COMPANY NOTE

Initiating Coverage

USA | Healthcare | Pharmaceuticals

March 13, 2013

Jefferies

EQUITY RESEARCH AMERICAS

Zoetis, Inc. (ZTS)

Animal Magnetism: Initiating Coverage With A Buy Rating

BUY
Price target $40.00
Price $33.82

Key Takeaway

Zoetis deserves a premium rating due to its strong underlying growth profile, combined with the valuation accelerants of significant operating margin expansion, capital allocation upside and its scarcity value. We see mid-term EPS 12%-17% ahead of the initial consensus estimates and set a 12-month PT of $40. Jefferies acted as a Book Runner in ZTS' January IPO.

Initiating coverage with a Buy rating: We are initiating coverage of Zoetis with a Buy rating. We see a unique opportunity for investors to use Zoetis as a vehicle to participate in the substantial growth in demand for animal protein as well as in the companion animal medical products market. Furthermore, we see substantial operating margin expansion opportunities in Zoetis (c870bps 2012E-17E), which should lead it to generate above sector average returns even within the Animal Health market itself.

A unique pure play in Animal Health: Zoetis is the largest publicly quoted pure play Animal Health company. We expect it will likely show at least industry market growth as it leverages its leading salesforce into Emerging Markets. However, we do expect slower growth in the very near term due to the company's relative over-exposure to the North American livestock markets, which are currently impacted by severe drought conditions.

Strong revenue growth and margin expansion on offer: We estimate that Zoetis will deliver a 6% revenue CAGR between 2012E-17E versus our Animal Health industry growth rate of 6.3%. Our expectation of significant operating leverage and efficiencies combined with a falling tax rate and steady deleveraging in the mid-term leads us to expect an EPS CAGR of 15.1% during 2012E-17E. Our revenue and EPS estimates are -1% to +4% and +6% to +17% ahead of consensus estimates, respectively during our forecast period.

PT set at $40; c19% upside with a rapidly growing dividend: We have used multiple valuation methodologies (primarily PE/ PEG-relative and DCF) to arrive at our PT of $40. Whilst this assumes that Zoetis can hold its premium multiple into 2014, we feel this is a realistic expectation and could even be surpassed if management delivers upside to consensus revenue and margin expectations. This, combined with a c1% dividend yield, should deliver a 12-month total return of c19% in our view.

Valuation/Risks

Valuation: Our $40 PT is derived from multiple valuation methodologies including PEG/ PE-relative measures and DCF. **Risks:** Patent expiries; cost saving; government legislation; R&D; manufacturing; price pressure; adverse weather; livestock epidemics; M&A.

USD	*Prev.*	2012E	*Prev.*	2013E	*Prev.*	2014E	*Prev.*	2015E
Rev. (B)	--	4.3	--	4.5	--	4.8	--	5.1
EV/Rev		4.7x		4.5x		4.2x		3.9x
EBITDA (B)	--	1.1	--	1.3	--	1.5	--	1.6
EV/EBITDA		18.3x		15.5x		13.4x		12.6x
Dividend	--	0.00	--	0.26	--	0.30	--	0.33
Div. Yield		0.00%		0.77%		0.89%		0.98%
PE Relative to Local Market	--	183%	--	167%	--	156%	--	160%
EPS								
FY Dec	--	1.20	--	1.41	--	1.69	--	1.84
FY P/E		28.2x		24.0x		20.0x		18.4x

Financial Summary

Net Debt (MM):	$3,200.0

Market Data

52 Week Range:	$34.89 - $26.00
Total Entprs. Value (MM):	$20,110.0
Market Cap. (MM):	$16,910.0
Shares Out. (MM):	500.0
Float (MM):	99.0
Avg. Daily Vol.:	NA

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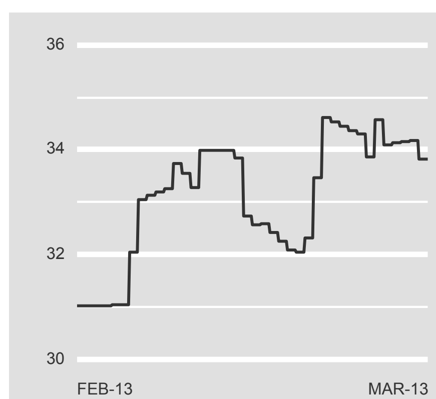
Price Performance



Zoetis

Buy: $40 Price Target

Scenarios

Target Investment Thesis

- A unique pure play in Animal Health
- c870bps operating margin expansion
- Mid-teens EPS CAGR (2012E-2017E)

We expect shares to trade on a circa 80%-100% premium to the 2014E US market PE multiple with a corresponding value of $40.

Upside Scenario

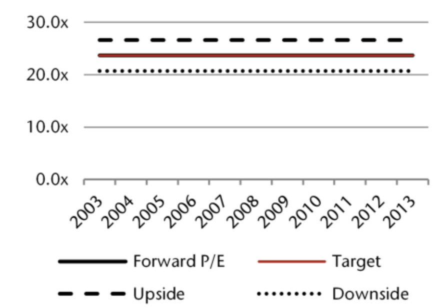
- Quicker–than-expected rebound from US drought impact
- Bolt-on acquisitions
- Build out infrastructure in time before Pfizer places mark up on services
- Faster than expected deleveraging
- In this scenario, we expect shares to trade on a circa 110% premium to the 2014 US market PE multiple with a corresponding value of $45

Downside Scenario

- US drought conditions worsen
- More aggressive generic erosion for key brands than expected
- Increased restriction of use of antibiotics in livestock
- In this scenario, we expect the shares to trade at a circa 60% premium to the 2014 US market PE multiple with a corresponding value of $35

Long Term Analysis

1 Year Forward P/E



Source: DataStream, Jefferies estimates

Long-Term Financial Model Drivers

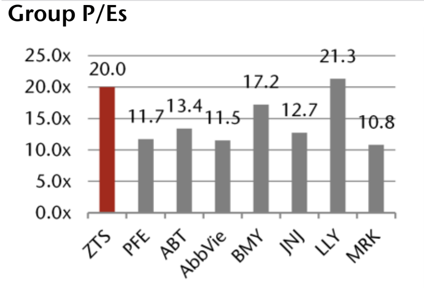
2012E–17E Revenues CAGR	**6.0%**
2012E–17E Earnings CAGR	**15.1%**

Other Considerations

The Animal Health industry is a relatively safe haven due to the long-term nature of the revenue streams and limited competitive pressures. The ever increasing demand for meat and milk products and need to produce more food products whilst the resources continue to decrease further aids growth. Spending on pet care and pet health continues to rise worldwide as pets become part of the household and live longer.

