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Equity Research

Zoetis, Inc.

(ZTS - $34.09)

March 11, 2013

Company Initiation Report

Medical Devices & Supplies

Strong Buy
$41.00

Trading Data:

Last Price (3/08/2013)	$34.09
52–Week High (3/04/2013)	$34.89
52–Week Low (2/01/2013)	$30.47
Market Cap. (MM)	$17,045
Shares Out. (MM)	500
3 Month Avg. Daily Vol. (MM)	5.041

Earnings Estimates: ($ per share)

(Dec)	Q1	Q2	Q3	Q4	FY
FY14E	0.35	0.40	0.37	0.38	1.50
FY13E	0.30	0.35	0.32	0.33	1.30
FY12E	0.30A	0.35A	0.30A	0.29	1.24
FY11A	0.24	0.22	0.29	0.24	0.99

Valuation:

Multiple	Curr. FY	Next FY	Next FY @ PT
P/E	26.2	22.7	27.3
EV / EBITDA	16.0	14.0	16.5
EV / Revs.	4.4	4.0	4.8

Source: CL King & Associates estimates

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See required disclosures at the end of report.

Initiating Coverage at Strong Buy; Leading Position, Attractive Industry Should Support Sustainable Growth

We are initiating coverage of Zoetis, Inc. with a Strong Buy rating and a 12 month price target of $41. We believe Zoetis is well positioned to deliver stable, predictable and sustainable growth. We forecast five-year compound annual growth in organic revenues and EPS should be at least 6% and 10%, respectively.

We view Zoetis as an excellent investment in the growth of the animal health industry. We project the global animal pharmaceutical industry should grow 6% annually over the next five years, driven by both the production animal and companion animal sectors.

Growth in the emerging markets and increasing global demand for protein should benefit Zoetis. Emerging markets contribute 27% of Zoetis' revenues. We project growth in developing economies and increasing global demand for protein should be an important source of the company's long-term growth.

We believe Zoetis' industry-leading position and high market share should facilitate its growth and help mitigate risk. We believe the company's high level of R&D spending and large direct sales and marketing organization help create sustainable competitive advantages.

The largest animal health pharmaceutical company in the world; recently spun out of Pfizer. Zoetis was previously known as Pfizer Animal Health. Pfizer sold a 20% equity stake in Zoetis or 99 million shares at $26 per share in an initial public offering on January 31. We anticipate Pfizer will distribute its remaining 80% ownership position to Pfizer shareholders within a reasonable time period.

Many similarities to other high-quality animal health companies. Importantly, Zoetis has many of the characteristics of the other high-quality, growing animal health companies we follow. These include stable revenue growth, high margins and returns, and operations within an oligopolistic animal health industry segment.

A superior business relative to most human pharmaceutical companies. Zoetis is substantially different from most human pharmaceutical companies. For example, animal health is an "out-of-pocket" expenditure and there is very little influence over pricing and purchase decisions by third-party payers. In addition, R&D is less expensive, lower risk and faster than in human pharmaceuticals. The animal health market is further characterized by strong brand loyalty and there is relatively limited influence on the market by generics.

Insulated from reimbursement pressures. We believe healthcare investors will continue to be attracted to companies like Zoetis that are insulated from reimbursement pressure from the government and other third parties.

Zoetis, Inc. (ZTS – $34.09)

Company Description:

Zoetis is the largest animal pharmaceutical company in the world. Zoetis was previously known as Pfizer Animal Health. Pfizer owns 80% of Zoetis. Pfizer sold a 20% equity position in Zoetis or 99 million shares for $26 per share in an IPO on January 31, 2013.

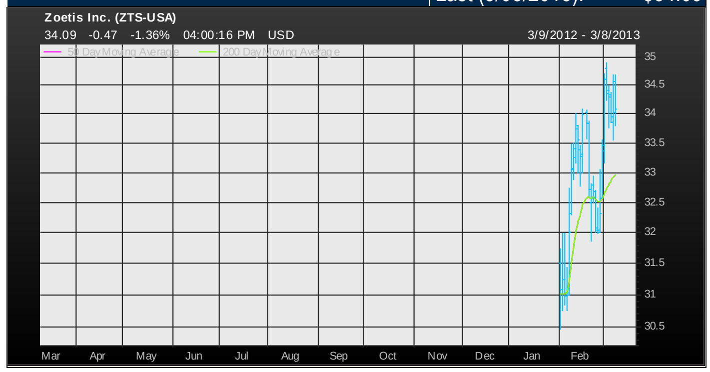
We estimate Zoetis' global market share is 20% or more. The U.S. contributes about 41% of revenues and emerging markets contribute approximately 27% of revenues. The company's product portfolio is highly diversified by therapeutic category, species and geography.

Source: Company reports

52–Week Price Performance:

Company: **Zoetis, Inc.**
Ticker: **ZTS**

High (3/04/2013): $34.89
Low (2/01/2013): $30.47
Last (3/08/2013): $34.09



Source: FactSet Inc.

Earnings Estimates: ($ per share)

(Dec)	Q1	Q2	Q3	Q4	FY
FY14E	0.35	0.40	0.37	0.38	1.50
FY13E	0.30	0.35	0.32	0.33	1.30
FY12E	0.30A	0.35A	0.30A	0.29	1.24

Source: CL King & Associates estimates

Investment Thesis Highlights:

- We believe ZTS is positioned to deliver stable, predictable, and sustainable revenue and EPS growth over the long term.
- We believe the company should benefit from its industry-leading position and high market share. In addition, high R&D expenditures and a large direct sales and marketing organization provide competitive advantages.
- Zoetis shares many characteristics with other high-quality animal health companies. At the same time, it is substantially different from most human pharmaceutical companies.
- We believe healthcare investors will continue to be attracted to companies like Zoetis that are sheltered from third-party reimbursement pressures.

Balance Sheet Items: ($ MM), except as indicated

(Dec)	Cash	Debt	Total Equity
FY14E	325	2,540	2,318
FY13E	515	3,340	1,707
FY12E	296	3,640	1,201

Source: CL King & Associates estimates

FINANCIAL SUMMARY — Non-GAAP
($ MM except per share data and where indicated)

		Gross		Operating		Pre–Tax		Net			FCF
Dec	Revenue	Profit	Margin	Profit	Margin	Profit	Margin	Profit	Margin	EPS	per share
FY14E	4,874	3,190	65.5%	1,135	23.3%	1,075	22.1%	720	14.8%	1.50	1.68
FY13E	4,561	2,961	64.9%	1,001	22.0%	1,001	22.0%	613	13.4%	1.30	1.45
FY12E	4,331	2,799	64.6%	910	21.0%	909	21.0%	582	13.4%	1.24	1.39
FY11A	4,233	2,652	62.6%	730	17.3%	722	17.1%	455	10.8%	0.99	0.82

Note: Zoetis added $3.6B in debt to its balance sheet in January 2013, shortly before the IPO. The addition of this debt distorts the comparison of 2013 EPS with 2012 and 2011. We estimate the reduction in EPS associated with the incremental debt incurred by Zoetis is roughly $0.12 per share compared to both 2012 and 2011.
Source: CL King & Associates estimates; Company reports

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Investment Thesis

Positioned for stable, predictable and sustainable growth: We are initiating coverage of Zoetis with a Strong Buy rating and a $41 price target. We believe the company is positioned to deliver relatively stable and predictable revenue and EPS growth over the medium- to long-term. Specifically, over the next five years we project revenues should grow at a 6% compound annual growth rate on an organic basis and EPS should grow at approximately a 10% compound annual growth rate.

We believe a number of factors should facilitate Zoetis' growth and help it maintain its very strong industry position.

- **Industry growth:** We project the animal health pharmaceutical industry should grow about 6% annually over the next five years, driven by growth of both the production animal and companion animal sectors on a global basis.

- **Emerging markets:** Approximately 27% of Zoetis' revenues are generated within emerging markets. As such, we project Zoetis will be a meaningful beneficiary of the long-term growth of emerging economies and increasing standards of living within these countries.

- **Highest levels of R&D spending in the industry:** We estimate Zoetis is responsible for at least 20% of the animal health pharmaceutical industry's annual R&D investment and that its annual R&D expense is substantially higher than its nearest competitors. We believe this high level of R&D investment relative to its competition should help Zoetis increase its revenues and maintain or increase its market share.

- **Direct sales force:** Zoetis has a large direct sales and marketing organization, which we believe makes it much less reliant on distributors than its competitors. In our view, this strengthens Zoetis' customer relationships and facilitates cross-selling opportunities across its entire portfolio. In addition, we believe Zoetis' direct sales strategy should foster greater customer loyalty and retention over time.

- **Potential for margin expansion:** We believe management is focused on reducing costs and increasing efficiency. As such, we believe the company's already strong profit margins have the potential to move even higher over the next several years as it transitions to being fully independent of Pfizer.

- **Spinouts frequently perform very well:** We note that subsidiaries spun out from parent companies as independent entities frequently perform very well, in part because they are able to focus more intently on their core business, management can make decisions more quickly, and management incentives are more closely aligned with the performance of the newly independent entity. We note Zoetis plans to pursue new R&D collaborations that it could not previously pursue as a unit of Pfizer.

Macroeconomic themes should also benefit Zoetis' stock: In the current slow-growth economy, we believe investors will continue to be attracted to companies with stable, predictable growth driven by unit growth and pricing power adequate to offset inflation. Related to this, we believe investors will reward companies that are driving growth through R&D and innovation, using new products and product extensions to increase

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revenues. In addition, we believe healthcare investors will continue to be attracted to companies insulated from reimbursement pressure from the government and other third parties. Zoetis is an excellent fit with all these criteria in our view.

Multiple factors support a high valuation: We anticipate that Zoetis will continue to trade at a premium valuation compared to the broader market averages given our growth projections, the attractive characteristics of the animal health industry and its very strong position within the animal health pharmaceutical sector. We believe investors will value Zoetis similar to other high-quality animal health companies we cover. Also, there are a small number of strategic players that may view Zoetis as an attractive acquisition target, in our view. Our target price of $41 assumes the stock trades at about 30x trailing four-quarters EPS, or $1.35 per share, for the four quarters ending March 2013, one year from now.

Unique but with Similarities to Other Animal Health Companies

Zoetis is unique, but has similarities to other leading animal health companies we follow

We view Zoetis as unique as it is the only publicly traded animal health pharmaceutical company in the U.S. However, there are several small animal health pharmaceutical companies that trade on international stock exchanges. Zoetis' long-term revenue and EPS growth outlook is also substantially different from those of most "human" pharmaceutical and specialty pharmaceutical companies and it is not affected by third-party reimbursement pressures, unlike most "human" pharmaceutical companies.

However, Zoetis does share many characteristics with other animal health companies we follow, such as Idexx Laboratories (IDXX**: SB\$115), MWI Veterinary Supply (MWIV**: SB\$130), and Abaxis (ABAX**: SB/$50). These characteristics include:

- Stable revenue growth.
- High margins.
- Attractive returns on assets and equity.
- Less economic sensitivity than most other industries.
- Attractive long-term growth potential.
- The animal health pharmaceutical industry segment has oligopolistic characteristics, similar to both the animal health diagnostic and distribution segments.

