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Stock Rating
Equal-weight

Industry View
In-Line

Zoetis Inc.

New model; robust prospects balanced by high P/E

We project EPS toward the high end of the \$1.36-\$1.42 range. The U.S. weather conditions and FX are top-line headwinds, but operating leverage is a key source of upside. Maintain EW on valuation.

We are leaving projections relatively unchanged following mgmt's 2013 guidance update. We lowered our 2013E revenues 1% from \$4.53B to \$4.47B primarily on Fx (we project a 1% headwind), but left our 2013E EPS unchanged at \$1.41. Our 2013E revenues are within mgmt's \$4.43B-\$4.53B range, but our EPS are at the high end of mgmt's \$1.36- \$1.42. Relative to guidance, our in-line revenues are offset by SG&A and R&D at the low end of mgmt's ranges. See full model.

Operating cost controls impressive, but some bullish investors had thought the tax rate would decline over the long term. The midpoint of guidance implies SG&A down 3% YOY and R&D flat. Our model reflects 320 b.p. of operating margin expansion in 2013E. We are optimistic about long-term margin expansion, particularly in emerging markets where top-line growth is robust and margins are currently significantly below the U.S. (see company-reported segment profitability on pp. 8-9). However, some bulls appeared disappointed that mgmt. does not foresee the tax rate trending downward from the 2013E rate of 29.5%. According to CFO Rick Passov, "the tax rate we are providing in our guidance is a good estimate of what we think our tax rate will be over the long-term."

Maintain Equal-weight stock rating; robust business prospects balanced by premium valuation. At 23.5x our 2013E EPS of \$1.41 (19.8x '14E) and 16x our 2013E EBITDA (14x '14E), ZTS trades at a premium to select Large-Cap Growth (e.g., Monsanto, Allergan, Mead Johnson, Perrigo) and SMID-Cap Animal Health (e.g., Idexx, Virbac, VCA) companies. See our comp table on p. 4. Given ZTS' premium multiple on EPS and EBITDA, we think EPS upside is needed to drive stock outperformance.

Key Ratios and Statistics

Reuters: ZTS.N Bloomberg: ZTS US

Specialty Pharmaceuticals / United States of America

Price target	NA
Shr price, close (Apr 29, 2013)	\$32.66
Mkt cap, curr (mm)	\$16,337
52-Week Range	\$35.40-30.42

Fiscal Year ending	12/12	12/13e	12/14e	12/15e
ModelWare EPS (\$)	1.08	1.41	1.66	1.90
Prior ModelWare EPS (\$)	-	1.41	1.66	1.88
P/E	-	23.2	19.6	17.2
Consensus EPS (\$)	1.22	1.38	1.60	1.83
Div yld (%)	-	0.8	0.9	1.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

\$ = Consensus data is provided by Thomson Reuters Estimates.

e = Morgan Stanley Research estimates

Quarterly ModelWare EPS

Quarter	2012	2013e Prior	2013e Current	2014e Prior	2014e Current
Q1	0.30	-	0.36a	-	-
Q2	0.35	0.37	0.35	-	-
Q3	0.31	0.36	0.35	-	-
Q4	0.11	0.35	0.35	-	-

e = Morgan Stanley Research estimates, a = Actual company reported data

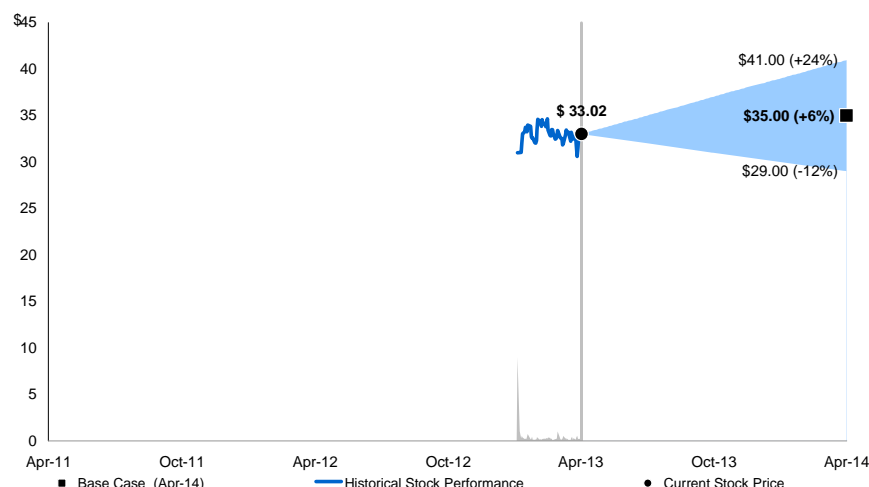
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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

May 1, 2013
Zoetis Inc.

Risk- Reward Snapshot: Zoetis Inc. (ZTS), Equal-weight

Risk-Reward: We see a balanced risk-reward; earnings upside will dictate potential stock performance



Source: Thomson Reuters, Morgan Stanley Research estimates

Price Target N/A		Valuation based upon 2014E P/E and EV/EBITDA
Bull Case	21.5x Bull Case 14e EPS of \$1.90	Significant earnings upside drives stock outperformance. Our bull case assumes Zoetis can earn in 2014E what we project for 2015E (EBITDA of \$1.6B and EPS of \$1.90). Faster-than-expected realization of margin expansion (bull case '14E O.M. of 27.5% vs. base case '14E O.M. of 25.8%) is a key driver of EPS upside.
Base Case	21x Base Case 14e EPS of \$1.66	We see Zoetis shares as fairly valued on 2014E P/E and EV/EBITDA. Our base case assumes 4% constant currency YOY rev. growth in '13E accelerating to +7% constant currency in '14E on easier drought-related comps (we est. the drought is a 2% headwind in '13E). Given ZTS' premium multiple on EPS and EBITDA, we believe material earnings upside is necessary for stock outperformance.
Bear Case	19x Bear Case 14e EPS of \$1.53	Bear case assumes margin expansion fails to materialize. Our bear case assumes 2014E EBITDA margins in-line with our 2013E est. of 27.3%. Scarcity value could diminish if free float expands.