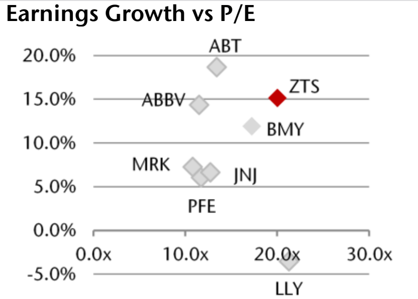
Peer Group

Group P/Es



Source: DataStream, Jefferies estimates

Earnings Growth vs P/E



Source: DataStream, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
ZTS	**Buy**	**$40**
ABBV	Buy	$45
ABT	Buy	$40
JNJ	Hold	$79
LLY	Underperform	$43
BMY	Buy	$41
MRK	Hold	$46
PFE	Buy	$31

Catalysts

- Q1’13: ZTS 10-K release and 2013 guidance
- Q2’13: ZTS Q1’13 financial results
- Mid-13: US drought recovery

Company Description

Zoetis separated from Pfizer on February 6, 2013, remaining as a circa 80% subsidiary. The IPO represented approximately 19.8% of the total outstanding Zoetis shares. Zoetis is headquartered in New Jersey and develops, manufactures and markets a wide range of Animal health products across both companion animals and livestock. In 2011, Zoetis generated net sales of $4.2bn.

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Executive Summary

We are initiating coverage of Zoetis with a Buy rating and $40 target price

Zoetis offers a unique investment play in the growth industry of Animal Health. We prefer this industry over Human Health markets such as Pharmaceuticals due to its favourable demographics, long duration asset lives, low pricing pressure, low exposure to generics and high R&D productivity.

As well as being the only publicly quoted Animal Health Company with scale, Zoetis is also the single largest player in the industry with 2012E revenues of $4.3bn. Merck & Co. (MRK, $45.04, Hold) and Sanofi (SAN FP, €75.27, Buy) are the only other similarly scaled businesses in the industry with 2012A revenues of $3.4bn and $2.8bn, respectively. We see Zoetis being particularly advantaged by its scale in terms of its salesforce, which is the largest and most highly ranked in the industry.

Whilst it does not currently play into our rating or valuation methodology, we do see Zoetis as a potential acquisition target. We do not anticipate that Zoetis will be a "consolidation" play due to competition barriers for many potential acquirers, but instead see it as a potential diversification play for some of the more diversified Pharmaceutical and Consumer health industry players such as GlaxoSmithKline (GSK LN, 1498p, Hold) or Johnson & Johnson (JNJ, $78.56, Hold).

The separation of Zoetis from its parent company Pfizer (PFE, $27.94, Buy) does come at a cost. Zoetis will no longer enjoy many of the synergies (e.g., manufacturing, R&D, G&A and financial) that previously existed when it was fully integrated into the group. Furthermore, the company will also likely suffer some dilution from losing the Pfizer brand as well as having to pay royalties and other mark-ups to Pfizer in the future for some services and intellectual property. Last, the current scarcity value of the shares could be materially impacted when and if Pfizer makes the remaining c80% of the outstanding shares in issue available to investors.

Our modelling of the business leads us to expect compound revenue and earnings growth of circa 6% and 15% between 2012E-17E, respectively, which places it well ahead of its US Large Cap Pharmaceuticals peers. Key uncertainties and opportunities include:

- Our expectation for significant revenue growth and margin expansion,
- The impact of changes in the relationship with Pfizer over the next few years,
- The impact from generic competition,
- Future strategic M&A activity, and
- Capital allocation policies.

Valuation and recommendation

We value the shares at $40, using primarily peer group comparisons on PE and PEG ratios alongside DCF to drive valuation. With circa 18% upside and circa 1% expected in dividend yield at current prices, we see a total 12-month shareholder return of circa 19%. As a result we initiate coverage of Zoetis with a Buy rating.

Risks

In addition to the company-specific risks highlighted above, we would also remind investors of certain industry risks, including political reforms, other key payor pricing pressures, complex manufacturing requirements, adverse weather patterns, animal disease epidemics and the strict regulatory requirements within the Animal Health industry. Any of these could lead to unforeseen events that result in actual financial results being materially different from our forecasts.

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Exhibit 1: Comparable companies valuation table for Zoetis

Company	Ticker	Rating	P/E 2013E (x)	P/E 2014E (X)	P/E 2015E (x)	P/E 2016E (x)	P/E 2017E (x)	Div. Yield 2013E	Div. Yield 2014E	Div. Yield 2015E	Div. Yield 2016E	Div. Yield 2017E	EPS CAGR 12E-17E	PEG 12E-17E 2013 PE
Allergan	AGN	HOLD	23.1	20.2	18.0	16.0	14.7	0.2%	0.2%	0.2%	0.2%	0.2%	12.6%	1.83
Mead Johnson	MJN	NC	21.8	19.3	16.8	15.4	13.9	1.9%	2.3%	2.4%	2.3%	2.6%	10.9%	1.99
Monsanto	MON	HOLD	22.7	20.1	17.7	17.6	17.2	1.3%	1.2%	1.2%	1.2%	1.2%	10.2%	2.24
Zoetis	**ZTS**	**BUY**	**23.9**	**20.0**	**18.4**	**15.9**	**13.9**	**0.8%**	**0.9%**	**1.0%**	**1.1%**	**1.3%**	**15.1%**	**1.58**

Company	EV/EBITDA 2013E (x)	EV/EBITDA 2014E (X)	EV/EBITDA 2015E (x)	EV/EBITDA 2016E (x)	EV/EBITDA 2017E (x)	EV/Sales 2013E (x)	EV/Sales 2014E (X)	EV/Sales 2015E (x)	EV/Sales 2016E (x)	EV/Sales 2017E (x)
Allergan	13.8	11.5	10.3	9.7	8.9	4.9	4.3	4.0	3.7	3.5
Mead Johnson	14.6	12.9	11.1	10.4	9.5	3.7	3.4	3.0	2.9	2.7
Monsanto	12.5	11.0	9.7	9.5	9.4	3.6	3.3	3.0	3.0	2.8
Zoetis	**15.5**	**13.2**	**12.0**	**10.3**	**8.7**	**4.4**	**4.0**	**3.6**	**3.3**	**2.9**

Company	PE rel to Local Market	PE rel to Local Market 2014E (%)	PE rel to Local Market 2015E (%)	PE rel to Local Market 2016E (%)	PE rel to Local Market 2017E (%)	EBIT Margin 2013E (%)	EBIT Margin 2014E (%)	EBIT Margin 2015E (%)	EBIT Margin 2016E	EBIT Margin 2017E (%)
Allergan	151	144	135	126	122	32.8%	34.4%	35.4%	37.7%	38.1%
Mead Johnson	142	137	127	121	115	23.3%	24.0%	25.0%	24.7%	24.9%
Monsanto	149	143	134	139	143	24.9%	26.1%	27.6%	28.3%	27.1%
Zoetis	**157**	**142**	**138**	**126**	**115**	**25.1%**	**27.3%**	**27.4%**	**29.2%**	**30.9%**

Source: Company data, FactSet, Jefferies estimates

Exhibit 2: Summary of Jefferies global large cap pharmaceuticals coverage and ratings