Underlying growth drivers similar to many other animal health companies

The underlying growth drivers of Zoetis' business are essentially the same as those of the other animal health companies we follow and include:

- Increasing incomes and higher standards of living in both developing and developed economies are resulting in higher demand for protein.
- Producers need to increase productivity and yield per animal.
- Disease prevention and food safety.
- Strengthening bonds between humans and their pets leads to higher levels of spending on companion animals.

- Increasing focus on wellness care.
- New technology and new products.

Substantial Differences Between Animal Health Pharmaceutical Industry and Human Pharmaceuticals

Like human pharmaceutical companies, the success of animal health pharmaceutical companies is dependent on complex manufacturing processes, successful investment in research and development to drive increases in revenues, demonstrating product efficacy and safety in clinical trials, and interacting with regulators. At the same time, however, there are several key distinctions between the two sectors:

- **Animal health is an "out-of-pocket" expense:** There is very limited third-party reimbursement in the animal health market. Most customers pay for veterinary services and products with "out-of-pocket" funds and there is very little influence over purchase decisions by third-party payers. As such, we believe pricing power for manufacturers in the animal health market is generally stronger than it is for manufacturers in the human health market.

- **Strong brands, less influence on the market by generics:** Customer loyalty to animal health brands is very high and there is a relatively low level of competition from generic pharmaceutical products within the animal health market compared to the human market. This helps protect pricing and volume, even following patent expirations.

- **Research and development is faster, less expensive, lower risk:** R&D in the animal health market is less expensive than it is in the human health market as early-stage trials are conducted in the target species, clinical trials are of shorter duration and many of the other related costs are much lower. As a result of the lower costs and greater speed, the risks associated with the development of animal health pharmaceutical products are much lower than they are in human healthcare.

- **Research and development focused on "brand life-cycle development":** The animal health pharmaceutical industry invests the majority of its R&D in "brand life-cycle development" projects and a minority portion in new product discovery. This is substantially different from human medicine development. "Brand life-cycle development" consists of expanding the market for existing products by adding new claims, new species, new formulations and the like; also, it is considerably cheaper and substantially less risky than new product discovery and development, further enhancing the "less expensive, faster and lower-risk" characteristics of animal health pharmaceutical R&D.

- **Zoetis' product portfolio is highly diversified:** In general, animal health pharmaceutical product portfolios tend to be well diversified. Zoetis' product portfolio is even more diversified than those of virtually all its major competitors. Its largest product line contributes 8% of revenues and its 10 largest products contribute less than 38% of revenues. Moreover, the company's sales are spread across multiple species and geographies. Human pharmaceutical companies usually have more concentrated portfolios.

Valuation Analysis

In light of the shared characteristics between Zoetis and other leading animal health companies, we believe Zoetis should be accorded P/E and EBITDA multiples comparable to other high-quality, growing animal health companies. Valuation data for leading animal health companies is shown in Table 1 below.

Table 1: High-Growth Animal Health Company Valuations

Company	Ticker	Rating	Fiscal Year	Stock Price	Market Cap.	2013E EPS	2014E EPS	2013E P/E	2014E P/E	2013E EBITDA	2014E EBITDA	2013E EV / EBITDA	2014E EV / EBITDA
Abaxis, Inc.	ABAX**	Strong Buy	March	$45.00	$1.0B	$0.95	$1.20	47.4 x	37.5 x	$39,878	$49,998	22.5 x	17.6 x
Abaxis - excl. lab losses	ABAX**	Strong Buy	March	$45.00	$1.0B	$1.02	$1.21	44.1 x	37.2 x	$42,478	$50,348	21.1 x	17.5 x
Abaxis - excl. lab loss & cash	ABAX**	Strong Buy	March	$45.00	$1.0B	$1.02	$1.21	38.8 x	31.9 x	$42,478	$50,348	21.1 x	17.5 x
Idexx Laboratories	IDXX**	Strong Buy	Dec.	$91.46	$5.0B	$3.53	$3.85	25.9 x	23.8 x	$336,150	$365,892	14.7 x	13.0 x
MWI Veterinary Supply	MWIV**	Strong Buy	Sep.	$134.91	$1.7B	$4.82	$5.35	28.0 x	25.2 x	$110,900	$125,816	15.5 x	13.5 x
Mean (using Abaxis excl. losses & cash)								**30.9 x**	**26.9 x**			**17.1 x**	**14.7 x**
Zoetis (non-GAAP)	**ZTS**	Strong Buy	Dec.	$34.09	$17.3B	$1.30	$1.50	**26.2 x**	**22.7 x**	$1,258,830	$1,405,428	**16.0 x**	**14.0 x**

Note: Abaxis has a large cash balance of about $4.50 per share that we exclude from some of our P/E multiple analysis above.
Source: CL King & Associates estimates

Comparison to MWI Veterinary Supply: We also believe MWI Veterinary Supply's valuation should be considered since it is Zoetis' largest customer. We estimate Zoetis products contribute nearly 20% of MWI's revenues and MWI contributes approximately 7% of Zoetis' total revenue. More importantly, we estimate approximately 75% of MWI's revenues consists of pharmaceuticals, vaccines, parasiticides and micro-feed ingredients, the same types of products comprising Zoetis' product portfolio. Though we project MWI's organic growth should be much faster than Zoetis' over the next three years, longer-term their growth rates should converge, in our view. Also, a manufacturer such as Zoetis should have greater pricing power over the long-term compared to a distributor.

Idexx and Zoetis have a number of key similarities: Zoetis and Idexx have many similarities, in our view. For example, we project Zoetis should have organic revenue growth over the next three years of about 6% compared to 7%-8% for Idexx; Zoetis has a 27% EBITDA margin compared to 24% for Idexx; Zoetis' return on tangible assets is about 15% compared to 21% for Idexx; and Zoetis' ROE is about 40% compared to 30% for Idexx. Both companies have high R&D expenditures relative to their major competitors, which we believe provides them with a competitive advantage and should help them sustain their growth over time.

As a large "blue chip" animal health company, we view Idexx as an excellent benchmark: We view Idexx as a particularly good benchmark when evaluating Zoetis given its strong industry position and our growth outlook. IDXX shares have traded in a sideways pattern for the last eight months, most likely the result, in our opinion, of investor concerns about increased competition from Abaxis due to the change in distribution strategy and slow organic revenue growth in the December quarter. However, we think these concerns are excessive and IDXX is undervalued at present. Our price target for Idexx of $115 assumes the stock trades at 33x 2013 EPS.

Comparable valuation analysis suggests a value of $41: We believe Zoetis should be valued at approximately 30x our trailing four-quarters EPS estimate one year from now.

A 30x P/E multiple is roughly a 10% discount to our Idexx price target multiple and a slight discount to the average 2014 P/E multiple for the three high-growth animal health companies shown in Table 1. Applying the 30x multiple to our $1.35 EPS estimate for the four quarters ending March 2013 yields a price target of $41 one year from now. Also, at $41 Zoetis would be valued at about 18.8x and 16.5x our 2013 and 2014 EBITDA estimates, respectively.

Acquisition valuations should be considered as well; our analysis suggests a value of $40-$47: While we believe Zoetis may be an attractive acquisition candidate, we think the number of potential strategic buyers is likely very small primarily because the company's large enterprise value limits the list of potential buyers. Moreover, anti-trust concerns that would require significant and complicated divestitures would likely prevent or strongly discourage some of the pharmaceutical companies that already have substantial animal health businesses from acquiring Zoetis. Nevertheless, we believe its acquisition is possible, though likely limited to a small pool of potential buyers.

Based on our initial analysis, and assuming an acquisition is funded entirely with new debt, we believe a strategic acquirer may value Zoetis in a range of $40-$47 per share. Our analysis assumes a potential buyer would have to be very large and capable of financing an acquisition entirely with debt, as well as willing to pay a purchase price that would make Zoetis roughly neutral to earnings during the first year subsequent to its acquisition. Details of our acquisition value analysis are shown in Table 2 below.

Table 2: Acquisition / Leveraged Buyout Value Analysis

Line No.	Math	Item	2013E	2014E
1.		Operating income	$1,000,775	$1,134,646
2.		Royalty income	33,000	34,700
3.		Amortization expense	64,000	64,000
4.	= L.1 + L.2 + L.3	**Oper. inc. plus royalties & amort.**	**$1,097,775**	**$1,233,346**
5.		Interest rate on LBO debt	4.5%	4.5%
6.	= L.4 / L.5	Acquisition value if 100% debt	$24,395,003	$27,407,694
7.		Discount apply to acquisition value	5%	5%
8.	= L.6 * L.7	**Total LBO enterprise value**	**$23,175,253**	**$26,037,309**
9.		Minus Zoetis debt balance	3,340,000	2,540,000
10.		Plus Zoetis cash balance	514,614	325,121
11.	= L.8 - L.9 + L.10	**Net equity value of LBO**	**$20,349,867**	**$23,822,430**
12.		Number of diluted shares	505,779	509,837
13.	= L.11 / L.12	**Net equity value of LBO per share**	**$40.23**	**$46.73**
14.		Cash EPS multiple at LBO value	31.0 x	31.2 x
15.		EBITDA multiple at LBO value	18.4 x	18.5 x

Source: CL King & Associates estimates

Our 12-month price target is $41: Our comparable company valuation analysis and the low end of our LBO valuation analysis yield essentially the same valuation targets. Accordingly, based on these analyses combined with our view that our 2013 and 2014 estimates may be slightly conservative, we are selecting a one-year price target of $41. Combined with its current dividend yield of 0.8%, this results in upside over the next year of about 20%, justifying our Strong Buy rating on Zoetis.

Agreement between Merck and Sanofi in 2009 provides down-side valuation benchmarks: In July 2009, Merck and Sanofi entered into an agreement to combine their respective animal health businesses into a 50/50 joint venture. The agreement, valued Sanofi's Merial animal health business at $8B, or 3.0x 2008 revenues and 10.2x 2008

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EBITDA, and valued Merck's animal health business at $9.25B, or 3.1x 2008 revenues and, based on our estimates, a range of 10.7x-13.0x 2008 EBITDA.

We emphasize valuations for all companies were very depressed in 2009, so we do not view these multiples as applicable to Zoetis today. However, they are of some use in helping to determine a very conservative downside value for Zoetis, in our view. Assuming a 12x multiple on our 2013 EBITDA projection, we estimate Zoetis' stock would be valued at about $24.25. We should note the agreement to combine the two animal health businesses ultimately was scuttled due to anti-trust concerns.

Valuations of small French animal health pharmaceutical companies provide a little perspective: Since there are very few publicly traded animal health pharmaceutical companies, in an effort to be complete we show valuation data for two "pure-play" animal health pharmaceutical companies in Table 3. Both companies, Virbac (VIRP:FP) and Vetoquinol (VETO:FP), are based in France and trade on the Paris stock exchange. Virbac and Vetoquinol are significantly smaller than Zoetis and their portfolios consist of a meaningful percentage of generic products. Given its small size and low-growth profile we do not view Vetoquinol's valuation as relevant, but we do view Virbac's 21x trailing P/E multiple as helpful in estimating a potential worst case, down-side "protection" value scenario for Zoetis. Applying a 21x multiple to our 2013 EPS estimate yields a price of $27.30.

