

Zoetis Inc. (ZTS)

Overweight

PFE Announces Intention To Split Remaining Interest Through Share Exchange

CONCLUSION

This morning, Pfizer announced its intention to split off its remaining 80% interest in ZTS through an exchange offer whereby Pfizer shareholders can exchange all, some or none of their PFE shares for shares of ZTS that are owned by PFE. We believe this distribution was widely expected, even though it happened earlier than the 180 day lock-up expiration, and longer-term it removes a little overhang on ZTS and should help improve liquidity. Maintain Overweight rating and we would use any weakness to add to positions.

- Pfizer to split off remaining interest in ZTS.** Pfizer will split off its remaining 80% interest (or 400,985,000 shares) of ZTS through an exchange offer. As part of the exchange, PFE shareholders can exchange all, some or none of their PFE shares for ZTS shares. If the exchange is under-subscribed PFE could continue to own an interest in ZTS and could retain voting control. If that is the case, PFE could use additional exchange offers or a special dividend to PFE shareholders to dispose of its remaining interest. PFE also received a waiver of the 180-day lock-up from the joint book running managers, which is how this transaction is happening before the lock-up expiration at the end of July. The exchange offer is subject to certain conditions including the distribution of at least 160,394,00 shares, receipt of opinion counsel that the exchange will qualify for tax-free treatment, and the continued effectiveness and validity of a private letter ruling received from the U.S. IRS.
- Exchange offer at a 7% discount.** The exchange offer is designed to allow Pfizer shareholders to exchange shares of PFE for ZTS at a 7% discount, which is subject to an upper limit of 0.9898 shares of ZTS for each PFE share. If there is no upper limit in effect, tendering shareholders will receive \$107.52 of ZTS stock for every \$100 of PFE stock and is determined by the simple arithmetic average of the daily volume weighted price of PFE and ZTS during the three consecutive trading days ending on and including the expiration date of the offer, which are expected to be June 17th, 18th and 19th of 2013. The final exchange ratio is expected to be announced after the close on June 19th.

COMPANY DESCRIPTION

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

PRICE: US\$33.04
TARGET: US\$39.00
(24.5x FY14E EPS)

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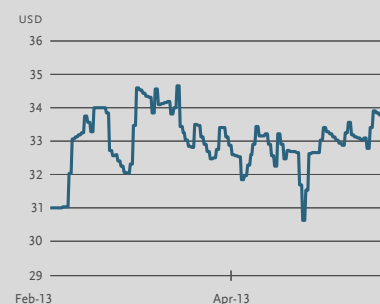
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Related Companies:	Share Price:
ZTS	33.04

RISKS TO ACHIEVEMENT OF PRICE TARGET

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

Price Performance - 1 Year



Source: Bloomberg

IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	337	56.73	69	20.47
HOLD [N]	227	38.22	12	5.29
SELL [UW]	30	5.05	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — Kevin K. Ellich, Sr Research Analyst — Bradley D. Maiers, Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
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