Company	Ticker	Rating	MV L.C.	MV $m	Price 12-Mar-13 L.C.	Target price L.C.	Up/down side	Dividend Yield 2013E	Total Return (%)	Revenue CAGR 12E-17E	EPS CAGR 12E-17E	PEG 12E-17E 2013 PE
Abbott*	ABT	BUY	$55,001m	$55,001	$34.98	**$40**	**14.4%**	1.6%	**16.0%**	9.0%	*18.7%	***0.89**
AbbVie*	ABBV	BUY	$59,175m	$59,175	$37.17	**$45**	**21.1%**	4.3%	**25.4%**	6.1%	*14.3%	***0.82**
AstraZeneca	AZN LN	HOLD	£39,979m	$59,571	3070p	**3000p**	**-2.3%**	6.1%	**3.8%**	-3.7%	-5.3%	**NA**
Bayer	BAYN GR	HOLD	€63,700m	$82,902	€77.03	**€79**	**2.6%**	2.5%	**5.1%**	4.9%	11.4%	**1.19**
Bristol-Myers	BMY	BUY	$64,519m	$64,519	$38.22	**$41**	**7.3%**	3.7%	**10.9%**	4.4%	11.9%	**1.73**
Eli Lilly	LLY	UNDERPERFORM	$63,915m	$63,915	$55.08	**$43**	**-21.9%**	3.6%	**-18.4%**	0.0%	-3.5%	**NA**
GlaxoSmithKline	GSK LN	HOLD	£75,645m	$112,714	1499p	**1550p**	**3.4%**	5.2%	**8.6%**	5.2%	11.7%	**1.09**
Johnson & Johnson	JNJ	HOLD	$215,653m	$215,653	$78.56	**$79**	**0.6%**	3.3%	**3.9%**	3.9%	6.6%	**2.18**
Merck & Co.	MRK	HOLD	$137,102m	$137,102	$45.04	**$46**	**2.1%**	3.9%	**6.0%**	2.1%	7.3%	**1.70**
Novartis	NOVN VX	BUY	CHF159,392m	$167,852	CHF65.90	**CHF78**	**18.4%**	3.6%	**21.9%**	3.6%	8.2%	**1.67**
Novo Nordisk	NOVOB DC	HOLD	DKK556,587m	$97,353	DKK999.50	**DKK900**	**-10.0%**	2.2%	**-7.8%**	5.8%	11.7%	**1.84**
Pfizer	PFE	BUY	$210,626m	$210,626	$27.94	**$31**	**11.0%**	3.5%	**14.4%**	1.8%	6.0%	**2.02**
Roche	ROG VX	BUY	CHF182,257m	$191,930	CHF215.00	**CHF230**	**7.0%**	3.7%	**10.7%**	3.7%	8.5%	**1.72**
Sanofi	SAN FP	BUY	€100,450m	$130,731	€75.27	**€85**	**12.9%**	3.8%	**16.7%**	5.4%	11.5%	**1.14**
Zoetis	ZTS	BUY	$17,079m	$17,079	$33.82	**$40**	**18.3%**	0.8%	**19.0%**	6.0%	15.1%	**1.58**
Pan Euro Sector (wtd)				**$843,054**				**3.8%**		**4.0%**	**9.0%**	**1.37**
US Sector (wtd)				**$823,071**				**3.4%**		**3.3%**	**7.7%**	**1.66**
EU+US Average (wtd)				**$1,666,125**				**3.6%**		**3.7%**	**8.4%**	**1.51**

*Note: ABT and ABBV EPS CAGRs are for 2013E-17E as 2012E/13E EPS growth is materially impacted by lack of prior cash EPS disclosure and separation costs
Source: Company data, DataStream, Jefferies estimates

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Investment Thesis

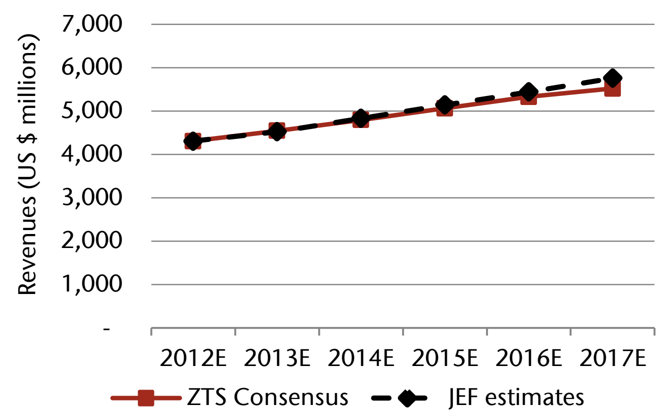
Positive fundamentals with scarcity value

Zoetis displays the rare characteristics of a company with positive fundamentals combined with scarcity value. It is the only pure play Global Animal Health asset with scale available to investors so that they might enjoy the rewards of the sustainable growth associated with this industry. Zoetis is also the largest player in the Animal Health industry, giving it several advantages over its competitors due to its scale. We believe that particular benefits are likely to be seen from its industry-leading salesforce when viewed from both the vantages of scale and quality.

Whilst some disadvantages may come from being separated from Pfizer, we also believe that management will be increasingly motivated to maximise the growth and efficiency of this business as they gain increasing autonomy. In particular we believe that there may be upside to our growth, operating margin and tax rate assumptions as the business evolves over the next few years.

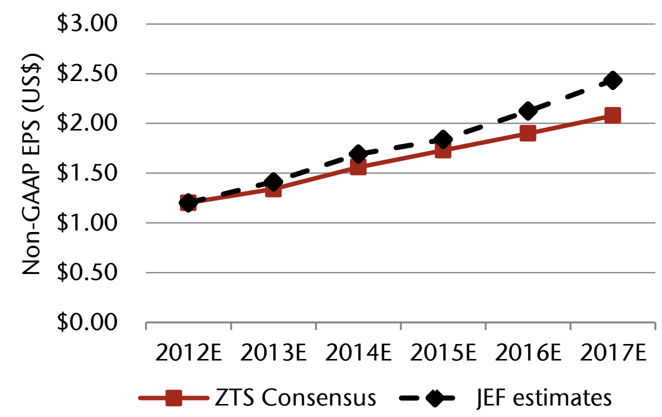
Currently we look for revenue and EPS growth CAGRs of 6.0% and 15.1%, respectively, between 2012E-17E for Zoetis, which is 6%-17% ahead of consensus at the level of EPS over the forecast period. Exhibit 3 and Exhibit 4 summarise how our revenue and EPS estimates compare with consensus during the forecast period. A summary Income Statement is also provided for reference in Exhibit 5.

Exhibit 3: Jefferies revenue estimates versus consensus for Zoetis, 2012E-2017E ($millions)



Source: Thomson One, Jefferies estimates

Exhibit 4: Jefferies EPS estimates versus consensus for Zoetis, 2012E-2017E ($)



Source: Thomson One, Jefferies estimates

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Exhibit 5: Annual income statement for Zoetis, 2011A-2017E