Exhibit 1

ZTS trades at a premium to Large Cap Growth companies on 2013E/2014E EPS and EBITDA

	MON	SYT	AGN	MJN	PRGO	NOVO	Mean	ZTS
'13E P/E	23.1x	17.2x	23.8x	24.7x	21.1x	21.4x	21.9x	23.5x
'13E EV/EBITDA	12.7x	11.6x	15.1x	16.3x	13.6x	15.3x	14.1x	16.0x
'14E P/E	20.2x	15.6x	20.9x	22.0x	18.1x	19.1x	19.3x	19.8x
'14E EV/EBITDA	11.4x	10.4x	13.3x	14.8x	11.9x	13.8x	12.6x	14.0x

Ticker legend: MON Monsanto, SYT Syngenta, AGN Allergan, MJN Mead Johnson, PRGO Perrigo, NOVO Novo Nordisk
Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis

- Zoetis is a global leader in animal health, and we expect mgmt. to deliver mid-teens EPS growth over the next several years.
- We view ZTS as a compelling alternative to traditional pharma
- But we believe current valuation reflects a balanced risk-reward
- We think material earnings upside is required to drive outperformance beyond these levels

Key Value Drivers

- Operating margin expansion and global business expansion
- Livestock (65% of revs.): Demand for meat and milk is projected to at least double over the next 40 years due in large part to population growth and an increase in affluence in emerging markets (key driver of NT growth)
- Companion Animals (35% of revs): Global spending on pets is growing

Potential Catalysts/ Launches

- U.S. drought developments (we expect conditions to improve in 2H:13)
- China bird flu developments
- Implementation of new antibiotic restrictions and potential for new govt. legislation
- Vet Rx legislation

Investment Risks

- Margin expansion fails to materialize
- Drought persists longer than expected
- Increased govt. antibiotic regulations
- New pharmacy entrants pressure ZTS margins
- SAP implementation

Valuation, Risks, and Comparables

Our base case valuation of \$35/share is 21x our 2014E EPS of \$1.66 and 14.7x our 2014E EBITDA of \$1.4B.

ZTS shares currently trade in-line with the highest multiple Large-Cap Growth and SMID-Cap Animal Health companies in our comparables universe. Given Zoetis' premium multiple n EPS and EBITDA, we believe material earnings upside is necessary for stock outperformance.

Upside risks: Bull case assumes significant earnings upside

Our bull case assumes Zoetis can earn in 2014E what we project in 2015E (EBITDA of \$1.6B and EPS of \$1.90). Key upside risk is better than expected realization of operating margin expansion. Bull case valuation of \$41 is 21.5x our bull case 2014E EPS of \$1.90 and 15x our bull case 2014E EBITDA of \$1.6B.

Downside risks: Bear case assumes margin expansion fails to materialize

Our bear case assumes margin expansion does not materialize (2014E EBITDA margins in-line with 2013E of

27.3%). Bear case valuation of \$29 is 19x our bear case 2014E EPS of \$1.53 and 13x our bear case 2014E EBITDA of \$1.3B.

ZTS has no direct comps; our comps table incl. SMID- Cap Animal Health and Large-Cap Growth Market Leaders

Valuation is a challenge because Zoetis has no publically-traded large cap animal health peer. SMID-cap animal companies are either ex-U.S. (Virbac, Genus, Vetoquinol), closely held (Virbac and Vetoquinol), or more focused on distribution/ vet services (Idexx, VCA, MWI, Genus). Each has a lower EBITDA margin than Zoetis. As a result, we have expanded our comps universe to include Large-Cap Growth companies in other verticals with similar margins and growth outlook as Zoetis. Companies like Monsanto and Syngenta are market leaders in agriculture; Allergan, Perrigo, and Novo Nordisk are leaders in healthcare (Botox, store brands, and diabetes respectively); Mead Johnson (split off from Bristol Myers in 2009) is a leader in pediatric nutrition.

Exhibit 2

Comparables

(\$USD, millions)							2013E*			2014E*			2013E-2015E CAGR*		EBITDA Margin*	
Ticker	Company Name	Description	Mkt Cap†	Net Debt‡	EV	Div. Yield	EV/ Rev	EV/ EBITDA	P/E	EV/ Rev	EV/ EBITDA	P/E	Revenue	EBITDA	2013E	2014E
Large-Cap Growth																
MON	Monsanto	Agriculture	57,779	-2,574	55,205	1.4%	3.6x	12.7x	23.1x	3.4x	11.4x	20.2x	8.1%	12.8%	29%	30%
SYT	Syngenta	Agriculture	39,387	1,498	40,885	2.3%	2.7x	11.6x	17.2x	2.5x	10.4x	15.6x	3.3%	4.2%	23%	24%
AGN	Allergan	Botox	34,655	-1,401	33,254	0.2%	5.4x	15.1x	23.8x	5.0x	13.3x	20.9x	7.5%	10.9%	36%	37%
MJN	Mead Johnson	Infant Formula	16,437	626	17,063	1.7%	4.1x	16.3x	24.7x	3.8x	14.8x	22.0x	8.1%	10.1%	25%	26%
PRGO	Perrigo	Store brands	11,278	905	12,184	0.3%	3.4x	13.6x	21.1x	3.0x	11.9x	18.1x	10.0%	12.4%	25%	25%
NOVO B	Novo Nordisk	Diabetes	95,221	-2,896	92,325	1.8%	6.3x	15.3x	21.4x	5.7x	13.8x	19.1x	8.2%	9.6%	41%	42%
Mean						1.3%	4.2x	14.1x	21.9x	3.9x	12.6x	19.3x	8%	10%	30%	31%
SMID-Cap Animal Health																
IDXX	Idexx Laboratories	Diagnostics	4,881	34	4,915	0.0%	3.6x	15.0x	25.6x	3.3x	13.8x	23.0x	N/A	N/A	24%	24%
WOOF	VCA Antech	Vet clinics	2,154	517	2,671	0.0%	1.5x	8.5x	15.7x	1.4x	7.9x	14.3x	9.0%	N/A	17%	17%
VIRP	Virbac (France)	Pharma	1,723	110	1,833	1.2%	1.8x	9.7x	18.7x	1.7x	8.9x	16.7x	9.1%	12.9%	18%	19%
MWIV	MWI Veterinary	Distribution	1,494	52	1,547	0.0%	0.7x	14.1x	24.2x	0.6x	12.5x	21.6x	11.2%	15.1%	5%	5%
GNS	Genus (UK)	Genetics	1,284	99	1,383	1.1%	2.5x	16.3x	24.9x	2.3x	14.6x	21.8x	8.2%	9.7%	15%	16%
VETO	Vetoquinol (France)	Pharma	417	-37	381	1.3%	0.9x	6.5x	12.5x	0.9x	6.1x	11.5x	4.6%	3.6%	14%	14%
Mean						0.6%	1.8x	11.7x	20.3x	1.7x	10.6x	18.1x			16%	16%
Consolidated Mean						0.9%	3.0x	12.9x	21.1x	2.8x	11.6x	18.7x			23%	23%
S&P 500									14.8x			13.8x				
ZTS	Zoetis	Animal pharma	16,551	3,333	19,884	0.8%	4.4x	16.x	23.5x	4.1x	14.x	19.8x	5%	14%	28%	30%

