.2%	1.1%	2.9%	4.5%	4.2%	3.2%	3.8%
R&D		12.6%	-1.0%	-6.1%	-9.0%	-4.1%	14.4%	-0.8%	-0.2%	2.7%	-2.3%	-5.6%	-1.7%	3.9%	4.1%	6.2%	-1.5%	2.9%	2.1%
Adjusted Operating Income		54.0%	62.5%	28.8%	46.5%	6.4%	-3.8%	18.3%	12.0%	3.7%	13.3%	43.8%	16.4%	12.4%	11.3%	10.5%	18.6%	13.2%	11.3%
Income before taxes		55.1%	67.8%	30.9%	49.4%	7.6%	-3.4%	19.8%	4.7%	-4.1%	4.5%	34.3%	8.1%	12.3%	12.6%	11.8%	20.8%	14.4%	12.9%
Net income attributable to Zoetis		45.5%	82.9%	25.6%	54.4%	5.5%	1.9%	20.5%	12.0%	2.9%	16.6%	42.3%	16.7%	12.3%	12.6%	11.8%	20.8%	14.4%	12.9%
Diluted EPS		45.5%	82.9%	25.6%	54.4%	5.5%	1.9%	20.5%	12.0%	2.9%	16.6%	42.3%	16.7%	12.3%	12.6%	11.8%	20.8%	14.4%	12.9%

Source: Company reports and Piper Jaffray & Co. Current disclosure information for this company can be found at <http://www.piperjaffray.com/researchdisclosures>.