($) millions	2011A	2012E	2013E	2014E	2015E	2016E	2017E	Incr. abs. '12E-'17E	CAGR '12E-'17E
Net sales	**4,233**	**4,305**	**4,521**	**4,832**	**5,139**	**5,441**	**5,756**	**1,451**	**6.0%**
COGS	1,581	1,558	1,601	1,680	1,824	1,909	1,996	438	5.1%
Gross profit	**2,652**	**2,747**	**2,920**	**3,151**	**3,315**	**3,532**	**3,760**	**1,013**	6.5%
SG&A	1,447	1,412	1,415	1,450	1,508	1,538	1,569	157	2.1%
R&D	407	403	401	413	430	438	447	44	2.1%
Amortization (Intangible Assets)	20	15	15	15	15	16	15	(0)	-0.6%
Other (income)/Expenses	(28)	(27)	(32)	(32)	(32)	(32)	(32)	(5)	3.5%
Total Operating Expenses	**1,846**	**1,803**	**1,799**	**1,847**	**1,921**	**1,961**	**1,999**	**195**	**2.1%**
Operating Profit	**806**	**944**	**1,121**	**1,305**	**1,395**	**1,571**	**1,761**	**817**	**13.3%**
EBITDA	**961**	**1,102**	**1,283**	**1,470**	**1,559**	**1,734**	**1,920**	**818**	**11.7%**
Net interest (income)/expense	36	30	111	106	101	88	73	43	19.6%
Pretax Income	**770**	**914**	**1,011**	**1,198**	**1,294**	**1,483**	**1,688**	**774**	**13.1%**
Taxes	264	312	293	342	362	408	456	144	7.9%
Tax rate	34.3%	34.1%	29.0%	28.5%	28.0%	27.5%	27.0%	(710)bps	NA
NI before non-control. Int.	**506**	**602**	**717**	**857**	**931**	**1,075**	**1,232**	**630**	**15.4%**
Less: NI attrib to non-control int.	3	1	4	4	4	4	4	3	32.0%
Net income	**503**	**601**	**713**	**853**	**927**	**1,071**	**1,228**	**627**	**15.4%**
DILUTED EPS	**$1.01**	**$1.20**	**$1.41**	**$1.69**	**$1.84**	**$2.12**	**$2.43**	**$1.23**	**15.1%**
Wt. avg. dil. shares outstanding	500	500	505	505	505	505	505		
Dividend per share	**-**	**-**	**0.26**	**0.30**	**0.33**	**0.38**	**0.44**		

Margin Analysis	**2011A**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**		
COGS	37.3%	36.2%	35.4%	34.8%	35.5%	35.1%	34.7%		
Gross margin	62.7%	63.8%	64.6%	65.2%	64.5%	64.9%	65.3%	151 bps	
SG&A	34.2%	32.8%	31.3%	30.0%	29.3%	28.3%	27.3%	(554)bps	
R&D	9.6%	9.4%	8.9%	8.6%	8.4%	8.1%	7.8%	(159)bps	
Total Operating Expenses	43.6%	41.9%	39.8%	38.2%	37.4%	36.0%	34.7%	(716)bps	
Operating margin	19.0%	21.9%	24.8%	27.0%	27.1%	28.9%	30.6%	867 bps	
EBITDA margin	22.7%	25.6%	28.4%	30.4%	30.3%	31.9%	33.4%	776 bps	
Pretax margin	18.2%	21.2%	22.4%	24.8%	25.2%	27.3%	29.3%	809 bps	
Net margin	11.9%	14.0%	15.8%	17.7%	18.0%	19.7%	21.3%	737 bps	
Dividend Payout ratio	0.0%	0.0%	18.4%	18.0%	18.0%	18.0%	18.0%		

YOY % Change	**2011A**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**		
Net sales	18%	2%	5%	7%	6%	6%	6%		
COGS	20%	-1%	3%	5%	9%	5%	5%		
Gross profit	17%	4%	6%	8%	5%	7%	6%		
SG&A	6%	-2%	0%	2%	4%	2%	2%		
R&D	-1%	-1%	0%	3%	4%	2%	2%		
Operating income	63%	17%	19%	16%	7%	13%	12%		
EBITDA	na	na	16%	15%	6%	11%	11%		
Pretax income	68%	19%	11%	19%	8%	15%	14%		
Net income	83%	20%	19%	20%	9%	16%	15%		
Diluted EPS	**83%**	**20%**	**18%**	**20%**	**9%**	**16%**	**15%**		
Wt. avg. dil. shares outstanding	0%	0%	1%	0%	0%	0%	0%		

Source: Jefferies estimates, company data

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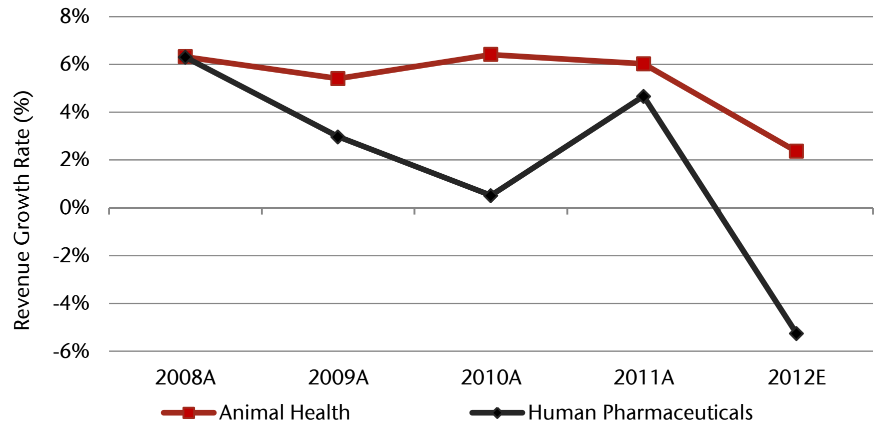
Animal Health Industry offers better fundamentals than Human Health

The Animal Health industry offers strong linkage to the positive demographics of human health without the pricing and asset duration pressures associated with pharmaceuticals, in particular. Furthermore, a more productive R&D and selling model helps to sustain the long run returns of the industry. In many ways the Animal Health market reminds us of the human health market 15 years ago before managed care, government pricing pressure and an increasingly aggressive generics industry significantly reduced the profitability and duration of many classes of product.

Evidence of this can be seen from the historical and projected growth of the Animal Health Industry versus the Human Pharmaceuticals market. As can be seen in Exhibit 6, the Animal Health Industry grew revenues at a CAGR of 5%, versus 2% for Human Pharmaceuticals between 2007A-12E. Whilst this is an extreme comparison given the patent cliff in 2012 for many Pharmaceuticals companies, it helps to underline the relative insulation of the Animal Health industry from generic substitution and pricing pressure.

Exhibit 6: Historical comparison of human pharmaceuticals versus animal health revenue growth rates, 2008A-2012E



Source: Company data, Jefferies estimates

Our Global Animal Health market model projects a 2012E-17E revenue CAGR of circa 6% versus circa 2% for the Pharmaceuticals companies' Pharma operations within our coverage universe.