Table 3: Other Public Animal Health Pharmaceutical Company Valuations

Company	Ticker	Fiscal Year	Stock Price	2011A EPS	2012E EPS	2013E EPS	2011A P/E	2012E P/E	2013E P/E	(1,000's) 2011A EBITDA	(1,000's) 2012E EBITDA	(1,000's) 2013E EBITDA	2011A EV / EBITDA	2012E EV / EBITDA	2013E EV / EBITDA
Vetoquinol	VETO:F	Dec.	€ 25.13	€ 1.97	€ 1.91	€ 2.00	12.8 x	13.2 x	12.6 x	€ 44,189	€ 42,233	€ 44,200	6.1 x	6.4 x	6.1 x
Virbac	VIRP:FF	Dec.	€ 162.05	€ 6.83	€ 7.60	€ 8.80	23.7 x	21.3 x	18.4 x	€ 106,379	€ 118,400	€ 137,000	13.6 x	12.3 x	10.6 x
Mean							**18.2 x**	**17.2 x**	**15.5 x**				**9.9 x**	**9.3 x**	**8.3 x**
Zoetis	ZTS	Dec.	$34.09	$0.99	$1.24	$1.30	34.4 x	27.5 x	26.2 x	$1,152,057	$1,258,830	$1,405,428	17.8 x	18.8 x	16.5 x

Note: Zoetis 2011 and 2012 EPS do not include interest expense associated with $3.6B in debt incurred in January 2013.
Source: Bloomberg, Yahoo! Finance, company documents, and CL King & Associates estimates

Summary financials and current valuation data: A summary of key financial and valuation data for Zoetis is presented in Table 4.

Table 4: Key Financial Highlights and Valuation Metrics for Zoetis

Item	2012E	2013E	2014E
Stock price	$34.09	$34.09	$34.09
Revenues (in 1,000's)	$4,330,985	$4,561,473	$4,873,801
EBITDA (in 1,000's)	$1,152,057	$1,258,830	$1,405,428
EPS - GAAP	$1.16	$1.21	$1.41
EPS adj to add back amortization exp.	**$1.24**	**$1.30**	**$1.50**
P / E ratio - based on adj. EPS	**27.6 x**	**26.3 x**	**22.8 x**
EV / EBITDA ratio	**17.8 x**	**16.0 x**	**14.0 x**
EV / Revenue ratio	**4.7 x**	**4.4 x**	**4.0 x**
ROA	10.5%	10.4%	11.9%
ROE	25.3%	45.1%	37.9%
Enterprise value computation:			
Equity market value (in 1,000's)	$17,190,354	$17,319,604	$17,493,451
Total debt (in 1,000's)	$3,640,000	$3,340,000	$2,540,000
Cash (in 1,000's)	$295,559	$514,614	$325,121
Enterprise value (in 1,000's)	$20,534,795	$20,144,990	$19,708,330

Source: CL King & Associates estimates

Animal Health Pharmaceutical Industry Overview

$23B global industry with 66% of sales outside the U.S.: Based on data from various industry sources, we estimate the global animal pharmaceutical and vaccine market totaled approximately $23.0B in 2012, with $7.9B of revenue in the U.S. and $15.1B revenues outside the U.S. We estimate the global production animal segment was approximately a $13.8B market in 2012, or approximately 60% of the total. The remaining $9.2B, or 40%, was from companion animal products. In the U.S. market, the mix of production animal vs. companion animal products is substantially different; we estimate companion animal products contribute about 55% of industry revenues in the U.S., while production animal products contribute the remaining 45%. Data is in Table 5.

Table 5: Animal Health Pharmaceutical & Vaccine Market Size by Region (in thousands)

Segment	United States	Percent of U.S. Market	International	Percent of Int'l. Market	Global	Percent of Total Market
Production animal	**$3,400,000**	*43%*	**$10,400,000**	*69%*	**$13,800,000**	*60%*
Percent of Production Animal Mkt.	*25%*		*75%*		*100%*	
Companion animal	**4,500,000**	*57%*	**4,700,000**	*31%*	**$9,200,000**	*40%*
Percent of Companion Animal Mkt.	*49%*		*51%*		*100%*	
Total	**$7,900,000**	*100%*	**$15,100,000**	*100%*	**$23,000,000**	*100%*
Percent of Total Market	*34%*		*66%*		*100%*	

Source: CL King & Associates estimates

The animal health pharmaceutical industry grew at a 6% CAGR during the last six years: While industry data is sparse, we estimate the global animal pharmaceutical and vaccine market grew at approximately a 6% compound annual growth rate over the last six years, driven by a 7% CAGR of the production animal segment and a 6% CAGR of the companion animal segment. Within the U.S., we estimate growth has been slightly slower at about 5%, driven by production animal growth of approximately 4% and companion animal growth of approximately 6%.

During the last several years the U.S. production animal segment growth was hindered by the 2009 recession and the 2011 drought in Texas and the surrounding region. The 2012 drought started to impact industry growth in the latter few months of the year and, we estimate, it will hinder growth slightly in 2013 due to small reductions in the beef and dairy cattle herds.

We project global industry growth should continue at a 6% CAGR over the next five years: We project the growth rates of both the production animal and companion animal segments on a global basis should be about 6% over the next five years, driven by multiple factors:

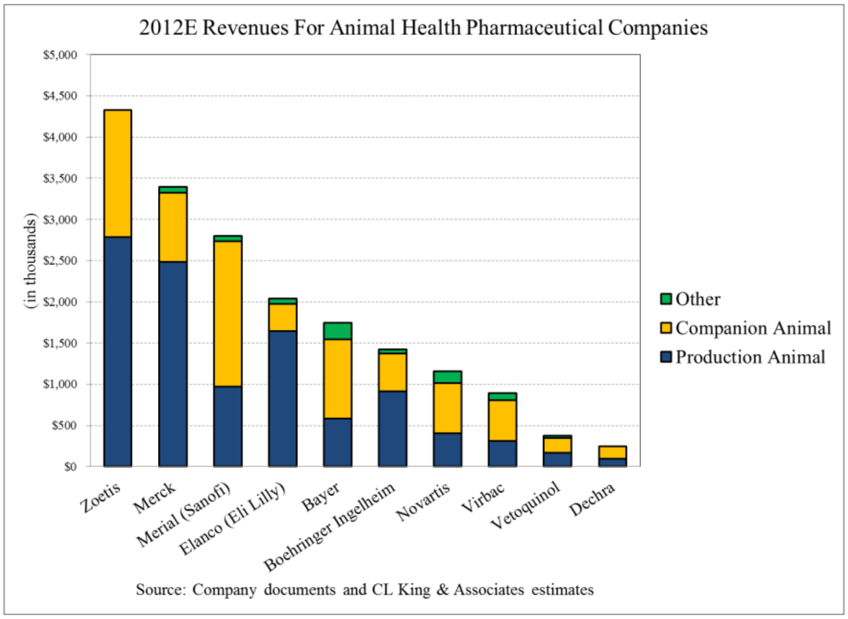
- **Sources of production animal growth:** We project growth of the production animal market will be driven by population growth, increasing incomes and higher standards of living. In turn, these factors should lead to higher demand for protein and improved nutrition. At the same time, we project utilization of pharmaceutical and vaccine products will increase as a result of demands to improve productivity and yield per animal, prevent disease and improve food safety.

- **Sources of companion animal growth:** The growth of the companion animal market is driven by higher levels of spending on companion animals, including on healthcare, as a result of the strengthening human-animal bond (pets are members of the family), higher wealth and standards of living, new technology, increases in both the human and pet populations, and increasing focus on wellness care.

Competitive Environment

The largest company in an industry with only a handful of sizable participants: Our 2012 revenue estimates for the 10 largest global animal health pharmaceutical and vaccine manufacturers are presented in Chart 1. We view the industry as an oligopoly as there are only six to eight competitors of material size. Zoetis is meaningfully larger than its competitors with, we estimate, a more than 20% global market share and revenues 27% higher than its largest competitor.

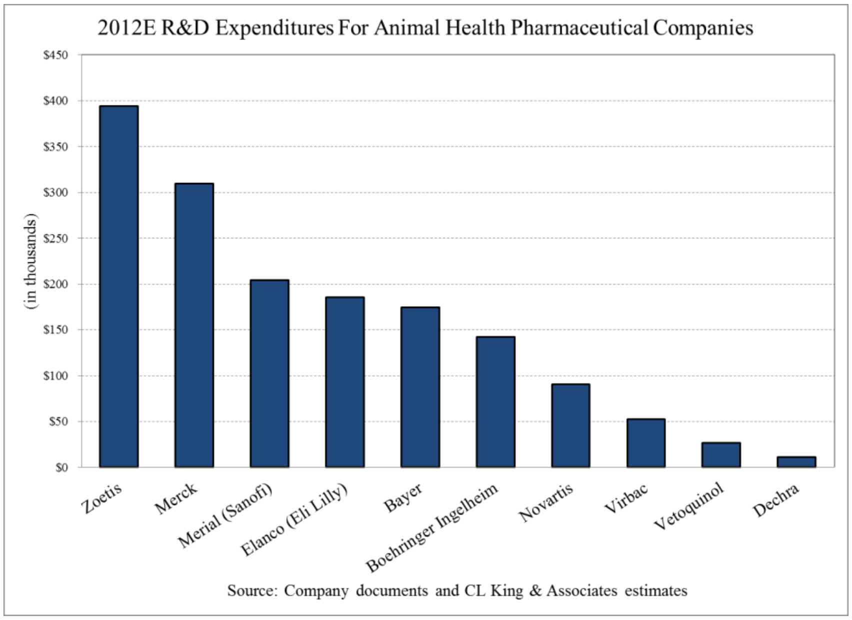
Chart 1: Revenues



Source: Company reports and CL King & Associates estimates

Zoetis spends substantially more on R&D than its competitors: As illustrated in Chart 2, we estimate Zoetis has significantly higher research and development expenditures than its competitors and is responsible for between 20% and 25% of the industry's total annual R&D spending. Furthermore, we estimate its annual R&D expenditures are 27% and 90% higher than its two closest competitors, respectively.

Chart 2: R&D Spending



Source: Company reports and CL King & Associates estimates

Strong competitive position in all areas: Zoetis has a very strong competitive position in all categories of the industry; its market share rankings by geography, product category and species are shown in Table 6. For example, Zoetis has the leading market share position in all major regions of the world except Western Europe and ranks first or second in all product categories except parasiticides. Merial holds the highest market share in this category with its Frontline product family, followed by Bayer's Advantage and Advantix product families. Zoetis has the first or second market share position in each species.

Table 6: Zoetis' Market Share Rank by Geography, Therapeutic Category, and Species

Market position by geography:		Market position by product category:		Market position by species:	
Region	Rank	Category	Rank	Species	Rank
North America	**No. 1**	**Medicinal Feed Additives**	**No. 2**	**Companion animal**	**No. 2**
Latin America	**No. 1**	**Biologicals/vaccines**	**No. 2**	**Cattle**	**No. 1**
Western Europe	**No. 2**	**Anti-infectives**	**No. 1**	**Swine**	**No. 1**
Easter Europe	**No. 1**	Parasiticides	No. 3	**Poultry**	**No. 2**
Asia	**No. 1**	**Other pharmaceuticals**	**No. 1**		
Rest of world	**No. 1**				

Source: Company reports and CL King estimates

Company Description

The largest company in the industry: Zoetis is the largest manufacturer and marketer of animal health pharmaceutical products in the world with approximately $4.3B in revenues and more than 300 product lines. The company has some adjacent businesses in diagnostics, genetics and services such as dairy data management and professional consulting. We estimate approximately 64% of revenues are from the production animal market and the remaining 36% are from the companion animal market. The company has more than 9,500 employees, including over 3,400 sales and marketing personnel.