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Period Ending	FY10 12/31/10	FY11 12/31/11	1Q12 3/31/12	2Q12 6/30/12	3Q12 9/30/12	4Q12 12/31/12	FY12E 12/31/12	1Q13E 3/31/13	2Q13E 6/30/13	3Q13E 9/30/13	4Q13E 12/31/13	FY13E 12/31/13	1Q14E 3/31/14	2Q14E 6/30/14	3Q14E 9/30/14	4Q14E 12/31/14	FY14E 12/31/14	FY15E 12/31/15
Assets:																		
Cash and cash equivalents	63.0	79.0	113.0	106.0	133.0	262.9	262.9	300.2	476.3	498.1	614.6	614.6	754.9	918.5	973.6	1,119.2	1,119.2	1,644.4
Accounts receivable, less allowance	773.0	871.0	848.0	889.0	848.0	967.3	967.3	965.9	958.1	920.5	1,006.7	1,006.7	959.4	996.5	972.6	1,074.2	1,074.2	1,140.6
Inventories	995.0	1,063.0	1,230.0	1,172.0	1,272.0	1,171.0	1,171.0	1,234.2	1,188.9	1,296.2	1,218.7	1,218.7	1,289.6	1,252.9	1,376.7	1,300.3	1,300.3	1,380.7
Current deferred tax assets	97.0	96.0	97.0	88.0	72.0	93.7	93.7	85.9	90.6	97.2	97.5	97.5	89.7	95.5	91.8	104.0	104.0	110.5
Other current assets	188.0	202.0	238.0	222.0	230.0	234.2	234.2	236.1	249.1	248.4	268.1	268.1	246.7	262.5	252.4	286.1	286.1	303.7
Total current assets	2,116.0	2,311.0	2,526.0	2,477.0	2,555.0	2,729.2	2,729.2	2,822.3	2,962.9	3,060.4	3,205.6	3,205.6	3,340.3	3,525.9	3,667.1	3,883.7	3,883.7	4,579.8
Property, plant and equipment	1,148.0	1,243.0	1,242.0	1,199.0	1,204.0	1,224.5	1,224.5	1,255.8	1,286.6	1,317.8	1,347.9	1,347.9	1,381.1	1,413.8	1,446.8	1,478.6	1,478.6	1,607.0
Identifiable intangible assets	924.0	928.0	915.0	888.0	877.0	877.0	877.0	877.0	877.0	877.0	877.0	877.0	877.0	877.0	877.0	877.0	877.0	877.0
Goodwill	934.0	989.0	990.0	980.0	981.0	981.0	981.0	981.0	981.0	981.0	981.0	981.0	981.0	981.0	981.0	981.0	981.0	981.0
Noncurrent deferred tax assets	70.0	143.0	145.0	168.0	218.0	218.0	218.0	218.0	218.0	218.0	218.0	218.0	218.0	218.0	218.0	218.0	218.0	218.0
Other current assets	92.0	97.0	88.0	88.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0
Total Assets	5,284.0	5,711.0	5,906.0	5,800.0	5,904.0	6,098.7	6,098.7	6,223.1	6,394.5	6,523.1	6,698.5	6,698.5	6,866.5	7,084.7	7,258.9	7,507.3	7,507.3	8,331.8
Liabilities and Equity:																		
Current portion of allocated long-term debt	38.0	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	0.0	0.0
Accounts payable	206.0	214.0	200.0	222.0	195.0	216.6	216.6	214.6	215.1	205.2	219.4	219.4	213.1	214.8	218.0	234.1	234.1	248.5
Income taxes payable	24.0	18.0	12.0	32.0	42.0	35.1	35.1	32.2	34.0	32.4	36.6	36.6	33.6	35.8	34.4	39.0	39.0	41.4
Accrued compensation and related items	144.0	150.0	140.0	103.0	145.0	111.2	111.2	102.0	107.6	102.6	115.8	115.8	112.1	113.4	114.7	117.0	117.0	124.3
Other current liabilities	396.0	461.0	453.0	384.0	355.0	409.9	409.9	375.6	379.3	367.3	353.4	353.4	358.8	381.8	367.1	390.1	390.1	414.2
Total current liabilities	808.0	843.0	805.0	741.0	737.0	772.9	772.9	724.4	736.0	707.5	725.1	725.1	717.7	745.8	734.2	780.2	780.2	828.4
Allocated long-term debt	673.0	575.0	579.0	573.0	580.0	580.0	580.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt								3,640.0	3,617.7	3,595.3	3,573.0	3,573.0	3,556.1	3,539.3	3,522.4	3,505.5	3,505.5	3,349.5