Source: ThomsonReuters (comparables), Morgan Stanley Research (Zoetis estimates) as of 4/30/13

† Market cap based upon fully diluted share count ‡ Net debt calculated using cash and short-term investments *Based upon consensus estimates

Notes: (1) VIRP and VETO report in Euros, Genus reports in British Pounds, and Novo reports in Danish Kroner; EV calculated using current USD spot rates.

(2) GNS and PRGO fiscal year ends in June, MON FY ends in August, and MWI FYends in September.

Source: Thomson Reuters, Morgan Stanley Research estimates

Morgan Stanley Research Model

Exhibit 3

Annual Income Statement (1 of 2)

(\$M)	2010A	2011A	2012A	2013E	2014E	2015E
Net revenues	3,582	4,233	4,336	4,473	4,812	5,081
COGS	1,318	1,581	1,549	1,587	1,684	1,753
Gross profit	2,264	2,652	2,787	2,886	3,128	3,328
SG&A	1,365	1,447	1,453	1,384	1,425	1,440
R&D	411	407	399	394	413	426
Amortization of intangibles	17	20	15	16	15	15
Operating income	471	778	920	1,092	1,274	1,448
Other expense (income)	25	28	21	22	25	30
Adjusted EBIT*	496	806	941	1,114	1,299	1,478
Depreciation	86	95	133	115	110	105
EBITDA	599	921	1,089	1,245	1,424	1,598
Other expenses/(income)	12	8	10	95	94	94
Interest expense	37	36	31	117	119	124
Other expense (income)	(25)	(28)	(21)	(22)	(25)	(30)
Pretax income	459	770	910	997	1,181	1,354
Taxes	183	264	372	291	342	393
Tax Rate	39.9%	34.3%	40.9%	29.2%	29.0%	29.0%
Income attributable to non-controlling interest	1	3	-	-	-	-
Net income (Non-GAAP)	275	503	538	705	838	961

DILUTED EPS, proforma	\$0.55	\$1.01	\$1.08	\$1.41	\$1.66	\$1.90
Diluted shares outstanding	500	500	500	501	504	506
Average basic shares outstanding	500	500	500	500	503	505
Period-end basic shares outstanding	500	500	500	500	503	505

*We add back other income in the calc. of EBIT, but exclude from op. income b/c it is not an operating line item

Margin Analysis	2010A	2011A	2012A	2013E	2014E	2015E
COGS	36.8%	37.3%	35.7%	35.5%	35.0%	34.5%
Gross margin	63.2%	62.7%	64.3%	64.5%	65.0%	65.5%
SG&A	38.1%	34.2%	33.5%	30.9%	29.6%	28.3%
R&D	11.5%	9.6%	9.2%	8.8%	8.6%	8.4%
Operating margin	13.1%	18.4%	21.2%	24.4%	26.5%	28.5%
EBIT margin	13.8%	19.0%	21.7%	24.9%	27.0%	29.1%
D&A	2.9%	2.7%	3.4%	2.9%	2.6%	2.4%
EBITDA margin	16.7%	21.8%	25.1%	27.8%	29.6%	31.4%
Pretax margin	12.8%	18.2%	21.0%	22.3%	24.5%	26.6%
Net margin	7.7%	11.9%	12.4%	15.8%	17.4%	18.9%

Source: Company Data, Morgan Stanley Research

Exhibit 4

Income Statement (2 of 2)

YOY % Change	2010A	2011A	2012A	2013E	2014E	2015E
Net revenues	30%	18%	2%	3%	8%	6%
COGS	32%	20%	-2%	2%	6%	4%
Gross profit	29%	17%	5%	4%	8%	6%
SG&A	29%	6%	0%	-5%	3%	1%
R&D	13%	-1%	-2%	-1%	5%	3%
Operating income	47%	65%	18%	19%	17%	14%
<i>EBIT</i>	<i>54%</i>	<i>62%</i>	<i>17%</i>	<i>18%</i>	<i>17%</i>	<i>14%</i>
<i>EBITDA</i>	<i>65%</i>	<i>54%</i>	<i>18%</i>	<i>14%</i>	<i>14%</i>	<i>12%</i>
Pretax income	55%	68%	18%	10%	18%	15%
Net income (Non-GAAP)	46%	83%	7%	31%	19%	15%
DILUTED EPS, proforma	46%	83%	7%	31%	18%	14%
Diluted shares outstanding	0%	0%	0%	0%	1%	1%

Source: Company Data, Morgan Stanley Research

May 1, 2013

Zoetis Inc.