We project emerging economies will be the fastest growing geographic markets for Zoetis over the next five years.

Highly diversified by geography; emerging markets contribute 27% of revenues: Importantly, Zoetis is well diversified by geography, species and product category. Its products are sold in more than 120 countries and it has direct selling efforts in approximately 70 countries. We estimate approximately 41% of the company's revenues are from the U.S. market while the remainder is spread through all regions of the world, as shown in Table 7. Importantly, emerging markets contributed approximately 27% of revenues in 2011; we project emerging economies will be the fastest growing geographic markets for Zoetis over the next five years.

Table 7: Revenues by Region (in thousands)

Item	2009A	% of total	2010A	% of total	2011A	% of total	2012E	% of total
Revenue by region:								
United States	$1,105,000	40%	$1,384,000	39%	$1,659,000	39%	$1,743,000	41%
Europe, Africa, Middle East	880,000	32%	1,020,000	28%	1,144,000	27%	$1,092,000	25%
Canada, Latin America, Russia	451,000	16%	664,000	19%	788,000	19%	$772,000	18%
Asia/Pacific/China	324,000	12%	514,000	14%	642,000	15%	$680,000	16%
Total revenue	$2,760,000	100%	$3,582,000	100%	$4,233,000	100%	$4,287,000	100%
Organic revenue growth:								
United States	na		13%		7%		6%	
Europe, Africa, Middle East	na		-1%		3%		0%	
Canada, Latin America, Russia	na		5%		9%		5%	
Asia/Pacific/China	na		15%		12%		9%	
Organic revenue growth, total	**na**		**7%**		**7%**		**5%**	

Source: Company documents and CL King & Associates estimates

Diversified by species: The company's' product portfolio is well diversified by species, as illustrated in Table 8 below. Cattle is the largest species segment for Zoetis, contributing approximately 36% of revenues. Notably, Table 8 also shows that the dispersion of Zoetis' revenues by species is generally consistent with the industry's sales mix by species.

Table 8: Revenues by Species - Zoetis

Item	2009A	2010A	2011A	Q1:12A	Q2:12A	Q3:12A	9 months 2012A	
Production animal:								
Cattle	$1,126,000	$1,464,000	$1,617,000	$400,000	$371,000	$365,000	$1,136,000	
Swine	388,000	433,000	562,000	143,000	142,000	140,000	425,000	
Poultry	125,000	265,000	501,000	121,000	129,000	125,000	375,000	
Other (Fish and Sheep)	47,000	71,000	98,000	27,000	23,000	29,000	79,000	
Subtotal, production animal	$1,686,000	$2,233,000	$2,778,000	$691,000	$665,000	$659,000	$2,015,000	
Companion animal:								
Horses	$80,000	$159,000	$168,000	$45,000	$50,000	$35,000	$130,000	
Dogs and Cats	994,000	1,190,000	1,287,000	311,000	379,000	325,000	1,015,000	
Subtotal, companion animal	$1,074,000	$1,349,000	$1,455,000	$356,000	$429,000	$360,000	$1,145,000	
Total revenues	$2,760,000	$3,582,000	$4,233,000	$1,047,000	$1,094,000	$1,019,000	$3,160,000	
As a percentage of total revenues:								***Industry 2011***
Production animal:								
Cattle	41%	41%	38%	38%	34%	36%	**36%**	***25%***
Swine	14%	12%	13%	14%	13%	14%	**13%**	***18%***
Poultry	5%	7%	12%	12%	12%	12%	**12%**	***12%***
Other (Fish and Sheep)	2%	2%	2%	3%	2%	3%	**3%**	***5%***
Subtotal, production animal	**61%**	**62%**	**66%**	**66%**	**61%**	**65%**	**64%**	***60%***
Companion animal:								
Horses	3%	4%	4%	4%	5%	3%	**4%**	***na***
Dogs and Cats	36%	33%	30%	30%	35%	32%	**32%**	***na***
Subtotal, companion animal	**39%**	**38%**	**34%**	**34%**	**39%**	**35%**	**36%**	***40%***
Total revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	***100%***

Source: Company reports and CL King & Associates estimates

Highly diversified by product category: Zoetis' product portfolio is well diversified by therapeutic category, as illustrated in Table 9. Anti-infectives, which contribute about 28% of revenues, is the largest product category. Non-pharmaceutical products and services contribute approximately 3% of revenues.

Table 9: Product Revenues by Therapeutic Category (in thousands)

Item	2009A	2010A	9 months 2011A	2011A	9 months 2012A
Anti-infectives	$983,000	$1,117,000	$924,000	$1,311,000	$882,000
Vaccines	677,000	1,014,000	801,000	1,077,000	812,000
Parasiticides	432,000	602,000	503,000	645,000	532,000
Medicinal feed additives	85,000	86,000	247,000	347,000	298,000
Other pharmaceuticals	484,000	653,000	537,000	724,000	529,000
Other non-pharmaceuticals	99,000	110,000	94,000	129,000	107,000
Total revenues	$2,760,000	$3,582,000	$3,106,000	$4,233,000	$3,160,000
As a percentage of total revenues:					
Anti-infectives	36%	31%	30%	31%	28%
Vaccines	25%	28%	26%	25%	26%
Parasiticides	16%	17%	16%	15%	17%
Medicinal feed additives	3%	2%	8%	8%	9%
Other pharmaceuticals	18%	18%	17%	17%	17%
Other non-pharmaceuticals	4%	3%	3%	3%	3%
Total revenues	100%	100%	100%	100%	100%

Source: Company reports and CL King & Associates estimates

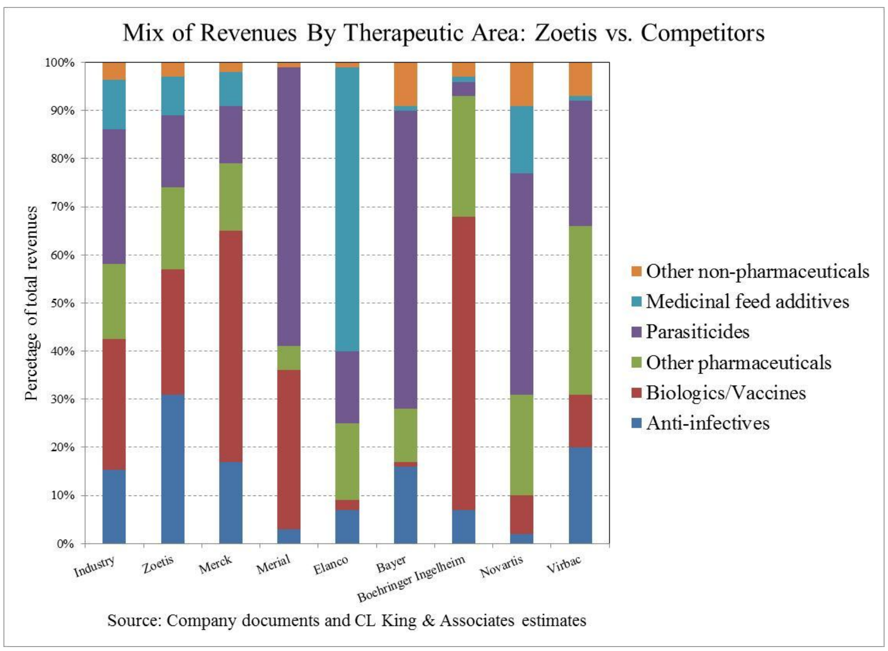
Zoetis has high market share in each therapeutic category, as illustrated in Table 10. Its product portfolio is also more diversified than those of all of its competitors.

Table 10: Market Share by Therapeutic Category

Item	Zoetis	Merck	Merial	Elanco	Bayer	B. Ingelheim	Novartis	Virbac
Anti-infectives	**$1,312**	$553	$85	$118	$264	$95	$26	$173
Biologicals/Vaccines	1,101	**1,561**	932	34	16	828	104	95
Other pharmaceuticals	**720**	455	141	269	181	339	274	303
Parasiticides	635	390	**1,637**	252	1,022	41	600	225
Medicinal feed additives	339	228	0	**991**	16	14	183	9
Other non-pharmaceuticals	127	65	28	17	**148**	41	117	61
Total revenues	$4,233	$3,253	$2,823	$1,679	$1,649	$1,357	$1,304	$867

Source: Company reports and CL King & Associates estimates

Chart 3: Products by Therapeutic Category



Source: Company reports and CL King & Associates estimates

Largest product line contributes only 8% of revenues: Importantly, Zoetis' largest product line, the ceftiofur product family, contributed less than 8% of revenues in 2011, and the company's 10 largest product lines contributed less than 38% of revenue in 2011. Ceftiofur is a cephalosporin antibiotic active against a broad spectrum of Gram-positive and gram-negative bacteria. Zoetis' ceftiofur products are available in multiple formulations, including a single course of therapy in one injection. Products contributing approximately 1% of more of Zoetis' revenues are listed in Table 11.

Table 11: Products contributing 1% of revenues or more

Product line	Product Description	Primary Species
Production animal products:		
Vaccines:		
Bovishield line	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	Cattle
Improvac / Improvest	Vaccination to reduce boar taint, as an alternative to surgical castration	Swine
RespiSure line	Aid in preventing chronic pneumonia caused by Mycoplasma hyopneumoniae	Swine
Rispoval line	Aid in preventing three key viruses involved in cattle pneumonia—BRSV, PI3 and BVD - as well as other respiratory diseases, depending on formulation	Cattle
Parasiticides:		
Cydectin	Injectable or pour-on endectocide to treat and control internal and external cattle parasites, including gastrointestinal roundworms, lungworms, cattle grubs, mites and lice	Cattle, sheep
Dectomax	Injectable or pour-on endectocide, characterized by extended duration of activity, for the treatment and control of internal and external parasite infections	Cattle, swine
Anti-infectives:		
Aureomycin	Provides livestock producers treatment and convenience against a wide range of respiratory, enteric and reproductive diseases	Cattle, poultry, sheep, swine
BMD	Aid in preventing and controlling enteritis, thereby increasing rate of weight gain and improving feed efficiency	Cattle, poultry, swine
Ceftiofur line	Broad-spectrum cephalosporin antibiotic active against Gram-positive and Gram-negative bacteria, including ß-lactamase-producing strains, with some formulations producing a single course of therapy in one injection	Cattle, horses, sheep, swine
Draxxin	Single-dose low-volume antibiotic for the treatment and prevention of bovine and swine respiratory disease, infectious bovine kerato conjunctivitis and bovine foot rot	Cattle, swine
Lincomycin line	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	Swine, poultry
Spectramast	Aid in preventing and treating mastitis, delivered via intramammary administration. Same active ingredient as the ceftiofur line	Cattle
Terramycin	Antibiotic for the treatment of susceptible infections	Cattle, poultry, sheep, swine
Other:		
Eazi-Breed CIDR	Progesterone-releasing device for the control of the estrus cycle	Cattle, sheep
Embrex devices	Devices for enhancing hatchery operations efficiency through in ovo detection and vaccination	Poultry
Lutalyse	For estrus control or in the induction of parturition or abortion	Cattle, swine
Companion animal products:		
Vaccines:		
Vanguard 4-way Lepto	Compatible with Vanguard High Titer and protects against leptospirosis caused by Leptospira canicola, L. grippotyphosa, L. icterohaemorrhagiae and L. pomona	Dogs
Vanguard High Titer	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	Dogs
Parasiticides:		
Revolution	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	Cats, dogs
Anti-infectives:		
Clavamox / Synulox	A broad-spectrum antibiotic and the first and only potentiated penicillin approved for use in dogs and cats	Cats, dogs
Convenia	Anti-infective for the treatment of common bacterial skin infections that provides a course of treatment in a single injection	Cats, dogs
Terramycin	Antibiotic for the treatment of susceptible ophthalmic infections	Cats, dogs, horses
Other:		
Rimadyl	For the relief of pain and inflammation associated with osteoarthritis and for the control of postoperative pain associated with soft tissue and orthopedic surgeries	Dogs

Source: Company reports

Zoetis is less dependent on its largest product line than all of its competitors except Merck, see Table 12. Furthermore, it is worth noting that three competitors depend on their respective largest product lines for more than 25% of their revenues.