Noncurrent deferred tax liabilities	218.0	311.0	322.0	323.0	299.0	299.0	299.0	299.0	299.0	299.0	299.0	299.0	299.0	299.0	299.0	299.0	299.0	299.0
Other taxes payable	100.0	122.0	125.0	131.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Other noncurrent liabilities	141.0	124.0	125.0	101.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0
Total Liabilities	1,940.0	1,975.0	1,956.0	1,869.0	1,795.0	1,830.9	1,830.9	4,842.4	4,831.6	4,780.8	4,776.1	4,776.1	4,751.8	4,763.0	4,734.6	4,763.7	4,763.7	4,655.9
Total Zoetis equity	3,344.0	3,720.0	3,934.0	3,915.0	4,094.0	4,252.8	4,252.8	1,365.7	1,547.9	1,727.3	1,907.4	1,907.4	2,099.7	2,306.7	2,509.3	2,728.6	2,728.6	3,660.9
Equity attributable to noncontrolling interests	0.0	16.0	16.0	16.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Total Equity	3,344.0	3,736.0	3,950.0	3,931.0	4,109.0	4,267.8	4,267.8	1,380.7	1,562.9	1,742.3	1,922.4	1,922.4	2,114.7	2,321.7	2,524.3	2,743.6	2,743.6	3,675.9
Total Liabilities and Equity	5,284.0	5,711.0	5,906.0	5,800.0	5,904.0	6,098.7	6,098.7	6,223.1	6,394.5	6,523.1	6,698.5	6,698.5	6,866.5	7,084.7	7,258.9	7,507.3	7,507.3	8,331.8
Balance Sheet Ratios																		
LT Debt/Capital	16.6%	13.3%	12.8%	12.7%	12.4%	12.0%	12.0%	72.5%	69.8%	67.4%	65.0%	65.0%	62.7%	60.4%	58.3%	56.1%	56.1%	47.7%
Total Debt / Capital	17.5%	13.3%	12.8%	12.7%	12.4%	12.0%	12.0%	72.5%	69.8%	67.4%	65.0%	65.0%	62.7%	60.4%	58.3%	56.1%	56.1%	47.7%
Debt / EBITDA (TTM)	1.2x	0.6x	0.6x	0.5x	0.5x	0.5x	0.5x	3.2x	3.2x	3.1x	2.8x	2.8x	2.8x	2.7x	2.6x	2.5x	2.5x	2.1x
Equity / Capital	82.5%	86.7%	87.2%	87.3%	87.6%	88.0%	88.0%	27.5%	30.2%	32.6%	35.0%	35.0%	37.3%	39.6%	41.7%	43.9%	43.9%	52.3%
ROIC (TTM)						11.4%	11.6%	11.6%	11.6%	11.9%	12.7%	12.8%	12.9%	13.1%	13.3%	13.7%	13.8%	14.6%
ROE (TTM)		14.2%	13.9%	15.1%	15.0%	14.5%	15.1%	22.1%	42.8%	39.6%	38.6%	22.9%	36.1%	33.9%	31.9%	30.7%	34.7%	28.5%
ROA (TTM)		9.1%	9.2%	10.2%	10.3%	10.1%	10.3%	10.1%	10.0%	10.1%	10.7%	11.1%	10.7%	10.8%	10.8%	11.0%	11.4%	11.5%
Equity Turnover		1.2x	1.1x	1.1x	1.1x	1.0x	1.1x	1.5x	3.0x	2.7x	2.5x	1.5x	2.3x	2.1x	1.9x	1.8x	2.0x	1.6x
Book Value / Share	\$6.69	\$7.47	\$7.90	\$7.86	\$8.22	\$8.54	\$8.54	\$2.76	\$3.13	\$3.48	\$3.84	\$3.84	\$4.23	\$4.64	\$5.05	\$5.49	\$5.49	\$7.35
DSO	79	75	74	74	77	76	82	81	77	78	76	82	77	76	78	76	41,346	83
Asset Turnover		0.8x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.6x	0.7x	0.6x
Receivables Turnover		5.1x	5.0x	5.0x	4.9x	4.8x	4.7x	4.5x	4.6x	4.7x	4.7x	4.6x	4.6x	4.7x	4.8x	4.7x	4.6x	4.6x
Current ratio		2.7	3.1	3.3	3.5	3.5	3.5	3.9	4.0	4.3	4.4	4.4	4.7	4.7	5.0	5.0	41,346.0	5.5
Working capital	1,283.0	1,389.0	1,608.0	1,630.0	1,685.0	1,693.4	1,693.4	1,797.6	1,750.7	1,854.8	1,865.9	1,865.9	1,867.7	1,861.6	1,959.3	1,984.4	1,984.4	2,107.0
Working Capital / Sales	35.8%	32.8%	153.6%	149.0%	165.4%	144.6%	39.1%	167.5%	154.6%	171.7%	153.1%	41.4%	166.6%	156.0%	170.8%	152.6%	41.7%	41.8%
Quick Ratio	1.0	1.1	1.2	1.3	1.3	1.6	1.6	1.7	1.9	2.0	2.2	2.2	2.4	2.6	2.7	2.8	2.8	3.4