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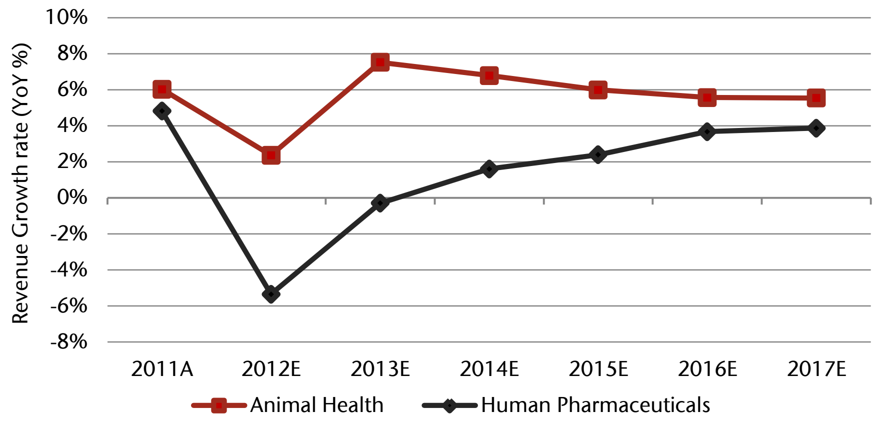
Exhibit 7: Comparison of human pharmaceuticals versus animal health revenue growth rates, 2011A-17E

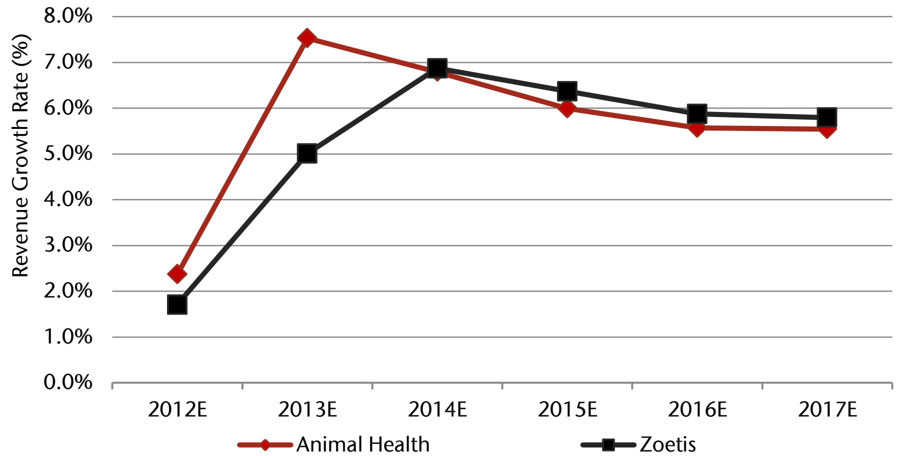


Source: Company data, Jefferies estimates

A strong track record of revenue growth and a cohesive plan for the future

We believe that Zoetis will continue to deliver strong top line growth at least in line with industry growth rates during our forecast period (Exhibit 8), with only a slight lag in 2013E expected by us as the company faces greater exposure to the impact of the US drought than some of its peers.

Exhibit 8: Comparison of Zoetis revenue growth expectations versus animal health industry, 2012E-17E



Source: Company data, Jefferies estimates

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Our revenue forecast for a 2012E-17E CAGR of circa 6% for the Animal Health industry takes into account some of the recent pressures on the industry, including:

- The impact of the severe drought in North America on livestock product revenues,
- Negative impact from the economic downturn, particularly in Europe, and
- Regulatory changes on the use of antibiotics in the livestock production industry

However, we also bear in mind that some of these drags on growth may be short-lived and a number of growth initiatives have been put in place by management to drive incremental growth, including:

- Introduction of new service-based offerings in the US market
- Increasing exposure to Emerging Markets, and
- Expansion into new products and services, such as diagnostics, genetic testing and productivity management solutions.

We see significant room for operating and net margin expansion

A key feature of our modelling is the significant margin expansion that we see at both the operating and net income level during our forecast period. Whilst our model calls for only limited gross margin expansion (circa 150bps 2012E-17E) due to a number of opposing factors, we see significant room for overall operating margin expansion (circa 870bps 2012E-17E) due to significant leverage at the SG&A (circa 550bps 2012E-17E) and R&D (circa 160bps 2012E-17E) cost lines as well as ongoing efficiency measures.

We then expect to see further positive net margin expansion from deleveraging of the balance sheet, lowering interest expenses, as well as a falling tax rate as the revenue mix continues to shift away from the US, towards Emerging Markets and tax-efficient investment in capital infrastructure further lowers the US jurisdictional mix of profits for taxation purposes.

However, the one-time step up of interest expenses in 2013E as Zoetis raised significant levels of debt in January 2013 as part of the separation process is likely to negate some of the circa 290bps of underlying operating margin expansion anticipated in 2013E. At the level of net earnings, this is partly offset by our expectations that the tax rate will step down to circa 29% in 2013E from c34% in 2012E.

Exhibit 9 and Exhibit 10 summarise our expectations for operating and net margin expansion through our forecast period.

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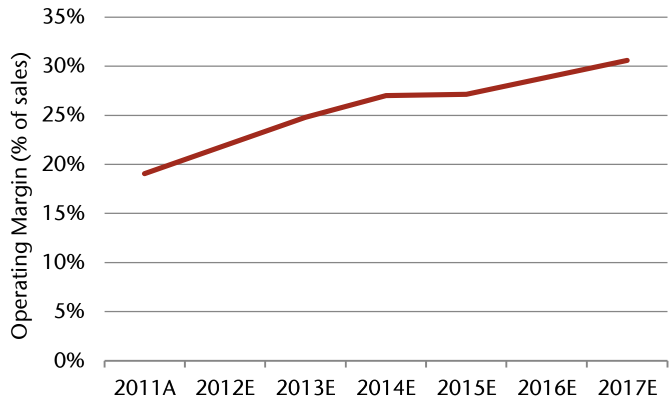
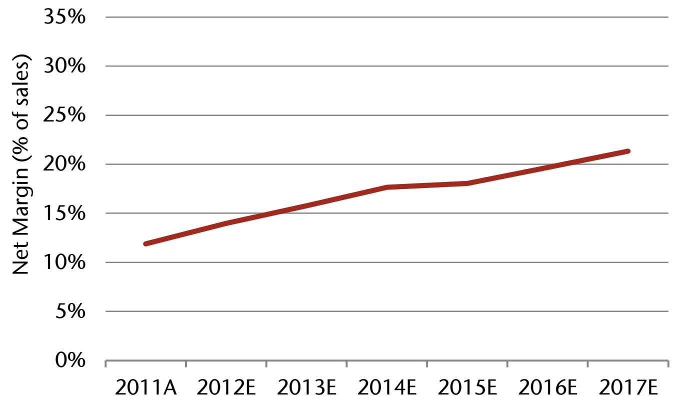
Exhibit 9: Jefferies estimates of Zoetis operating margin expansion, 2011A-2017E



Source: Company data, Jefferies estimates

Exhibit 10: Jefferies estimates of Zoetis net income margin expansion, 2011A-2017E

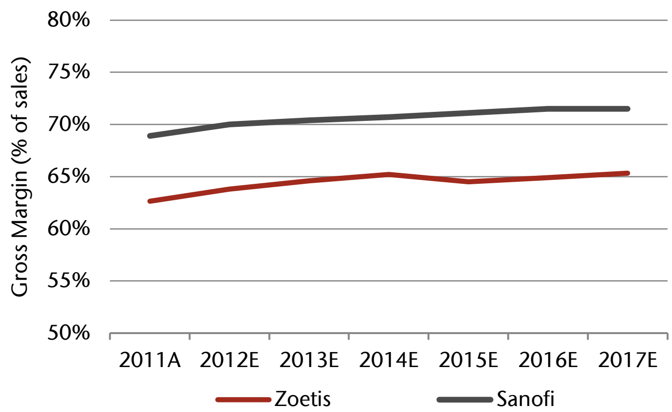


Source: Company data, Jefferies estimates

We would add here that we have high confidence in this significant level of margin expansion for several reasons:

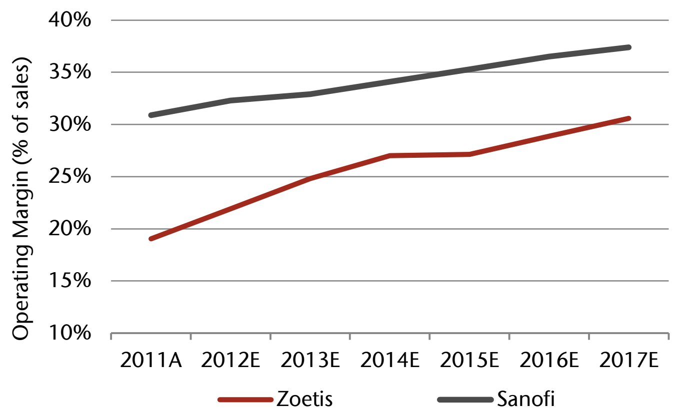
- There has been a strong track record of margin expansion at Pfizer Animal Health in the past few years (>1,000bps between 2009A-12E),
- Management are more highly motivated than ever to improve margins now that they have a more direct linkage to the company stock price and their own performance (than was the case when Zoetis was part of Pfizer), and
- Peers such as Sanofi operate at higher Gross (2012A 69.3% for Sanofi Animal Health vs. 63.8% for Zoetis in 2012E) and Operating (2012A 30.9% for Sanofi Animal Health vs. 21.9% for Zoetis in 2012E) margins, though a higher concentration in higher margin Companion Animal products (c65% versus c34% for Zoetis) and an element of variability associated with allocation of costs from the Group are likely part of the reasons for this.

Exhibit 11: Comparison of Zoetis versus Sanofi animal health gross margins, 2011A-2017E



Source: Company data, Jefferies estimates

Exhibit 12: Comparison of Zoetis versus Sanofi animal health operating margins, 2011A-2017E



Source: Company data, Jefferies estimates

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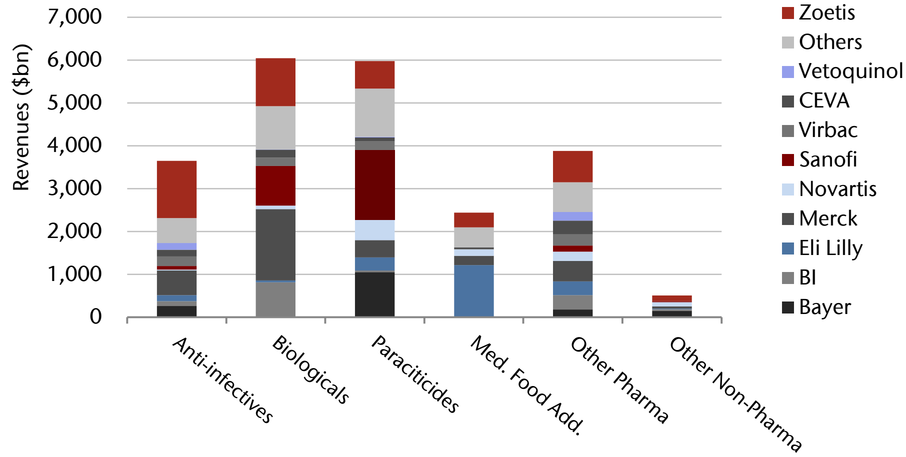
Zoetis could be a takeover target, but not a consolidation play in our view

Whilst we think it is unlikely that Zoetis will become an industry consolidation target due to competition issues, we do see the potential for it to become an acquisition target by one of the diversified healthcare conglomerates. The only diversified Pharmaceutical majors without material Animal Health Operations are GlaxoSmithKline and Johnson & Johnson, and we would see both as potential acquirers of Zoetis in the future. In particular, due to its existing expertise in vaccines, we believe that GlaxoSmithKline would be the most logical acquirer of Zoetis should it wish to further diversify its Healthcare portfolio into the realm of Animal Health. Exhibit 13 shows the key Animal Health product segments split by company presence in 2012E.

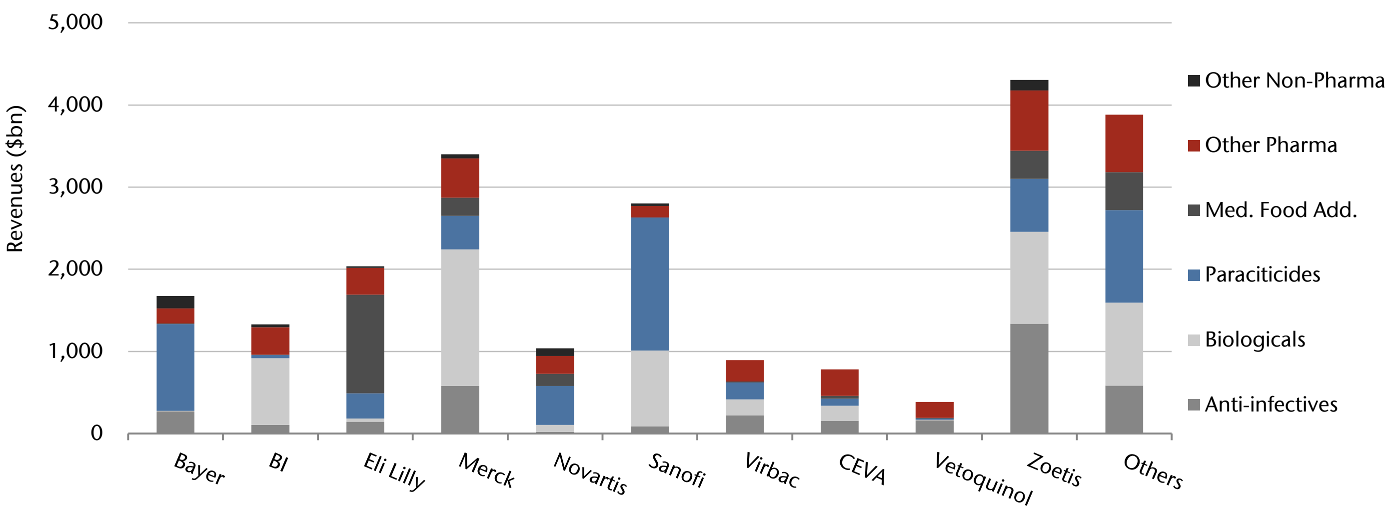
Exhibit 13: Summary of top 10 players by key product segmentation, 2012E



Source: Company data, Jefferies estimates

Exhibit 14 shows our estimate for the 2012E revenue base of the top 10 Animal Health industry players split by key product segmentation. We note that due to Zoetis' significant presence in most key segments, it would be difficult to formulate a merger with another large or mid-sized player without the need for significant product disposals.