Table 12: Percent of revenues from largest product line for each company

Merck	4%	Elanco (Eli Lilly)	26%
Zoetis	**8%**	Boehringer Ingelheim	35%
Novartis	15%	Merial (Sanofi)	38%

Source: Company reports

Direct Sales and Marketing Strategy a Competitive Advantage

Zoetis has a strong direct sales force that operates in 70 countries: Zoetis relies primarily on a direct sales and marketing strategy to sell its products in developed and many lesser developed countries. The sales and marketing group is made up of 3,400 employees operating in about 70 countries. This team includes sales representatives as well as specialists with advanced technical and veterinary training and education. It is important to note Zoetis has a direct selling presence in many of the larger and more significant emerging markets. The company depends on distributors in many lesser developed regions and even uses distributors to supplement its direct sales force in developed economies.

Zoetis also uses distribution in the U.S. and other developed markets to supplement its direct sales strategy: In addition to its direct sales effort, Zoetis still utilizes distributors in developed markets to some extent. We estimate MWI Veterinary Supply contributed approximately $312MM of Zoetis' revenues in 2012, including $172MM in production animal product sales and $140MM in companion animal product sales. Based on these figures, we estimate MWI Veterinary Supply contributed approximately 7% of Zoetis' total revenues and 18% of its U.S. revenues in 2012.

Zoetis' direct sales and marketing strategy creates a meaningful competitive advantage: We believe the other major animal health pharmaceutical companies are much more dependent on distributors to reach their end customers than is Zoetis. As a result, relative to its competition we believe Zoetis' direct selling model creates a meaningful competitive advantage.

We believe Zoetis' direct selling model creates a meaningful competitive advantage.

In our view, Zoetis' direct sales model strengthens its relationships with end users of its products and enables it to develop more specialized marketing programs on a local and regional level. For example, Zoetis' sales force provides education and support for local disease awareness and educates customers about new and more sophisticated animal health medications and vaccines.

In our view, the strong customer relationships and the customer partnering fostered by Zoetis' direct marketing strategy should provide it with greater customer loyalty, customer retention and incremental pricing power over time. In addition, the company's direct sales model facilitates cross-selling across its entire product line and helps it market its service offerings. We think its direct sales strategy and resulting close relationships with its customers assists Zoetis to identify market needs and R&D opportunities, which should further benefit its long-term growth.

Research and Development

Regional R&D operations enable Zoetis to more efficiently respond to local market needs for new products.

Global R&D operations help Zoetis respond to regional market needs: The company's' R&D operation is headquartered in Kalamazoo, Michigan; however, its R&D efforts are spread across more than a dozen satellite facilities located around the world. These regional R&D operations enable Zoetis to more efficiently respond to local market needs for new products. Zoetis employs more than 1,000 veterinary R&D scientists and specialists in its R&D operation.

Zoetis' R&D spending accounts for a large portion of total industry R&D expenditures: Based on our estimates, we believe Zoetis was responsible for 20%-25% of industry's total R&D expenditures in 2012. Zoetis management estimates that from 2004 to 2011 the company received 25% of all animal health medicine approvals granted by the FDA and approximately 20% of all animal health vaccine approvals granted by the USDA.

Most R&D is focused on "brand life-cycle development": R&D within the animal health pharmaceutical and vaccine sector is substantially different than it is in the human medical market. While the development of new products is important for Zoetis, the majority of its R&D expenditures and those of other industry participants are targeted at "brand life-cycle development." This includes expanding the market potential of existing products by adding new species, claims for new indications, regulatory approvals in new markets, and the development of new drug combinations or reformulations.

Less expensive, faster and lower-risk than human pharmaceutical R&D: Animal health pharmaceutical and vaccine R&D, whether focused on new product discovery or brand life-cycle management, is significantly less expensive, faster and lower risk than human drug development. Moreover, brand life-cycle development R&D projects are usually faster, less expensive and of lower risk than new product discovery R&D projects. Early-stage safety and efficacy studies occur within the target species, speeding development and providing higher predictability of success or failure at an earlier stage of development. In addition, the time to conduct individual clinical trials in animals is typically much faster than it is in humans and fewer clinical studies are required to demonstrate efficacy and safety than is the case in human medicine.

Plans to pursue new R&D collaborations that it could not previously access have the potential to enhance the Zoetis' longer-term growth.

Separation from Pfizer should facilitate new R&D collaborations and partnerships: Zoetis' R&D function has operated independently of Pfizer's human R&D since 2003. Accordingly, we project Zoetis' R&D should continue to operate efficiently and yield new products at a rate consistent with historical levels. Importantly, Zoetis' agreement with Pfizer provides it with ongoing access to Pfizer's compound library. Furthermore, now that Zoetis is becoming independent of Pfizer it plans to pursue new R&D collaborations that it could not previously access. This has the potential to enhance the Zoetis' longer-term growth, in our view.

High Brand Loyalty and Limited Generic Competition

Generic competition in animal health is small in comparison to human pharmaceuticals: The level of competition from generic products in the animal health pharmaceutical industry is modest, unlike the situation in the human pharmaceutical industry. There are multiple reasons generic animal health pharmaceutical products have relatively small market share in our view.

The market opportunity of most animal health pharmaceutical products is relatively small, limiting the potential profitability of generic entrants. In addition, the strong relationships between manufacturers' sales representatives and end-customers and between distributors and end-customers create barriers to entry. Furthermore, brand loyalty within the animal health pharmaceutical market is very strong due to the importance customers place on quality and safety. Also, since customers typically pay for animal health products out-of-pocket and third-party reimbursement in the industry is very limited, the pressures to choose a particular product simply due to cost are minimal.

We cite two examples that help demonstrate the relatively modest impact of generic medications on the animal health industry.

Example #1 - Rimadyl:

> Zoetis' Rimadyl product for relief of pain and inflammation in dogs lost patent protection in 2001. Nevertheless, the company's Rimadyl sales have increased 35% since then even though generic versions of the product have entered the market.

Example # 2 Merial's Frontline Top Spot:

> We estimate Merial's Frontline family, consisting of Frontline Top Spot and Frontline Plus, is the largest companion animal pharmaceutical product line in the U.S. We estimate the Frontline family of products had sales in 2012 of about $529MM and represented roughly 12% of U.S. companion animal pharmaceutical product sales. The active ingredient in Frontline Top Spot is fipronil while the active ingredients in Frontline Plus are fipronil and s-methoprene.
>
> The U.S. patents protecting fipronil expired in the spring of 2011 and generic versions of Frontline Top Spot are now on the market. Given its size and the fact that it is an "over-the-counter" product, the fipronil market is an attractive opportunity for generic manufacturers.
>
> After losing its patent protection on Frontline Top Spot, on an organic basis Merial's Frontline family sales declined 2.1% on a constant currency basis in 2011 and declined 7.8% on a constant currency basis in 2012. This level of decline is substantially lower than is typical in the human pharmaceutical market. Also, manufacturer-level sales of PetArmor, the leading Frontline Top Spot generic, were approximately $100MM in 2012. PetArmor's revenue level indicates to us that the entry of generics probably helped increase the size of the fipronil-based spot-on flea and tick market since the spring of 2011. Perrigo (PRGO: NR) acquired the company that marketed PetArmor, Velcera (VLCR: NR), in early 2013.
>
> Merial very recently discontinued Frontline Top Spot and launched a new higher-end product called Frontline Tritak. The three active ingredients in Frontline Tritak are fipronil, s-methoprene and cyphenothrin. Merial also markets another relatively new fipronil-based product called Certifect, which has fipronil, s-methoprene and amitraz as active ingredients.

In our view, Merial's discontinuation of its low-end fipronil-based product and increased emphasis on higher-end fipronil products with more than one active ingredient is a good example of the industry's strategic focus on "brand life-cycle development".

Small Acquisitions, Other Business Development Agreements and Expansion into Complementary Businesses Likely to Continue

Small acquisitions, in-licensing, and partnerships help Zoetis: Historically Zoetis has completed occasional small acquisitions, in-licensing agreements and other strategic partnerships to grow its business and improve its competitive positions. We anticipate Zoetis will continue these efforts for the foreseeable future. As a result of its large size and industry position, we believe smaller companies, developers of new technologies and products and third-party research and development organizations frequently view Zoetis as the most attractive partner for both economic and strategic reasons.

Complementary businesses expand Zoetis' portfolio and build customer loyalty: In addition, we project Zoetis will continue to expand into complementary businesses. For example, some of Zoetis' current non-therapeutic businesses include livestock genetics, diagnostics, dairy data management, poultry devices for *in ovo* vaccine delivery, and consulting. Each of these businesses contributes incremental revenues for Zoetis. Importantly, some, such as dairy data management, help build customer loyalty. We believe the expansion of these businesses and the addition of new ancillary businesses should be beneficial for Zoetis over time.

Ongoing Relationship with Pfizer

Pfizer will continue to provide some administrative business functions and some manufacturing services for Zoetis after the IPO, though we think there is a good probability that Zoetis may move many of these functions and services in-house over time.

Administrative functions provided by Pfizer: The administrative functions Pfizer provides to Zoetis include business technology, facilities, finance, human resources, public affairs and procurement. Zoetis estimates the cost of these services will be $15MM-$25MM higher in 2013 than they were in 2011, based on the agreed upon fees following the IPO. These fees will remain unchanged for the first two years following the IPO; however, after two years Pfizer may increase them by 7%. Zoetis also expects to incur costs of $30MM-$40MM in 2013 and 2014 to implement new systems that will replace some of the legacy systems currently being supported by Pfizer.

Zoetis performs the majority of its own manufacturing, but some is still performed by Pfizer: Pfizer will transfer the ownership or leases of 29 manufacturing sites to Zoetis, 13 of which are "anchor" manufacturing sites and 16 are "satellite" manufacturing sites. Products representing approximately 58% of Zoetis' cost of goods sold are manufactured at these 29 sites. Pfizer will continue to manufacture some products for Zoetis at 14 facilities primarily used for human pharmaceutical manufacturing. For the first two years following the IPO Pfizer will supply the products manufactured at its facilities to Zoetis at cost. After the two-year period, Pfizer will begin charging Zoetis a fee 15% plus the cost of manufacture. Under the current agreement, the cost of products manufactured by Pfizer will be approximately $14MM lower than the allocated cost included in Zoetis' 2011 financial statements.