Exhibit 5

Quarterly Income Statement

(\$M)	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A	2Q:13E	3Q:13E	4Q:13E	2013E
Net revenues	1,047	1,094	1,018	1,176	4,336	1,090	1,117	1,062	1,204	4,473
COGS	388	382	352	427	1,549	398	402	372	416	1,587
Gross profit	659	712	666	749	2,787	692	715	690	789	2,886
R&D	93	91	94	121	399	90	96	96	111	394
SG&A	331	351	330	441	1,453	322	340	320	401	1,384
Operating income	231	267	238	183	920	276	274	270	272	1,092
Other expense (income)	6	7	10	(2)	21	(2)	8	8	8	22
Adjusted EBIT*	237	274	248	181	941	274	282	278	280	1,114
Depreciation	19	33	41	40	133	29	29	29	29	115
EBITDA	260	310	293	225	1,089	307	314	311	313	1,245
Other expenses/(income)	2	1	(3)	10	10	24	24	24	24	95
Interest expense	8	8	7	8	31	22	32	32	32	117
Other expense (income)	(6)	(7)	(10)	2	(21)	2	(8)	(8)	(8)	(22)
Pretax income	229	266	241	173	910	252	250	246	248	997
Taxes	76	90	89	117	372	73	72	71	75	291
Tax Rate	33.2%	33.8%	36.9%	67.5%	40.9%	29.0%	29.0%	29.0%	30.0%	29.2%
Net income (Non-GAAP)	152	176	153	56	538	179	177	175	174	705
DILUTED EPS, proforma	\$0.30	\$0.35	\$0.31	\$0.11	\$1.08	\$0.36	\$0.35	\$0.35	\$0.35	\$1.41
Diluted shares outstanding	500	500	500	500	500	500	502	502	502	501
Margin Analysis	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A	2Q:13E	3Q:13E	4Q:13E	2013E
COGS	37.1%	34.9%	34.6%	36.3%	35.7%	36.5%	36.0%	35.0%	34.5%	35.5%
Gross margin	62.9%	65.1%	65.4%	63.7%	64.3%	63.5%	64.0%	65.0%	65.5%	64.5%
R&D	8.9%	8.3%	9.2%	10.3%	9.2%	8.3%	8.6%	9.0%	9.2%	8.8%
SG&A	31.6%	32.1%	32.4%	37.5%	33.5%	29.5%	30.5%	30.1%	33.3%	30.9%
Operating margin	22.1%	24.4%	23.4%	15.6%	21.2%	25.3%	24.5%	25.4%	22.6%	24.4%
EBIT margin	22.6%	25.0%	24.4%	15.4%	21.7%	25.1%	25.2%	26.2%	23.3%	24.9%
EBITDA margin	24.8%	28.3%	28.8%	19.2%	25.1%	28.1%	28.2%	29.3%	26.0%	27.8%
Pretax margin	21.9%	24.3%	23.7%	14.7%	21.0%	23.1%	22.4%	23.2%	20.6%	22.3%
Pretax margin	21.9%	24.3%	23.7%	14.7%	21.0%	23.1%	22.4%	23.2%	20.6%	22.3%
Net margin	14.5%	16.1%	15.1%	4.8%	12.4%	16.4%	15.9%	16.5%	14.4%	15.8%
YOY % Change	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A	2Q:13E	3Q:13E	4Q:13E	2013E
Net revenues	6%	2%	-3%	4%	2%	4%	2%	4%	2%	3%
COGS	5%	-11%	-10%	8%	-2%	3%	5%	6%	-3%	2%
Gross profit	7%	10%	1%	3%	5%	5%	0%	4%	5%	4%
R&D	-6%	-9%	-4%	10%	-2%	-3%	6%	2%	-8%	-1%
SG&A	-1%	-2%	0%	4%	0%	-3%	-3%	-3%	-9%	-5%
Operating income	31%	46%	5%	-4%	18%	19%	2%	13%	48%	19%
EBIT	29%	47%	6%	-10%	17%	16%	3%	12%	54%	18%
EBITDA	20%	44%	8%	4%	18%	18%	1%	6%	39%	14%
Pretax income	31%	50%	7%	-10%	18%	10%	-6%	2%	43%	10%
Net income (Non-GAAP)	25%	55%	5%	-54%	7%	18%	1%	14%	208%	31%
DILUTED EPS, proforma	26%	55%	5%	-54%	7%	18%	0%	14%	207%	31%
Diluted shares outstanding	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Company Data, Morgan Stanley Research

Exhibit 6

Management Reported Segment Profitability (1 of 2)

(\$M)	2010A	2011A	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A
Revenues	3,582	4,233	1,047	1,094	1,019	1,176	4,336	1,090
U.S.	1,384	1,659	425	421	448	482	1,776	454
EuAfME	1,020	1,144	275	283	241	297	1,096	290
CLAR	664	788	173	211	165	220	769	171
APAC	514	642	174	179	165	177	695	175
Segment Pretax Earnings (pre-corp)*	1,333	1,656	446	455	435	449	1,785	478
U.S.	656	820	217	227	232	245	921	234
EuAfME	328	365	104	88	91	92	375	117
CLAR	203	275	54	77	53	69	253	52
APAC	146	196	71	63	59	43	236	75
Other business activities**	(264)	(279)	(65)	(61)	(65)	(84)	(275)	(74)
Corporate†	(533)	(504)	(129)	(104)	(113)	(160)	(506)	(116)
Other unallocated‡	(77)	(103)	(23)	(24)	(15)	(31)	(93)	(36)
Consolidated Pre-tax income	459	770	229	266	242	174	911	252
Margin Analysis	2010A	2011A	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A
Segment Pretax Earnings (pre-corp)*	37%	39%	43%	42%	43%	38%	41%	44%
U.S.	47%	49%	51%	54%	52%	51%	52%	52%
EuAfME	32%	32%	38%	31%	38%	31%	34%	40%
CLAR	31%	35%	31%	36%	32%	31%	33%	30%
APAC	28%	31%	41%	35%	36%	24%	34%	43%
Other business activities**	-7%	-7%	-6%	-6%	-6%	-7%	-6%	-7%
Corporate†	-15%	-12%	-12%	-10%	-11%	-14%	-12%	-11%
Other unallocated‡	-2%	-2%	-2%	-2%	-1%	-3%	-2%	-3%
Consolidated Pre-tax income	13%	18%	22%	24%	24%	15%	21%	23%

Source: Company Data, Morgan Stanley Research

Exhibit 7

Management Reported Segment Profitability (2 of 2)