Exhibit 14: Summary of top 10 players by key product segmentation, 2012E



Source: Company data, Jefferies estimates

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Some industry and company-specific risks may concern investors

Although we discuss several of the key industry and company specific risks to an investment in Zoetis shares in the remainder of this report, we would highlight the key areas of concern as follows:

- The industry has seen relatively little impact from big box brand and generic competition, which could intensify in the future,
- Government and consumer pressure to reduce the use of some antibiotics and the use of pharmaceuticals in general in the production of foodstuffs could negatively impact the growth of the industry and Zoetis specifically,
- Changes in legislation in the US could result in more flexibility for pet owners to buy medications for their animals through alternate channels (internet, etc.), which could result in market share losses and pricing pressure,
- Zoetis only generates c20% of its revenues from products covered by patent protection, and a number of key products (ceftiofur product line, Draxxin, Convenia, Dectomax, Revolution) may lose some patent protection in key markets over the next few years,
- Zoetis has a number of transitional arrangements with Pfizer with regard to its manufacturing, R&D and other corporate functions, which will likely see a step-up in the charges (to include a mark-up) from Pfizer in 2015,
- Zoetis has lost the benefit of the Pfizer brand name by becoming a separate entity,
- Zoetis now has a more expensive cost of capital than when it was part of Pfizer and a more constrained balance sheet to fund expansion of its operations and business development, and
- Management is still effectively controlled by Pfizer, given that it owns c98% of the voting power with regard to the election of directors and c80% of the voting power in the outstanding common stock.

Exhibit 15: Summary of selected patent expiries for key products

Product	Hard Patent Expiry date	Comment
Revolution (selamectin)	2014 - 2019	The compound patent on the parasiticide active in Revolution expires in the US, Canada and Europe in 2014. The FDA lists another patent dated Nov 2019.
Excede/ Excenel/ Naxcel (ceftiofur)	2015 - 2024	The formulation and use patents on the antibiotic active ceftiofur begin to expire from 2015 in the US, although another patent extends out to 2024.
Dectomax (doramectin)	2016 - 2020	The compound patents on the doramectin active in the parasiticide Dectomax have already expired in all regions. However, the injectable formulation patent still runs to 2016, whilst the process patent extends to 2020.
Draxxin (tulathromycin)	2019 - 2021	We are aware of five US patents listed for tulathromycin running from May 2019 (extended from May 2018) to January 2021.
Convenia (cefovecin)	2013 - 2023	The US NADA filing only lists one patent dated July 2011, which is presumably the COM patent. It gained US approval in April 2008 with a 5 year marketing exclusivity. The FDA list two other patents dated 2013 and 2023, which we assume cover use/formulation.
Palladia (toceranib)	2021	A single patent is listed by the FDA which appears to expire in 2021

Source: Jefferies estimates, company data

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Pfizer's eventual distribution of the remaining 80% of Zoetis could temporarily disrupt its "scarcity premium"

We believe that a key component of Zoetis' premium rating at present is down to its scarcity value as the only publicly listed Animal Health company with significant scale and global reach. Therefore the supply of additional shares to invest in (versus the relative lack of them at present) could temporarily disrupt valuation in an adverse manner.

Whilst Pfizer has not given a specific timeline, or mechanism, by which it intends to make the remaining shares in Zoetis directly available to investors, we would expect this to occur within the next 12 months, using Mead Johnson (MJN, $71.70, NC) as a precedent. Mead Johnson also showed underperformance versus the US market once Bristol-Myers (BMY, $38.22, Buy) gave a date for the remainder of the shares (83% of the outstanding stock at the time) to be put to shareholders by way of a share exchange. Mead Johnson shares continued to underperform until the finalised exchange ratio was announced and the Mead Johnson shares distributed. However, after this point, Mead Johnson stock once again began to outperform the US market.

A unique defensive growth play

When considering the track record of revenue growth and margin improvement displayed by Zoetis over the past few years as well as the positive growth drivers for the industry and Zoetis specifically, we see Zoetis as an attractive growth play with defensive characteristics. Whilst the lack of directly comparable companies and a number of industry and company specific risks may challenge valuation at times, we believe that Zoetis will continue to hold its premium rating. Exhibit 16 summarises the key opportunities and threats discussed by us in this report.

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Exhibit 16: Zoetis – Summary of key opportunities and threats

Opportunity	Importance	Comment
Base business	High	**6.0% revenue CAGR** expected as the company continues to benefit from volume (c2-3% CAGR), pricing (c2-3% per annum) and new product launch contributions (c1%-2% per annum) to top line growth.
Cost saving/ margin improvement	High	Operating leverage from COGS, R&D and SG&A lead to **c870bp of margin expansion** between 2012E and 17E.
Financial flexibility	High	Options for **share repurchases**, **increased dividends** and more significant **acquisitions** through increased leverage and existing resources. We **assume no share repurchases or material acquisitions** between 2013E-2017E. We **have assumed limited deleveraging** during our forecast period.
Emerging Markets	Medium	Emerging Markets account for circa **27% of Group revenues with significantly higher growth rates** (low to mid-teens %) than in most developed markets (mid-single-digit)
Acquisitions	Medium	We have anticipated no impact from likely positive bolt-on **acquisitions to supplement the pipeline and add technology platforms** and to add **new service-based offerings** to stimulate further revenue growth in developed markets.
Pipeline delivery	Medium	**Limited visibility** on R&D pipelines as well as a highly diversified revenue base means that whilst new product launches are a key component of growth, they cannot be anticipated or tracked easily.

Threat	Importance	Comment
Adverse weather patterns	High	The US is experiencing a **severe drought**, which is pressuring the livestock market. This **may continue for longer than we have assumed** (H1'13).
Legislative reform	High	Potential changes to veterinary prescribing practices that could **enable pet owners to move to lower cost distributors** of medical products.
Loss of exclusivity/ gross margin	Medium	Largest single product (ceftiofur product line) represents c8% of global revenues. Key known patent expiries include US ceftiofur (2015/24); US Draxxin (2021); US Convenia (2023); US formulation patents for Dectomax (2016/20); US/ Europe/ Canada Revolution (2014).
Competition	Medium	A **highly competitive market** with key competitors remaining part of larger Pharmaceutical companies with potentially **greater operating and financial resources** and **no disruption to their branding or operations**.
Livestock epidemics	Medium	Recent isolated **cases of BSE have been noted** in California (Apr'12) and Brazil (Dec'12). Sudden epidemics could lead to culling of livestock herds, which **could adversely impact revenues**.
Patent challenges	Low	No material patent challenges outstanding

Source: Company data, Jefferies research

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Valuation: Price Target Set at $40

Overall the positive factors associated with the Animal health industry and Zoetis itself lead us to believe that it should trade at a significant premium to the Pharmaceuticals sector. Therefore, we do not advocate the use of Pharmaceuticals companies (with one or two exceptions) in general as valuation comparables for Animal Health companies, such as Zoetis. We tend to prefer companies with similar asset duration profiles and payor characteristics, which we discuss the selection of later in this section.

Our primary method for valuing Pharmaceutical stocks over the past few years has been by setting a premium/discount to the local market PE, dependent upon the relative growth rate and earnings security of the company as we believe this more accurately reflects the traded value of a stock rather than other methods such as DCF and sum-of-the-parts, which better reflect the industrial value of an asset.

However, for Zoetis, the lack of trading history for the company itself and the lack of other directly comparable companies with PE premium history versus the market make this a precarious exercise. Therefore we have chosen our own peer group of companies from other industries and have based our primary valuation methodology on PEG and PE multiple comparison to these names (Exhibit 17).