We anticipate some non-recurring costs associated with the separation: Zoetis expects to incur some non-recurring costs related to its separation from Pfizer including new branding and associated new packaging design, creation of stand-alone infrastructure, legal and patents. Zoetis estimates these non-recurring costs should be in a range of $170MM-$200MM in 2013 and $70MM-$100MM in 2014. We have not included these expenses in our financial model as we believe they should be viewed as extraordinary items that are one-time in nature.

Two classes of common stock: Zoetis has two classes of common stock: Class A and Class B. The Class A stock is publicly traded; and Pfizer owns about 80% of this class. Pfizer owns 100% of the Class B stock. Both classes are entitled to one vote per share in all matters with one important exception, the election of directors. In voting for directors Class B shares have 10 votes per share while class A shares have one vote per share. Pfizer can convert its Class B stock into Class A at any time.

Management

We believe management has the experience and skills to increase revenues and margins: We believe Zoetis has a very effective management team that will be successful in increasing revenues, efficiency and margins. All the members of Zoetis' senior management team have extensive experience in the pharmaceutical industry. Of the company's 11 most senior executives the range of experience with Pfizer is between eight and 24 years.

While the number of years of experience in animal health is much less for many of the executives, we do not view it as meaningful; the skills necessary for success in many of these positions are transferable from human pharmaceuticals to animal pharmaceuticals in our view. Furthermore, we emphasize Zoetis' four regional presidents have between five and 29 years of experience in animal health. In addition, the CEO and president of R&D have six and seven years of experience in animal health, respectively.

Table 13: Zoetis Executive Management Team

Individual	Position	Years of Animal Health Experience	Years with Pfizer
Juan Ramon Alaix	CEO	6	14
Rick Passov	EVP and CFO	< 1	12
Cathy Knupp	EVP and President of R&D	7	11
Kristin Peck	EVP and Group President	< 1	8
Sandy Beatty	EVP Corporate Affairs	< 1	15
Heidi Chen	EVP, General Counsel, and Corporate Secretary	4	14
Roxanne Lagano	EVP and Chief Human Resources Officer	< 1	15
Alejandro Bernal	EVP and Area President: Europe/Africa/Middle East	16	12
Joyce Lee	EVP and Area President: Canada/Latin America	9	9
Clint Lewis	EVP and President United States Operations	5	24
Stefan Weiskopf	EVP and Area President: Asia Pacific	29	24

Source: Company reports

Financial Projections

Organic revenue growth assumptions: We project Zoetis should have organic revenue growth of approximately 4.5% in 2013 and about 7.0% in 2014. Our 2013 revenue projections are conservative in that we take into consideration the severe drought in the U.S. in 2012 and the weak economic situation in Europe. Our 2014 projections assume the U.S. grain and livestock markets have both recovered from the effects of the drought and economic conditions in Europe show some improvement. We have not included any acquisitions or other business development arrangements in our projections.

We assume margin expansion over the next two years: Within our financial model we assume Zoetis operating profit margin improves by about 90 bps in 2013 compared to 2012. We also assume the operating profit margin expands by an additional 130 bps in 2014. We assume the improvement in the operating profit margin will result from an improvement in the gross profit margin and lower SG&A as a percentage of revenues.

We believe management is focused on improving margins: Management has a history of improving the efficiency of the company's operations. Moreover, we believe one of management's goals now that Zoetis is becoming independent of Pfizer is to continue to work aggressively to improve operational efficiency.

We project a substantial portion of cash flow will be used to reduce debt over the next two years: Zoetis has about $3.6B in debt as a result of a debt offering that occurred shortly before the initial public stock offering on January 31. The proceeds of this debt financing were provided to Pfizer. While we believe Zoetis' current debt load is manageable, we project the company will use a substantial portion of its free cash flow to reduce debt over the next several years. Within our financial model we assume the company pays down about $1B in debt by the end of 2014.

Risks

There are a number of potential risks that could have a negative affect on Zoetis' business and its stock. We highlight some of the more significant risks:

There is a risk regulators could impose new restrictions on the use of antibiotics in production animals due to concerns about antimicrobial resistance in humans. For example, in April 2012 the FDA issued guidance recommending the voluntary elimination of the use of certain medically important antibiotics for promoting weight gain in animals. However, use of these antibiotics for "on-label" purposes such as the pretreatment and prevention of disease is still supported under the voluntary guidelines. Since antibiotics contribute about 28% of Zoetis' revenues any new restrictions on their use could harm Zoetis' business. Similarly, changes in consumer views of products from animals treated with antibiotics could also impact Zoetis' business.

Zoetis' stock has a high valuation compared to the broader market averages; our valuation analysis assumes the stock continues to trade at a high multiple. Disappointments in revenues and/or EPS, a change in broader market valuations or a rotation by investors away from growth stocks or animal health stocks could be a meaningful risk.

The production animal and companion animal markets are sensitive to the economy, so if the economy weakens materially Zoetis' revenues and income may be lower than we project.

Severe weather conditions such as drought could negatively affect Zoetis' production animal business. For example, drought can result in higher grain and feed prices and reduce available grazing pastures, either one of which could result in a reduction of beef and dairy cattle herds.

Generic products could have a greater influence on the industry than we now project. While large generic pharmaceutical companies have not focused on the animal health market in the past, it is important to note Perrigo purchased Sergeants in September 2012 and Velcera on February 1, 2013.

Within our financial forecasts we project Zoetis' margins should expand over the next several years. There is a risk the company may not be successful in improving margins as much as we expect. Also, the company may not be as effective as we project in managing its operations and expenses during its process of fully separating from Pfizer.

We anticipate Pfizer should eventually distribute its 80% ownership position in Zoetis to Pfizer share holders. This could result in significant sales of Zoetis stock on the open market, which could cause Zoetis' stock price to decline.

Model 1: Income Statement

Zoetis, Inc.
Income Statement - 2012 and prior adjusted to exclude unusual items (dollars in thousands)

Item	2009A	2010A	2011A	Q1:12A	Q2:12A	Q3:12A	Q4:12E	2012E	Q1:13E	Q2:13E	Q3:13E	Q4:13E	2013E	2014E
Revenues	$2,760,000	$3,582,000	$4,233,000	$1,047,000	$1,094,000	$1,019,000	$1,170,985	$4,330,985	$1,093,185	$1,151,480	$1,081,500	$1,235,308	$4,561,473	$4,873,801
Costs and expenses:														
Cost of sales (may need to add back small purch. acct. an	1,001,000	1,318,000	1,581,000	388,000	382,000	352,000	409,845	1,531,845	399,013	401,867	373,118	426,181	1,600,178	1,684,217
SG&A (I did not exclude D&A adjust.)	1,056,000	1,365,000	1,445,000	331,000	350,000	330,000	421,554	1,432,554	345,446	368,474	350,406	420,005	1,484,331	1,555,402
Research and development	365,000	411,000	408,000	93,000	91,000	94,000	114,756	392,756	97,293	95,573	99,498	119,825	412,189	435,536
Amortization of intangible assets	33,000	58,000	69,000	16,000	16,000	16,000	16,000	64,000	16,000	16,000	16,000	16,000	64,000	64,000
Restructuring chrges & acq. related costs	0	0	0	0	(1,000)	1,000	0	0	0	0	0	0	0	0
Total costs and expenses	2,455,000	3,152,000	3,503,000	828,000	838,000	793,000	962,155	3,421,155	857,752	881,913	839,022	982,011	3,560,697	3,739,155
Operating income	305,000	430,000	730,000	219,000	256,000	226,000	208,829	909,829	235,433	269,567	242,479	253,297	1,000,775	1,134,646
Other (income)/deductions, net:														
Interest expense on long term debt	26,000	37,000	36,000	8,000	8,000	7,000	7,000	30,000	29,964	29,761	29,476	27,937	117,138	92,843
Royalty related income	(5,000)	(30,000)	(26,000)	(6,000)	(7,000)	(11,000)	(7,000)	(31,000)	(7,000)	(8,000)	(11,000)	(7,000)	(33,000)	(34,700)
Net gains on sales of assets	0	1,000	0	0	0	0	0	0	0	0	0	0	0	0
Intangible asset impairment charges	5,000	0	(7,000)	0	0	2,000	0	2,000	0	0	0	0	0	0
Certain legal matters, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other, net	(1,000)	4,000	5,000	0	1,000	(2,000)	500	(500)	500	500	500	500	2,000	2,000
Subtotal, other (income)/deductions, net	25,000	12,000	8,000	2,000	2,000	(4,000)	500	500	23,464	22,261	18,976	21,437	86,138	60,143
Income/(loss) before taxes	280,000	418,000	722,000	217,000	254,000	230,000	208,329	909,329	211,969	247,306	223,502	231,860	914,638	1,074,503
Provision/(benefit) for income taxes	108,000	183,000	264,000	76,000	90,000	89,000	71,874	326,874	69,950	81,611	73,756	76,514	301,830	354,586
Net income before allocation to non-controlling interests	172,000	235,000	458,000	141,000	164,000	141,000	136,456	582,456	142,019	165,695	149,747	155,346	612,807	719,917
Less: Net income attributable to non-controlling interests	(1,000)	1,000	3,000	1,000	0	(1,000)	0	0	0	0	0	0	0	0
Net income attributable to Zoetis	$173,000	$234,000	$455,000	$140,000	$164,000	$142,000	$136,456	$582,456	$142,019	$165,695	$149,747	$155,346	$612,807	$719,917
Adjustments:														
Amortization of intangible assets	$33,000	$58,000	$69,000	$16,000	$16,000	$16,000	$16,000	$64,000	$16,000	$16,000	$16,000	$16,000	$64,000	$64,000
Associated income tax	($12,729)	($25,392)	($25,230)	($5,604)	($5,669)	($6,191)	($5,520)	($23,006)	($5,280)	($5,280)	($5,280)	($5,280)	($21,120)	($21,120)
Net adjustment	$20,271	$32,608	$43,770	$10,396	$10,331	$9,809	$10,480	$40,994	$10,720	$10,720	$10,720	$10,720	$42,880	$42,880
Non-GAAP net income adjusted for amort.	$193,271	$266,608	$498,770	$150,396	$174,331	$151,809	$146,936	$623,450	$152,739	$176,415	$160,467	$166,066	$655,687	$762,797
EBITDA (includes royalty income)	$434,000	$645,000	$961,000	$273,000	$317,000	$291,000	$271,057	$1,152,057	$297,787	$333,869	$309,494	$317,680	$1,258,830	$1,405,428
EPS - diluted	na	na	na	na	na	na	na	$1.16	$0.28	$0.33	$0.30	$0.31	$1.21	$1.41
"Cash EPS" - adj. for amortization - diluted	na	na	**$0.99**	**$0.30**	**$0.35**	**$0.30**	**$0.29**	**$1.24**	**$0.30**	**$0.35**	**$0.32**	**$0.33**	**$1.30**	**$1.50**
Dividend per share	na	na	na	na	na	na	na	na	$0.065	$0.065	$0.065	$0.065	$0.260	$0.260
Total diluted shares	na	na	504,264	504,264	504,264	504,264	504,264	504,264	504,264	505,272	506,283	507,295	505,779	509,837
As a percentage of revenues:														
Cost of sales	36.3%	36.8%	37.3%	37.1%	34.9%	34.5%	35.0%	35.4%	36.5%	34.9%	34.5%	34.5%	35.1%	34.6%
SG&A	38.3%	38.1%	34.1%	31.6%	32.0%	32.4%	36.0%	33.1%	31.6%	32.0%	32.4%	34.0%	32.5%	31.9%
Research and development	13.2%	11.5%	9.6%	8.9%	8.3%	9.2%	9.8%	9.1%	8.9%	8.3%	9.2%	9.7%	9.0%	8.9%
Amortization of intangible assets	1.2%	1.6%	1.6%	1.5%	1.5%	1.6%	1.4%	1.5%	1.5%	1.4%	1.5%	1.3%	1.4%	1.3%
Restructuring chrges & acq. related costs	0.0%	0.0%	0.0%	0.0%	-0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total costs and expenses	88.9%	88.0%	82.8%	79.1%	76.6%	77.8%	82.2%	79.0%	78.5%	76.6%	77.6%	79.5%	78.1%	76.7%
Operating income	11.1%	12.0%	17.2%	20.9%	23.4%	22.2%	17.8%	21.0%	21.5%	23.4%	22.4%	20.5%	21.9%	23.3%
Income before taxes	10.1%	11.7%	17.1%	20.7%	23.2%	22.6%	17.8%	21.0%	19.4%	21.5%	20.7%	18.8%	20.1%	22.0%
Income tax rate	38.6%	43.8%	36.6%	35.0%	35.4%	38.7%	34.5%	35.9%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%