YOY % Change	2010A	2011A	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A
Revenues	30%	18%	7%	2%	-3%	4%	2%	4%
U.S.	25%	20%	12%	8%	2%	7%	7%	7%
EuAfME	16%	12%	-2%	-4%	-12%	1%	-4%	5%
CLAR	47%	19%	2%	-2%	-8%	-1%	-2%	-1%
APAC	59%	25%	15%	5%	4%	9%	8%	1%
Segment Pretax Earnings (pre-corp)*	23%	24%	11%	14%	0%	6%	8%	7%
U.S.	24%	25%	23%	18%	1%	11%	12%	8%
EuAfME	4%	11%	-6%	11%	-3%	14%	3%	13%
CLAR	33%	35%	-7%	13%	-18%	-18%	-8%	-4%
APAC	64%	34%	27%	7%	34%	16%	20%	6%
Other business activities**	18%	6%	-8%	-9%	-12%	25%	-1%	14%
Corporate†	7%	-5%	-4%	-18%	5%	19%	0%	-10%
Other unallocated‡	10%	34%	5%	-11%	-42%	11%	-10%	57%
Consolidated Pre-tax income	55%	68%	31%	49%	8%	-9%	18%	10%
Segment Contributor Analysis	2010A	2011A	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A
Revenues								
U.S.	39%	39%	41%	38%	44%	41%	41%	42%
EuAfME	28%	27%	26%	26%	24%	25%	25%	27%
CLAR	19%	19%	17%	19%	16%	19%	18%	16%
APAC	14%	15%	17%	16%	16%	15%	16%	16%
Segment Pretax Earnings (pre-corp)*								
U.S.	49%	50%	49%	50%	53%	55%	52%	49%
EuAfME	25%	22%	23%	19%	21%	20%	21%	24%
CLAR	15%	17%	12%	17%	12%	15%	14%	11%
APAC	11%	12%	16%	14%	14%	10%	13%	16%

Footnotes

* Defined as income/ (loss) before provision/ (benefit)for taxes on income

** Other business activities reflect the R&D costs managed by ZTS' Research and Development organization (not equal to 100% of consolidated R&D on the I/S)

† Corporate includes, among other things, administration expenses, allocated interest expense, certain compensation, and other costs not charged to operating segments.

‡ Includes overhead expenses associated with ZTS's manufacturing operations

Source: Company Data, Morgan Stanley Research

Exhibit 8

Annual Revenue (1 of 2)

(\$M)	2010A	2011A	2012A	2013E	2014E	2015E
Total Revenue	3,582	4,233	4,336	4,473	4,812	5,081
Base revenue	2,968	3,821	4,445	4,525	4,788	5,081
Fx impact	69	104	(146)	(52)	24	-
Acquisitions	640	329	37	-	-	-
Divestitures	(95)	(21)	-	-	-	-
United States (U.S.)	1,384	1,659	1,776	1,863	2,012	2,112
Base revenue	1,250	1,473	1,762	1,863	2,012	2,112
Acquisitions	147	186	14	-	-	-
Divestitures	(13)	-	-	-	-	-
Europe/Africa/Middle East (EuAfME)	1,020	1,144	1,096	1,113	1,168	1,215
Base revenue	871	1,051	1,165	1,118	1,168	1,215
Fx impact	(6)	34	(77)	(5)	-	-
Acquisitions	229	59	8	-	-	-
Divestitures	(74)	-	-	-	-	-
Canada/Latin America (CLAR)	664	788	769	790	846	897
Base revenue	474	720	823	805	838	897
Fx impact	44	28	(61)	(15)	8	-
Acquisitions	146	49	7	-	-	-
Divestitures	-	(9)	-	-	-	-
Asia Pacific (APAC)	514	642	695	707	786	857
Base revenue	373	577	695	739	771	857
Fx impact	31	42	(8)	(32)	15	-
Acquisitions	118	35	8	-	-	-
Divestitures	(8)	(12)	-	-	-	-

Source: Company Data, Morgan Stanley Research

Exhibit 9

Annual Revenue (2 of 2)

YOY % CHANGE	2010A	2011A	2012A	2013E	2014E	2015E
Total Revenue	30%	18%	2%	3%	8%	6%
Base revenue	8%	7%	5%	4%	7%	6%
Fx impact	2%	3%	-3%	-1%	0%	0%
Acquisitions	23%	9%	1%	NM	NM	NM
Divestitures	-3%	-1%	0%	NM	NM	NM
United States (U.S.)	25%	20%	7%	5%	8%	5%
Base revenue	13%	6%	6%	5%	8%	5%
Acquisitions	13%	13%	1%	NM	NM	NM
Divestitures	-1%	0%	0%	NM	NM	NM
Europe/Africa/Middle East (EuAfME)	16%	12%	-4%	2%	5%	4%
Base revenue	-1%	3%	2%	2%	5%	4%
Fx impact	-1%	3%	-7%	0%	0%	0%
Acquisitions	26%	6%	1%	NM	NM	NM
Divestitures	-8%	0%	0%	NM	NM	NM
Canada/Latin America (CLAR)	47%	19%	-2%	3%	7%	6%
Base revenue	5%	8%	4%	5%	6%	6%
Fx impact	10%	4%	-7%	-2%	1%	0%
Acquisitions	32%	7%	1%	NM	NM	NM
Divestitures	0%	-1%	0%	NM	NM	NM
Asia Pacific (APAC)	59%	25%	8%	2%	11%	9%
Base revenue	15%	12%	8%	6%	9%	9%
Fx impact	10%	8%	-1%	-4%	2%	0%
Acquisitions	36%	7%	1%	NM	NM	NM
Divestitures	-2%	-2%	0%	NM	NM	NM