Source: Company reports and Piper Jaffray & Co. Current disclosure information for this company can be found at <http://www.piperjaffray.com/researchdisclosures>.

March 13, 2013

Period Ending	FY09 12/31/09	FY10 12/31/10	FY11 12/31/11	FY12E 12/31/12	1Q13E 3/31/13	2Q13E 6/30/13	3Q13E 9/30/13	4Q13E 12/31/13	FY13E 12/31/13	1Q14E 3/31/14	2Q14E 6/30/14	3Q14E 9/30/14	4Q14E 12/31/14	FY14E 12/31/14	FY15E 12/31/15
Operating Activities															
Net income	(101.0)	111.0	248.0	570.3	170.2	181.1	179.6	176.8	707.8	191.1	204.0	200.7	213.7	809.4	913.5
Depreciation and amortization	124.0	185.0	205.0	194.1	34.9	36.8	35.1	39.6	146.4	37.0	39.4	37.9	42.9	157.1	166.4
Share-based comp. expense	15.0	16.0	19.0	24.0	6.0	6.0	6.0	6.0	24.0	6.0	6.0	6.0	6.0	24.0	24.0
Asset-write-offs and impairments	29.0	16.0	78.0	9.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net gains on sales of assets	(2.0)	(101.0)	(1.0)	(1.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	(334.0)	(68.0)	65.0	(81.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	10.0	(5.0)	0.0	(1.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in assets and liabilities:															
Accounts receivable	112.0	30.0	(85.0)	(119.3)	1.5	7.8	37.6	(86.3)	(39.4)	47.3	(37.1)	23.9	(101.5)	(67.4)	(66.4)
Inventories	(16.0)	117.0	40.0	101.0	(63.2)	45.3	(107.3)	77.5	(47.7)	(70.9)	36.7	(123.8)	76.4	(81.6)	(80.4)
Other assets	29.0	(19.0)	11.0	(4.2)	(1.9)	(13.0)	0.7	(19.7)	(33.9)	21.4	(15.8)	10.1	(33.7)	(18.0)	(17.7)
Accounts payable	38.0	25.0	(16.0)	21.6	(2.0)	0.5	(9.9)	14.1	2.7	(6.3)	1.7	3.2	16.1	14.7	14.5
Other liabilities	172.0	5.0	(15.0)	21.1	(43.5)	9.3	(17.0)	(0.7)	(51.9)	1.8	24.2	(13.3)	25.3	37.9	31.3
Other tax accounts, net	22.0	(58.0)	(52.0)	(28.6)	4.9	(3.0)	(8.2)	3.9	(2.4)	4.9	(3.6)	2.3	(7.7)	(4.1)	(4.0)
Total changes in assets and liabilities	357.0	100.0	(117.0)	(410.4)	(104.3)	47.0	(104.1)	(11.1)	(172.5)	(1.8)	6.1	(97.7)	(25.1)	(118.5)	(122.6)
Cash Flow From Operations	98.0	254.0	497.0	303.9	106.8	270.9	116.6	211.3	705.6	232.2	255.5	146.9	237.4	872.1	981.2
Investing Activities															
Purchase of property, plant and equipment	(135.0)	(124.0)	(135.0)	(111.0)	(40.0)	(40.0)	(40.0)	(40.0)	(160.0)	(42.5)	(42.5)	(42.5)	(42.5)	(170.0)	(170.0)
Net proceeds from sale of assets	572.0	203.0	34.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions, net of cash acquired	(2,254.0)	(81.0)	(345.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investing activities	(4.0)	(7.0)	(3.0)	(8.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow From Investing	(1,821.0)	(9.0)	(449.0)	(119.0)	(40.0)	(40.0)	(40.0)	(40.0)	(160.0)	(42.5)	(42.5)	(42.5)	(42.5)	(170.0)	(170.0)
Financing Activities															
Allocated proceeds from issuance of long-term debt payment to Pfizer	719.0	0.0	0.0	0.0	3,650.0	0.0	0.0	0.0	3,650.0	0.0	0.0	0.0	0.0	0.0	0.0
Allocated principal payments on long-term debt	0.0	0.0	(143.0)	0.0	(447.0)	(22.3)	(22.3)	(22.3)	(514.0)	(16.9)	(16.9)	(16.9)	(16.9)	(67.5)	(156.0)
Cash dividend paid	(101.0)	(207.0)	(416.0)	(63.0)	(32.5)	(32.5)	(32.5)	(32.5)	(130.0)	(32.5)	(32.5)	(32.5)	(32.5)	(130.0)	(130.0)
Purchase of subsidiary shares from noncontrolling interests	0.0	(3.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financing activities with Pfizer	1,205.0	(67.0)	529.0	63.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow From Financing	1,823.0	(277.0)	(30.0)	0.0	(29.5)	(54.8)	(54.8)	(54.8)	(194.0)	(49.4)	(49.4)	(49.4)	(49.4)	(197.5)	(286.0)