Source: Company reports and CL King estimates

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Model 2: Revenue by Region

Zoetis, Inc.
Revenue by region (dollars in thousands)

Item	2010A	2011A	Q1:12A	Q2:12A	Q3:12A	Q4:12E	2012E	Q1:13E	Q2:13E	Q3:13E	Q4:13E	2013E	2014E
Revenue by region:													
United States	$1,384,000	$1,659,000	$425,000	$421,000	$448,000	$480,655	$1,774,655	$446,250	$442,050	$470,400	$504,687	$1,863,387	$1,975,190
Europe, Africa, Middle East	1,020,000	1,144,000	275,000	283,000	241,000	$282,745	$1,081,745	$279,125	$291,490	$253,050	$291,227	$1,114,892	$1,159,488
Canada, Latin America, Russia	664,000	788,000	173,000	211,000	165,000	$228,575	$777,575	$185,110	$229,990	$184,800	$251,433	$851,333	$919,439
Asia/Pacific/China	514,000	642,000	174,000	179,000	165,000	$179,010	$697,010	$182,700	$187,950	$173,250	$187,961	$731,861	$819,684
Total revenue	$3,582,000	$4,233,000	$1,047,000	$1,094,000	$1,019,000	$1,170,985	$4,330,985	$1,093,185	$1,151,480	$1,081,500	$1,235,308	$4,561,473	$4,873,801
Revenue growth by region:													
Organic revenue growth:													
United States	13.0%	7.0%	8.0%	8.0%	2.0%	7.1%	6.3%	5.0%	5.0%	5.0%	5.0%	5.0%	7.0%
Europe, Africa, Middle East	-1.0%	3.0%	-2.0%	4.0%	-2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%
Canada, Latin America, Russia	5.0%	9.0%	2.0%	6.0%	4.0%	6.5%	4.6%	5.0%	5.0%	6.0%	6.0%	5.5%	8.0%
Asia/Pacific/China	15.0%	12.0%	9.0%	5.0%	10.0%	12.5%	9.1%	10.0%	10.0%	10.0%	10.0%	10.0%	12.0%
Subtotal, organic revenue growth	**7.0%**	**7.0%**	**4.0%**	**6.0%**	**5.0%**	**5.9%**	**4.7%**	**4.5%**	**4.5%**	**4.8%**	**4.8%**	**4.6%**	**7.3%**
Revenue growth from acquisitions:													
United States	13.0%	13.0%	4.0%	0.0%	-1.0%	0.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Europe, Africa, Middle East	26.0%	6.0%	3.0%	-1.0%	1.0%	0.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Canada, Latin America, Russia	32.0%	7.0%	4.0%	0.0%	-1.0%	0.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asia/Pacific/China	36.0%	7.0%	5.0%	1.0%	0.0%	0.0%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subtotal, revenue growth from acq.	23.0%	9.0%	4.0%	0.0%	-1.0%	0.0%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Revenue growth/(declines) from divestitures:													
United States	-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%
Europe, Africa, Middle East	-8.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Canada, Latin America, Russia	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%
Asia/Pacific/China	-2.0%	-2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subtotal, rev. growth/(declines) from divest.	-3.0%	-1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Revenue growth/(declines) from currencies:													
United States	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%
Europe, Africa, Middle East	-1.0%	3.0%	-3.0%	-7.0%	-11.0%	-3.5%	-6.1%	1.5%	3.0%	5.0%	3.0%	3.1%	0.0%
Canada, Latin America, Russia	10.0%	4.0%	-4.0%	-8.0%	-12.0%	-4.0%	-7.0%	2.0%	4.0%	6.0%	4.0%	4.0%	0.0%
Asia/Pacific/China	10.0%	8.0%	1.0%	-1.0%	-6.0%	-2.0%	-2.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	0.0%
Subtotal, rev. growth/(declines) from currencies	3.0%	3.0%	-1.0%	-5.0%	-6.0%	-2.0%	-3.3%	-0.1%	0.7%	1.3%	0.7%	0.7%	0.0%
Total reported increase/(decrease) in revenues:													
United States	25.0%	20.0%	12.0%	8.0%	1.0%	7.1%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%
Europe, Africa, Middle East	16.0%	12.0%	-2.0%	-4.0%	-12.0%	-3.5%	-5.4%	1.5%	3.0%	5.0%	3.0%	3.1%	4.0%
Canada, Latin America, Russia	47.0%	19.0%	2.0%	-2.0%	-9.0%	2.5%	-1.3%	7.0%	9.0%	12.0%	10.0%	9.5%	8.0%
Asia/Pacific/China	59.0%	25.0%	15.0%	5.0%	4.0%	10.5%	8.6%	5.0%	5.0%	5.0%	5.0%	5.0%	12.0%
Total reported increase/(decrease) in revenues	30.0%	18.0%	7.0%	1.0%	-2.0%	3.9%	2.3%	4.4%	5.3%	6.1%	5.5%	5.3%	6.8%

Source: Company reports and CL King estimates

Model 3: Balance Sheet

Zoetis, Inc.
Balance Sheets (dollars in thousands)

Item	Q4:10A	Q4:11A	Proforma Q3:12PF	Q4:12PF/E	Q4:13E	Q4:14E
ASSETS:						
Current assets:						
Cash & cash equivalents	$63,000	$79,000	$300,000	$295,559	$514,614	$325,121
Accounts receivable	773,000	871,000	848,000	971,917	1,025,305	1,095,523
Inventories	995,000	1,063,000	1,136,000	1,288,083	1,358,838	1,451,899
Current deferred tax assets	97,000	96,000	68,000	78,456	82,766	88,434
Other current assets	188,000	202,000	225,000	257,617	271,768	290,380
Total current assets	2,116,000	2,311,000	2,577,000	2,891,632	3,253,291	3,251,357
Property, plant, & equipment, net	1,148,000	1,243,000	1,229,000	1,223,772	1,192,717	1,150,635
Intangible assets, less accum. amort.	924,000	928,000	877,000	861,000	797,000	733,000
Goodwill	934,000	989,000	981,000	981,000	981,000	981,000
Noncurrent deferred tax assets	70,000	143,000	100,000	117,098	123,531	131,991
Other noncurrent assets	92,000	97,000	73,000	81,969	86,472	92,394
Total assets	$5,284,000	$5,711,000	$5,837,000	$6,156,471	$6,434,011	$6,340,376
LIABILITIES & EQUITY:						
Current portion of long-term debt	$38,000	$0	$0	$0	$0	$0
Accounts payable	206,000	214,000	$192,000	222,487	234,708	250,782
Income taxes payable	24,000	18,000	45,000	52,694	55,589	59,396
Accrued compensation and related items	144,000	150,000	141,000	163,938	172,943	184,787
Other current liabilities	396,000	461,000	341,000	392,280	413,828	442,169
Total current liabilities	808,000	843,000	719,000	831,399	877,068	937,135
Long term debt	673,000	575,000	3,640,000	3,640,000	3,340,000	2,540,000
Noncurrent deferred tax liabilities	218,000	311,000	254,000	292,746	308,827	329,977
Other taxes payable	100,000	122,000	23,000	26,933	28,412	30,358
Other non-current liabilities	141,000	124,000	142,000	163,938	172,943	184,787
Total liabilities	1,940,000	1,975,000	4,778,000	4,955,016	4,727,250	4,022,256
Commitments and contingencies	0	0	0	0	0	0
Business unit equity	3,418,000	3,785,000	0	0	0	0
Class A common stock	0	0	1,000	1,000	1,000	1,000
Class B common stock	0	0	4,000	4,000	4,000	4,000
Additional paid-in-capital	0	0	1,234,000	1,240,000	1,264,000	1,288,000
Accumulated other comprehensive loss	(74,000)	(65,000)	(195,000)	(58,544)	422,760	1,010,120
Total Zoetis equity	3,344,000	3,720,000	1,044,000	1,186,456	1,691,760	2,303,120
Equity attributable to noncontrolling interest	0	16,000	15,000	15,000	15,000	15,000
Total equity	$3,344,000	$3,736,000	$1,059,000	$1,201,456	$1,706,760	$2,318,120
Total liabilities and equity	$5,284,000	$5,711,000	$5,837,000	$6,156,471	$6,434,011	$6,340,376

Source: Company reports and CL King estimates

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Model 4: Cash Flow

Zoetis, Inc.
Cashflow statements (dollars in thousands)