Source: Company Data, Morgan Stanley Research

Exhibit 10

Historical and Projected Revenues by Species

Revenue by Species (\$M)	2010A	2011A	2012A	2013E	2014E	2015E
Livestock	2,233	2,778	2,806	2,866	3,104	3,277
Cattle	1,464	1,617	1,608			
Swine	433	562	590			
Poultry	265	501	501			
Other (Fish and Sheep)	71	98	107			
Companion Animal	1,349	1,455	1,530	1,607	1,708	1,804
Horses	159	168	187			
Dogs and Cats	1,190	1,287	1,343			
YOY % CHANGE	2010A	2011A	2012A	2013E	2014E	2015E
Livestock	32%	24%	1%	2%	8%	6%
Cattle	30%	10%	-1%			
Swine	12%	30%	5%			
Poultry	112%	89%	0%			
Other (Fish and Sheep)	51%	38%	9%			
Companion Animal	26%	8%	5%	5%	6%	6%
Horses	99%	6%	11%			
Dogs and Cats	20%	8%	4%			

Source: Company Data, Morgan Stanley Research

Exhibit 11

Segment Revenue Breakdown

% of total revenue	2010A	2011A	2012A	2013E	2014E	2015E
United States (U.S.)	39%	39%	41%	42%	42%	42%
Europe/Africa/Middle East (EuAfME)	28%	27%	25%	25%	24%	24%
Canada/Latin America (CLAR)	19%	19%	18%	18%	18%	18%
Asia Pacific (APAC)	14%	15%	16%	16%	16%	17%
Livestock	62.3%	65.6%	64.7%	64.1%	64.5%	64.5%
Companion Animal	37.7%	34.4%	35.3%	35.9%	35.5%	35.5%

Source: Company Data, Morgan Stanley Research

May 1, 2013

Zoetis Inc.

Exhibit 12

Quarterly Revenue

(\$M)	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A	2Q:13E	3Q:13E	4Q:13E	2013E
Total Revenue	1,047	1,094	1,018	1,176	4,336	1,090	1,117	1,062	1,204	4,473
Base revenue	1,024	1,137	1,081	1,203	4,445	1,097	1,134	1,072	1,221	4,525
Fx impact	(14)	(43)	(63)	(27)	(146)	(7)	(18)	(11)	(17)	(52)
United States (U.S.)	425	420	448	483	1,776	454	437	475	497	1,863
Base revenue	412	420	448	483	1,762	454	437	475	497	1,863
Europe/Africa/Middle East (EuAfME)	275	283	241	297	1,096	290	280	245	297	1,113
Base revenue	277	305	272	311	1,165	286	286	245	300	1,118
Fx impact	(10)	(22)	(31)	(14)	(77)	4	(6)	-	(3)	(5)
Canada/Latin America (CLAR)	173	211	165	220	769	171	213	175	231	790
Base revenue	172	230	188	233	823	179	218	175	233	805
Fx impact	(6)	(19)	(23)	(13)	(61)	(8)	(4)	-	(2)	(15)
Asia Pacific (APAC)	174	179	165	177	695	175	186	166	180	707
Base revenue	164	182	173	177	695	177	194	177	191	739
Fx impact	2	(2)	(8)	1	(8)	(2)	(8)	(11)	(11)	(32)
YOY % CHANGE	1Q:12A	2Q:12A	3Q:12A	4Q:12A	2012A	1Q:13A	2Q:13E	3Q:13E	4Q:13E	2013E
Total Revenue	6%	2%	-3%	4%	2%	4%	2%	4%	2%	3%
Base revenue	4%	6%	3%	7%	5%	5%	4%	5%	4%	4%
Fx impact	-1%	-4%	-6%	-2%	-3%	-1%	-2%	-1%	-1%	-1%
Acquisitions	4%	0%	0%	0%	1%	0%	0%	0%	0%	NM
Divestitures	0%	0%	0%	0%	0%	0%	0%	0%	0%	NM
United States (U.S.)	12%	7%	2%	7%	7%	7%	4%	6%	3%	5%
Base revenue	8%	7%	2%	7%	6%	7%	4%	6%	3%	5%
Europe/Africa/Middle East (EuAfME)	-2%	-4%	-12%	1%	-4%	5%	-1%	2%	0%	2%
Base revenue	-2%	3%	0%	6%	2%	4%	1%	2%	1%	2%
Fx impact	-3%	-7%	-12%	-5%	-7%	1%	-2%	0%	-1%	0%
Acquisitions	3%	0%	0%	0	1%	NM	NM	NM	NM	NM
Divestitures	0%	0%	0%	0	0%	NM	NM	NM	NM	NM
Canada/Latin America (CLAR)	2%	-2%	-8%	-1%	-2%	-1%	1%	6%	5%	3%
Base revenue	2%	6%	4%	4%	4%	4%	3%	6%	6%	5%
Fx impact	-4%	-8%	-12%	-6%	-7%	-5%	-2%	0%	-1%	-2%
Asia Pacific (APAC)	15%	5%	4%	9%	8%	1%	4%	1%	2%	2%
Base revenue	8%	6%	9%	9%	8%	2%	8%	8%	8%	6%
Fx impact	1%	-1%	-5%	0%	-1%	-1%	-4%	-6%	-6%	-4%

Source: Company Data, Morgan Stanley Research

Exhibit 13

Cash flow statement

(\$M)	2010A	2011A	2012A	2013E	2014E	2015E
Net income (Non-GAAP)	275	503	538	705	838	961
GAAP adjustments	(164)	(255)	(102)	(175)	(100)	(75)
Net income before minority interest (GAAP)	111	248	436	530	738	886
Depreciation & amortization	185	205	200	185	180	175
Depreciation	86	95	133	115	110	105
Amortization	99	110	67	70	70	70
Change in operating assets and liabilities	100	(117)	(149)	(66)	(69)	(84)
Other operating activities	(142)	161	(33)	1	-	-
Net cash from operating activities	254	497	454	650	849	977
Purchase of PP&E	(124)	(135)	(126)	(170)	(170)	(120)
Other investing activities	115	(314)	(9)	-	-	-
Net cash from investing activities	(9)	(449)	(135)	(170)	(170)	(120)
Cash dividends paid	(207)	(416)	(63)	(3,780)	(150)	(174)
Net change in short-term debt	-	-	-	-	-	-
Net change in long-term debt	-	(143)	-	3,650	-	-
Acquisitions, share repurchases, other	(70)	529	(15)	-	-	-
Net cash from financing activities	(277)	(30)	(78)	(130)	(150)	(174)
Effect of exchange rates	(4)	(2)	(3)	-	-	-
Net increase in cash	(36)	16	238	350	529	683
Cash at beginning of period	99	63	79	317	667	1,196
Cash at end of period	63	79	317	667	1,196	1,879