Effect of exchange rate changes	(7.0)	(4.0)	(2.0)	(1.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net increase in cash and cash equivalents	93.0	(36.0)	16.0	183.9	37.3	176.1	21.8	116.5	351.6	140.4	163.6	55.1	145.6	504.6	525.2
Beginning Cash	6.0	99.0	63.0	79.0	262.9	300.2	476.3	498.1	262.9	614.6	754.9	918.5	973.6	614.6	1,119.2
Ending Cash	99.0	63.0	79.0	262.9	300.2	476.3	498.1	614.6	614.6	754.9	918.5	973.6	1,119.2	1,119.2	1,644.4
Free Cash Flow (TTM)															
Operating Cash Flow	98.0	254.0	497.0	303.9	414.7	611.6	654.2	705.6	705.6	831.1	815.6	846.0	872.1	872.1	981.2
Capital Expenditures	(135.0)	(124.0)	(135.0)	(111.0)	(120.0)	(136.0)	(150.0)	(160.0)	(160.0)	(162.5)	(165.0)	(167.5)	(170.0)	(170.0)	(170.0)
FCF	(37.0)	130.0	362.0	192.9	294.7	475.6	504.2	545.6	545.6	668.6	650.6	678.5	702.1	702.1	811.2
Acquisition Expenditures	(2,254.0)	(81.0)	(345.0)	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF, post acquisition expenditures	(2,291.0)	49.0	17.0	192.9	294.7	476.6	504.2	545.6	545.6	668.6	650.6	678.5	702.1	702.1	811.2
Free Cash Flow (Quarterly)															
Operating Cash Flow	98.0	254.0	497.0	303.9	106.8	270.9	116.6	211.3	705.6	232.2	255.5	146.9	237.4	872.1	981.2
Maintenance Cap Ex	(135.0)	(124.0)	(135.0)	(111.0)	(40.0)	(40.0)	(40.0)	(40.0)	(160.0)	(42.5)	(42.5)	(42.5)	(42.5)	(170.0)	(170.0)
FCF	(37.0)	130.0	362.0	192.9	66.8	230.9	76.6	171.3	545.6	189.7	213.0	104.4	194.9	702.1	811.2
Acquisition Expenditures	(2,254.0)	(81.0)	(345.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF, post acquisition spend	(2,291.0)	49.0	17.0	192.9	66.8	230.9	76.6	171.3	545.6	189.7	213.0	104.4	194.9	702.1	811.2
Quarter End Stock Price					\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00
Diluted Shares					500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
Market Value					17,000.0	17,000.0	17,000.0	17,000.0	17,000.0	17,000.0	17,000.0	17,000.0	17,000.0	17,000.0	17,000.0
Cash		63.0	79.0	262.9	300.2	476.3	498.1	614.6	614.6	754.9	918.5	973.6	1,119.2	1,119.2	1,644.4
ST Debt		38.0	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
LT Debt		673.0	575.0	580.0	3,640.0	3,617.7	3,595.3	3,573.0	3,573.0	3,556.1	3,539.3	3,522.4	3,505.5	3,505.5	3,349.5
Net Debt		648.0	496.0	317.1	3,339.8	3,141.4	3,097.3	2,958.4	2,958.4	2,801.2	2,620.7	2,548.8	2,386.3	2,386.3	1,705.1
Enterprise Value					20,339.8	20,141.4	20,097.3	19,958.4	19,958.4	19,801.2	19,620.7	19,548.8	19,386.3	41,346.0	18,705.1
FCF Yield (Mkt. Cap)					1.7%	2.8%	3.0%	3.2%	3.2%	3.9%	3.8%	4.0%	4.1%	4.1%	4.8%
FCF Yield (Enterprise Value)					1.4%	2.4%	2.5%	2.7%	2.7%	3.4%	3.3%	3.5%	3.6%	1.7%	4.3%

Source: Company reports and Piper Jaffray & Co. Current disclosure information for this company can be found at <http://www.piperjaffray.com/researchdisclosures>.

March 13, 2013

IMPORTANT RESEARCH DISCLOSURES



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R: Resuming Coverage

T: Transferring Coverage

D: Discontinuing Coverage

S: Suspending Coverage

OW: Overweight

N: Neutral

UW: Underweight

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	328	56.65	63	19.21
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