Item	2009A	2010A	2011A	Q1:12A	Q2:12A	Q3:12A	Q4:12E	2012E	Q1:13E	Q2:13E	Q3:13E	Q4:13E	2013E	2014E
Operating activities:														
Net income	($101,000)	$111,000	$248,000	$112,000	$173,000	$161,000	$136,456	$582,456	$142,019	$165,695	$149,747	$155,346	$612,807	$719,917
Adjustments:														
Depreciation & amortization	124,000	185,000	205,000	48,000	54,000	54,000	55,228	211,228	55,355	56,302	56,016	57,383	225,055	236,082
Share based compensation expense	15,000	16,000	19,000	6,000	6,000	6,000	6,000	24,000	6,000	6,000	6,000	6,000	24,000	24,000
Asset write-offs and impairments	29,000	16,000	78,000	1,000	5,000	3,000	0	9,000	0	0	0	0	0	0
Net gains on sales of assets	(2,000)	(101,000)	(1,000)	0	0	(1,000)	0	(1,000)	0	0	0	0	0	0
Deferred taxes	(334,000)	(68,000)	65,000	(9,000)	(17,000)	(55,000)	(27,554)	(108,554)	12,993	(9,735)	11,687	(25,686)	(10,742)	(14,128)
Other non-cash adjustments	10,000	(5,000)	0	1,000	(4,000)	2,000	0	(1,000)	0	0	0	0	0	0
Other changes in assets and liabilities:														
Accounts receivable	112,000	30,000	(85,000)	below	below	below	below	below	64,574	(48,385)	58,083	(127,660)	(53,388)	(70,218)
Inventories	(16,000)	117,000	40,000	below	below	below	below	below	85,579	(64,125)	76,978	(169,188)	(70,755)	(93,060)
Other assets	29,000	(19,000)	11,000	below	below	below	below	below	22,562	(16,906)	20,294	(44,604)	(18,654)	(24,534)
Accounts payable	38,000	25,000	(16,000)	below	below	below	below	below	(14,782)	11,076	(13,296)	29,223	12,221	16,074
Other liabilities	172,000	5,000	(15,000)	below	below	below	below	below	(47,847)	35,851	(43,038)	94,592	39,559	52,029
Other tax accounts, net	22,000	(58,000)	(52,000)	below	below	below	below	below	(24,740)	18,538	(22,254)	48,911	20,455	26,903
Subtotal, other changes in assets & liabilities	357,000	100,000	(117,000)	(163,000)	(143,000)	(96,000)	(140,570)	(542,570)	85,346	(63,950)	76,768	(168,727)	(70,562)	(92,806)
Net cash provided by operating activities	98,000	254,000	497,000	(4,000)	74,000	74,000	29,559	173,559	301,712	154,312	300,217	24,317	780,558	873,064
Investing activities:														
Purchases of PP&E	(135,000)	(124,000)	(135,000)	(31,000)	(24,000)	(26,000)	(34,000)	(115,000)	(32,500)	(32,500)	(32,500)	(32,500)	(130,000)	(130,000)
Net proceeds from sales of assets	572,000	203,000	34,000	0	0	0	0	0	0	0	0	0	0	0
Acquisitions, net of cash acquired	(2,254,000)	(81,000)	(345,000)	0	(1,000)	1,000	0	0	0	0	0	0	0	0
Other investing activities	(4,000)	(7,000)	(3,000)	(2,000)	(1,000)	(5,000)	0	(8,000)	0	0	0	0	0	0
Net cash provided by/(used in) investing activities	(1,821,000)	(9,000)	(449,000)	(33,000)	(26,000)	(30,000)	(34,000)	(123,000)	(32,500)	(32,500)	(32,500)	(32,500)	(130,000)	(130,000)
Financing activities:														
Proceeds from long-term debt	719,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal payments on long-term debt	0	0	(143,000)	0	0	0	0	0	0	0	0	(300,000)	(300,000)	(800,000)
Cash dividends paid	(101,000)	(207,000)	(416,000)	(52,000)	(10,000)	(1,000)	0	(63,000)	(32,777)	(32,843)	(32,908)	(32,974)	(131,502)	(132,558)
Purchase of subsidiary shares from non-controlling interests	0	(3,000)	0	0	0	0	0	0	0	0	0	0	0	0
Net financing activities with Pfizer	1,205,000	(67,000)	529,000	123,000	(43,000)	(17,000)	0	63,000	0	0	0	0	0	0
Net cash provided by/(used in) financing activities	1,823,000	(277,000)	(30,000)	71,000	(53,000)	(18,000)	0	0	(32,777)	(32,843)	(32,908)	(332,974)	(431,502)	(932,558)
Effect of exchange rates on cash and equivalents	(7,000)	(4,000)	(2,000)	0	(2,000)	1,000	0	(1,000)	0	0	0	0	0	0
Net increase/(decrease) in cash and equivalents	$93,000	($36,000)	$16,000	$34,000	($7,000)	$27,000	($4,441)	$49,559	$236,435	$88,969	$234,808	($341,158)	$219,055	($189,493)
Depreciation expense	$91,000	$127,000	$136,000	$32,000	$38,000	$38,000	$39,228	$147,228	$39,355	$40,302	$40,016	$41,383	$161,055	$172,082
Amortization expense	33,000	58,000	69,000	16,000	16,000	16,000	16,000	64,000	16,000	16,000	16,000	16,000	64,000	64,000
Total depreciation & amortization expense	$124,000	$185,000	$205,000	$48,000	$54,000	$54,000	$55,228	$211,228	$55,355	$56,302	$56,016	$57,383	$225,055	$236,082

Source: Company reports and CL King estimates

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DISCLOSURES:

Companies Mentioned:

Abaxis (ABAX**) SB\$50	Merck & Co. (MRK)	Sanofi Aventis (SNY)
Bayer AG (BAYN)	MVI Veterinary Supply (MWIV**) SB\$130	Velcera (VLCR)
Dechra (DPH:LN)	Novartis AG (NVS^^)	Vetoquinol (VETO:FP)
Idexx Laboratories Inc. (IDXX**) SB\$115	Perrigo (PRGO)	Virbac (VIRB:FP)
Eli Lilly (LLY)	Pfizer Inc. (PFE)	

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I, Ross Taylor, certify that all views expressed by me in this research report regarding the securities, as named herein, and its issuers accurately reflect my personal views. I further certify that I have not and will not receive compensation directly or indirectly related to any specific recommendations or views expressed in this research report.

Risk Considerations and Ratings Charts for individual stocks can be found in the most recent research note.

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^^ The covering analyst owns shares of the company.

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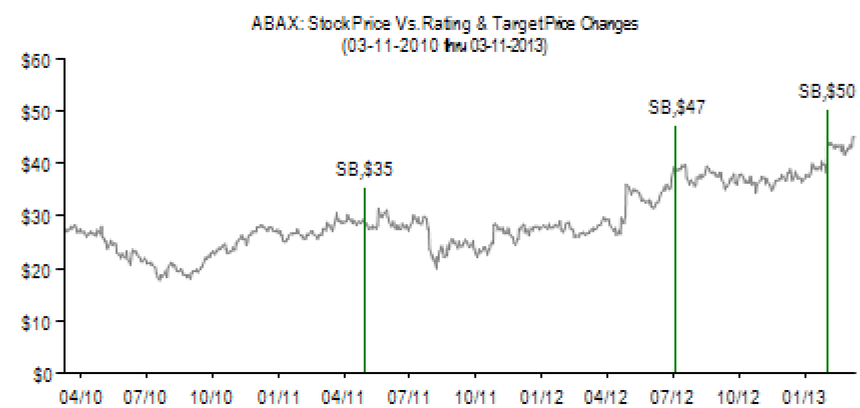
RATINGS INFORMATION

Rating and Price Target Change History



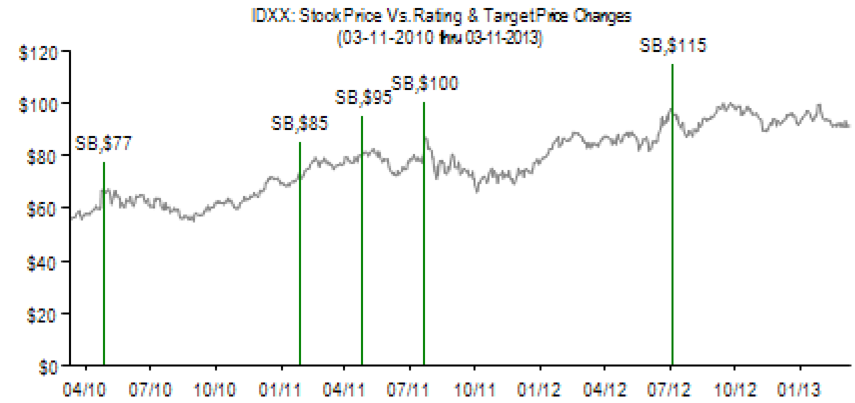
3 Year Rating Change History

Date	Rating	Closing Price ($)
04/29/2011	Strong Buy (SB)	29.05

3 Year Price Change History

Date	Target Price	Closing Price ($)
04/29/2011	35.00	29.05
07/06/2012	47.00	38.60
02/01/2013	50.00	44.29

Source: CL King & Associates, Created by: wwww.ResearchMaestro.net



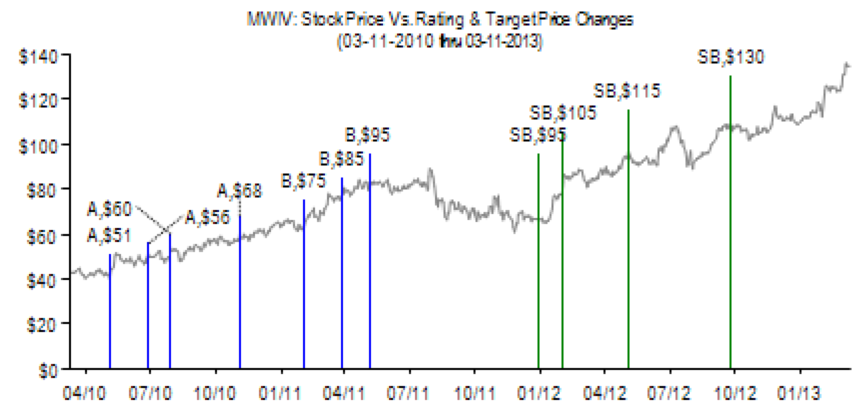
Source: CL King & Associates, Created by: wwww.ResearchMaestro.net

3 Year Rating Change History

Date	Rating	Closing Price, ($)
04/26/2010	Strong Buy (SB)	66.35

3 Year Price Change History

Date	Target Price	Closing Price, ($)
04/26/2010	77.00	66.35
01/28/2011	85.00	70.86
04/26/2011	95.00	80.41
07/22/2011	100.00	86.97
07/06/2012	115.00	95.51



Source: CL King & Associates, Created by: wwww.ResearchMaestro.net

3 Year Rating Change History

Date	Rating	Closing Price, ($)
05/07/2010	Accumulate (A)	44.37
02/03/2011	Buy (B)	64.36
12/28/2011	Strong Buy (SB)	66.32

3 Year Price Change History

Date	Target Price	Closing Price, ($)
05/07/2010	51.00	44.37
06/29/2010	56.00	49.96
07/30/2010	60.00	52.66
11/04/2010	68.00	61.02
02/03/2011	75.00	64.36
03/28/2011	85.00	77.90
05/05/2011	90.00	81.98
05/05/2011	95.00	81.98
12/28/2011	95.00	66.32
02/02/2012	105.00	86.23
05/03/2012	115.00	96.49
09/25/2012	130.00	107.62

Source: FactSet, CL King & Associates

Note: Prior to 02/01/2011 Buy was Accumulate
Prior to 02/01/2011 Sell was Underperform

CL King Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which CL King has performed services for in the last 12 months	
			Investment Banking	Brokerage
Strong Buy (SB)	Analyst believes shares will appreciate by 20% or more over the next 6-12 months and should significantly outperform the broader market averages. Analyst believes the risk of long-term capital impairment is below-average.	18.98%	0.73%	1.46%
Buy (B)	Analyst believes shares will appreciate in a range of 10% to the upper teens over the next 6-12 months and will outperform the broader capital market averages. Analyst believes the risk of long-term capital impairment is below-average, but not as low as it is for Strong Buy.	37.23%	1.46%	0.73%
Neutral (N)	Analyst believes the current stock price fairly discounts the company's prospects over the next 6-12 months, give or take 10%, and will trade in-line with the broader market averages. Analyst believes the risk of permanent capital impairment is about average.	42.34%	0.73%	1.46%
Sell (S)	Analyst expects the stock price to decline 10% or more over the next 6-12 months and to underperform the broader market averages.	1.46%	0.00%	0.00%

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