Source: Company Data, Morgan Stanley Research

Exhibit 14

Balance Sheet

(\$M)	2010A	2011A	2012A	2013E	2014E	2015E
Cash and short-term investments	63	79	317	667	1,196	1,879
Receivables	773	871	900	983	1,022	1,095
Inventories	995	1,063	1,345	1,194	1,358	1,259
Other current assets	285	298	302	300	300	300
Current assets	2,116	2,311	2,864	3,145	3,875	4,533
Net property, plant and equipment	1,148	1,243	1,241	1,296	1,356	1,371
Other assets	2,020	2,157	2,157	2,087	2,017	1,947
Total Assets	5,284	5,711	6,262	6,528	7,248	7,851
Short-term debt	38	-	73	-	-	-
Accounts Payable	206	214	319	214	347	237
Other current liabilities	564	629	731	700	700	700
Current liabilities	808	843	1,123	914	1,047	937
Long-term debt	673	575	509	3,650	3,650	3,650
Other liabilities	459	557	589	590	590	590
Total Liabilities	1,940	1,975	2,221	5,154	5,287	5,177
Preferred stock	-	-	-	-	-	-
Common Equity	3,344	3,720	4,026	1,358	1,946	2,659
Minority Interest	-	16	15	15	15	15
Shareholders' Equity	3,344	3,736	4,041	1,373	1,961	2,674
Total Liabilities and SE	5,284	5,711	6,262	6,528	7,248	7,851

Source: Company Data, Morgan Stanley Research

Exhibit 15

Capital Structure

	2010A	2011A	2012A	2013E	2014E	2015E
Capital structure						
Net debt	648	496	265	2,983	2,454	1,771
Net debt-to-equity	0.2	0.1	0.1	2.2	1.3	0.7
Net Debt to Capital	16.0%	11.5%	5.7%	59.4%	43.7%	28.0%
Total Debt	711	575	582	3,650	3,650	3,650
Total Debt to Capital	17.5%	13.3%	12.6%	72.7%	65.0%	57.7%
Total Debt to EBITDA (current year)	1.2x	0.6x	0.5x	2.9x	2.6x	2.3x
Net Debt to EBITDA (current year)	1.1x	0.5x	0.2x	2.4x	1.7x	1.1x
Interest coverage ratio	(13)	(22)	(30)	(9)	(11)	(12)
Interest expense	(37)	(36)	(31)	(117)	(119)	(124)
Dividend payout ratio	75%	83%	12%	536%	18%	18%
Dividend per share	\$0.41	\$0.83	\$0.13	\$0.26	\$0.30	\$0.34
Dividend growth	105%	101%	-85%	NM	15%	15%

Source: Company Data, Morgan Stanley Research

Exhibit 16

Financial Metrics

(\$M)	2010A	2011A	2012A	2013E	2014E	2015E
Operating efficiency						
Accounts receivable turnover	4.6x	5.1x	4.9x	4.8x	4.8x	4.8x
Inventory turnover	1.3x	1.5x	1.3x	1.3x	1.3x	1.3x
Accounts payable turnover	6.4x	7.5x	5.8x	6.0x	6.0x	6.0x
Fixed asset turnover	3.1x	3.5x	3.5x	3.5x	3.6x	3.7x
Depreciation to fixed assets ratio		0.08x	0.11x	0.09x	0.08x	0.08x
Days sales outstanding	79	71	75	77	76	76
Days payables outstanding	57	48	63	61	61	61
Days inventory held	276	238	284	292	277	272
Cash conversion cycle (days)	297	260	295	307	292	288
Liquidity						
Working capital	1,308	1,468	1,741	2,230	2,828	3,596
Current ratio	2.6	2.7	2.6	3.4	3.7	4.8
Quick ratio	1.4	1.5	1.4	2.1	2.4	3.5
Cash ratio	0.1	0.1	0.3	0.7	1.1	2.0
Profitability						
Adjusted EPS	\$0.55	\$1.01	\$1.08	\$1.41	\$1.66	\$1.90
GAAP EPS	\$0.22	\$0.50	\$0.87	\$1.06	\$1.47	\$1.75
GAAP vs adjusted	(\$0.33)	(\$0.51)	(\$0.20)	(\$0.35)	(\$0.20)	(\$0.15)
Adjusted EBIT*	\$496	\$806	\$941	\$1,114	\$1,299	\$1,478
Adjusted EBITDA	\$599	\$921	\$1,089	\$1,245	\$1,424	\$1,598
Operating cash flow per share	\$0.94	\$1.43	\$1.49	\$1.91	\$2.15	\$2.38
FCF per share	\$0.11	\$0.56	\$0.56	\$0.98	\$1.38	\$1.73
OCF	468	716	744	958	1,085	1,203
FCF	54	279	279	492	693	875
FCF less dividends	(153)	(137)	216	(3,288)	543	701
FCF less dividends/share buybacks	(156)	(137)	216	(3,288)	543	701
Book value per share	\$6.69	\$7.47	\$8.08	\$2.74	\$3.89	\$5.28
Return on asset/equity						
EBT margin	12.8%	18.2%	21.0%	22.3%	24.5%	26.6%
ROA	24.0%	42.1%	43.3%	55.6%	63.2%	70.5%
Leverage (assets/equity)	1.6	1.6	1.5	2.4	4.1	3.3
Tax effect	60.1%	65.7%	59.1%	70.8%	71.0%	71.0%
ROE	8.2%	13.5%	13.3%	51.4%	42.7%	35.9%
ROIC				15.6%	18.1%	20.4%
NOPAT				773	905	1,028
Invested Capital (Assets- Cash- Current Liabilities)				4,946	5,005	5,035

Source: Company data, Morgan Stanley Research estimates

Exhibit 17

Footnotes**1Q:13A**

- **Constant currency revenue growth:** Total +5%, U.S. +7%, EMEA +4%, CLAR +4%, APAC +2%
- **U.S.:** Companion animal growth of +13% YOY was positively impacted by a competitor's supply disruption. Livestock was up 7% YOY; poultry and swine offset declines in cattle due to drought.
- **EMEA:** Timing of price increases positively impacted growth (last year ZTS raised prices in 2Q instead of 1Q)
- **CLAR:** Companion animal was down 5% YOY on tougher companion animal comps in Canada (competitor faced a supply disruption last year).
- **APAC:** Headwinds included drought in Australia, macroeconomic weakness in Japan and Korea, and regulatory delays in India.

4Q:12A

- **U.S. Organic Growth:** +7% YOY offset light 3Q:12 (+3%). Farmers kept herds on pasture longer in 3Q (farmers may have been holding out for rain/higher beef prices), which resulted in a bolus of demand in feedlots in 4Q)
- **CLAR:** Drought (primarily in Northern Mexico) negatively impacted cattle sales, which also had a negative impact on segment margins (cattle are among the most profitable livestock animals)
- **Abnormally high SG&A**
 - Seasonality
 - Costs associated with buildup of internal capabilities
 - "Dis"-synergies: Higher than expected corporate overhead costs (PFE switched cost allocation from %-of sales to actual costs)
- **EMEA:** Strength in emerging markets (e.g., Africa, Russia, Turkey) offset continued macroeconomic weakness in Western Europe
- **Inventories:** Mgmt. built in safety stock in advance of shifting over internal systems
- **67.5% tax rate:** 10K notes: "tax costs related to uncertain tax positions, substantially all of which will remain with Pfizer and to a lesser extent, tax costs associated with repatriation decisions among other impacts."

Source: Company Data, Morgan Stanley Research

Exhibit 18

Management Guidance

For period	2013
Date provided	4/30/2012
Revenue	\$4,425-\$4,525
COGS (% of sales)	35-36%
SG&A	\$1,385-\$1,435
R&D	\$385-\$415
Interest expense	~115M
Other (income)/expenses	~(20M)
Tax rate	~29.5%
Net income (Non-GAAP)	~\$680M-\$710M
Adjusted Diluted EPS	\$1.36-\$1.42

Source: Company Data



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Global Stock Ratings Distribution

(as of April 30, 2013)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1034	36%	399	39%	39%
Equal-weight/Hold	1250	44%	479	47%	38%
Not-Rated/Hold	105	4%	27	3%	26%
Underweight/Sell	473	17%	123	12%	26%
Total	2,862		1028		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

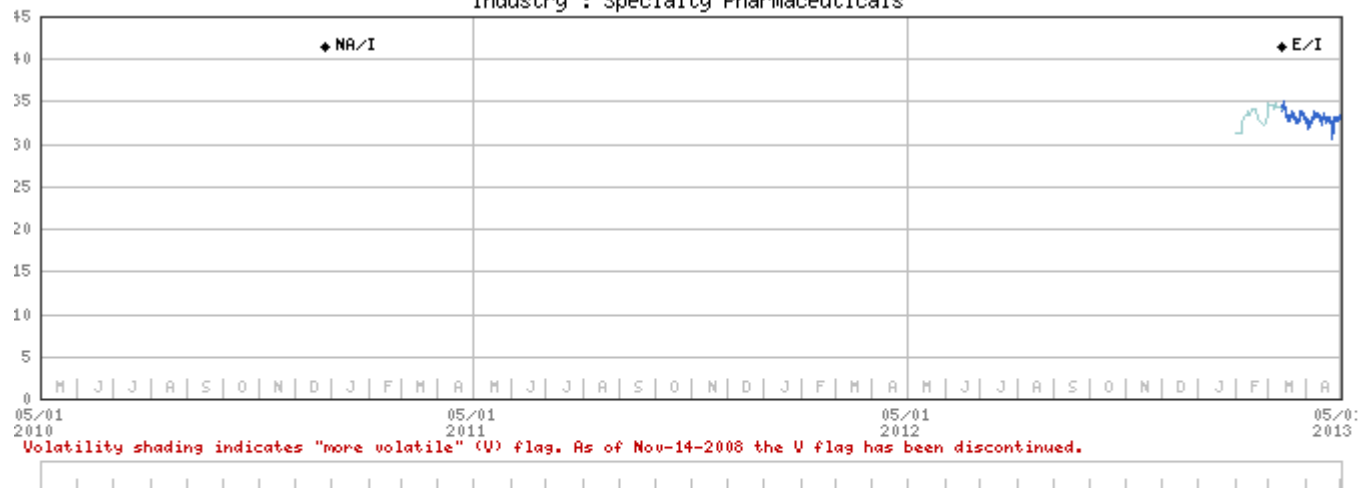
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)

May 1, 2013

Zoetis Inc.

Zoetis Inc. (ZTS.N) - As of 4/30/13 in USD
Industry : Specialty Pharmaceuticals



Stock Rating History: 12/26/10 : NA/I; 3/13/13 : E/I

Price Target History: 3/13/13 : NA

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage: Specialty Pharmaceuticals

Company (Ticker)	Rating (as of)	Price* (04/30/2013)
David Risinger		
Actavis Inc (ACT.N)	O (01/25/2012)	\$105.73
Alkermes Plc. (ALKS.O)	O (01/10/2013)	\$30.61
Allergan Inc. (AGN.N)	O (09/07/2010)	\$113.55
Forest Laboratories Inc. (FRX.N)	E (04/26/2011)	\$37.41
Mylan Inc. (MYL.O)	E (03/01/2013)	\$29.11
Perrigo Co. (PRGO.O)	O (02/04/2013)	\$119.41
Teva Pharmaceutical Industries Ltd. (TEVA.N)	E (02/06/2012)	\$38.29
Valeant Pharmaceuticals International (VRX.N)	E (09/14/2012)	\$76.08
Warner Chilcott Plc (WCRX.O)	U (08/21/2012)	\$14.38
Zoetis Inc. (ZTS.N)	E (05/01/2013)	\$33.02
Marshall Urist, M.D., Ph.D.		
Hospira (HSP.N)	E (07/16/2009)	\$33.12
Sagent Pharmaceuticals Inc (SGNT.O)	E (08/13/2012)	\$16.54

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* Historical prices are not split adjusted.