PEG and PE comps drive a valuation range of $38-43

We derive a PEG-based valuation of $43 using the comparable company group average of 2.02. Placing Zoetis on a PEG of 2.0 (instead of the current 1.58) drives a valuation of $43 per share, which we think is the best overall indicator of its valuation given the significant emphasis on revenue growth, operating and net margin expansion as part of the equity story.

By instead taking the peer group 2013E PE average of 22.5x (versus 23.9x for Zoetis) and assuming that this multiple will hold as a base valuation driver into 2014E, we calculate a valuation of $38 per share.

Exhibit 17: Comparable companies valuation table for Zoetis

Company	Ticker	Rating	P/E 2013E (x)	P/E 2014E (X)	P/E 2015E (x)	P/E 2016E (x)	P/E 2017E (x)	Div. Yield 2013E	Div. Yield 2014E	Div. Yield 2015E	Div. Yield 2016E	Div. Yield 2017E	EPS CAGR 12E-17E	PEG 12E-17E 2013 PE
Allergan	AGN	HOLD	23.1	20.2	18.0	16.0	14.7	0.2%	0.2%	0.2%	0.2%	0.2%	12.6%	1.83
Mead Johnson	MJN	NC	21.8	19.3	16.8	15.4	13.9	1.9%	2.3%	2.4%	2.3%	2.6%	10.9%	1.99
Monsanto	MON	HOLD	22.7	20.1	17.7	17.6	17.2	1.3%	1.2%	1.2%	1.2%	1.2%	10.2%	2.24
Zoetis	**ZTS**	**BUY**	**23.9**	**20.0**	**18.4**	**15.9**	**13.9**	**0.8%**	**0.9%**	**1.0%**	**1.1%**	**1.3%**	**15.1%**	**1.58**

Company	EV/EBITDA 2013E (x)	EV/EBITDA 2014E (X)	EV/EBITDA 2015E (x)	EV/EBITDA 2016E (x)	EV/EBITDA 2017E (x)	EV/Sales 2013E (x)	EV/Sales 2014E (X)	EV/Sales 2015E (x)	EV/Sales 2016E (x)	EV/Sales 2017E (x)
Allergan	13.8	11.5	10.3	9.7	8.9	4.9	4.3	4.0	3.7	3.5
Mead Johnson	14.6	12.9	11.1	10.4	9.5	3.7	3.4	3.0	2.9	2.7
Monsanto	12.5	11.0	9.7	9.5	9.4	3.6	3.3	3.0	3.0	2.8
Zoetis	**15.5**	**13.2**	**12.0**	**10.3**	**8.7**	**4.4**	**4.0**	**3.6**	**3.3**	**2.9**

Company	PE rel to Local Market	PE rel to Local Market 2014E (%)	PE rel to Local Market 2015E (%)	PE rel to Local Market 2016E (%)	PE rel to Local Market 2017E (%)	EBIT Margin 2013E (%)	EBIT Margin 2014E (%)	EBIT Margin 2015E (%)	EBIT Margin 2016E	EBIT Margin 2017E (%)
Allergan	151	144	135	126	122	32.8%	34.4%	35.4%	37.7%	38.1%
Mead Johnson	142	137	127	121	115	23.3%	24.0%	25.0%	24.7%	24.9%
Monsanto	149	143	134	139	143	24.9%	26.1%	27.6%	28.3%	27.1%
Zoetis	**157**	**142**	**138**	**126**	**115**	**25.1%**	**27.3%**	**27.4%**	**29.2%**	**30.9%**

Source: Company data, FactSet, Jefferies estimates

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In terms of the peer group selected for PE and PEG-based valuation we have focused on companies with the following characteristics:

- Connections with the Global nutrition market (Mead Johnson/ Monsanto [MON, $103.38, Hold]) and/ or self-pay medicines (Allergan [AGN, $110.08, Hold]),
- A strong focus on R&D and product innovation,
- Ties to global demographics (ageing population, Emerging Market growth), and
- A double-digit earnings growth equity story with limited dividend yield associated with the company.

Discounted Cash Flow technique also supports a$40 valuation

One danger of relative valuation is of course whether the peer group is correct and whether the group will indeed hold its multiple going forward. For these reasons, we have assessed the long-term value of the company using a three-stage DCF valuation technique. We have made explicit cash flow projections out to 2020E as phase 1, followed by a steadily declining free cash flow growth rate, reducing by 1% per annum, until it reaches the target terminal decline rate of 3% in 2033E. At this point we calculate the final terminal phase of cash flow valuation using a terminal decline rate of 3% into perpetuity.

Exhibit 18 summarises our assumptions and the NPV of cash flows for each phase of this three-stage DCF valuation technique.

Exhibit 18: Summary of assumptions and the NPV of cash flows for each phase of three-stage DCF valuation technique for Zoetis

Metric	Assumption/ Calculation
Terminal growth rate	-3.0%
Discount rate	7.5%
Stage 1 Net Cash Flow PV (2013E-20E)	6,886
Stage 2 Net Cash Flow PV (2021E-33E)	11,135
Stage 3 Net Cash Flow PV (2033E to perpetuity)	5,297
Cumulative PV of Net Cash Flow	**23,318**
Net debt (2012E)	3,200
Total NPV	**20,119**
No. Shares (fully diluted)	504.5
Zoetis Fair Value	**$39.88**

Source: Jefferies estimates

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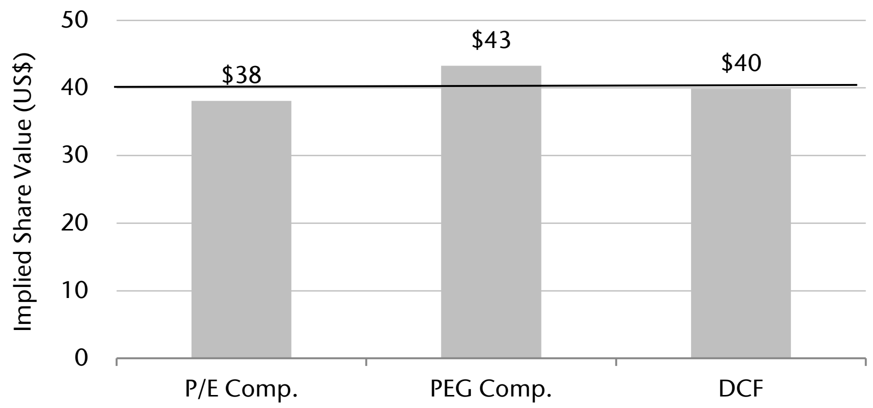
Multiple valuation methodologies support c$40 PT with 19% upside

As summarised in (Exhibit 19), multiple valuation methodologies support a PT in the range of $40 in our view. Whilst we favour PEG ratio derived valuation for high earnings growth stories such as Zoetis, we have used the average of the three valuation methodologies to set our initial valuation for Zoetis.

Exhibit 19: Summary of various valuation methodology results for Zoetis



Source: Jefferies estimates

At present the shares trade at a 55% premium to the US 2014E market PE, which we attribute to three factors:

- A strong underlying revenue story with clear demographic growth drivers,
- High expectation of significant earnings growth with a strong recent track record of margin expansion as well as other points of financial leverage including tax rate and financial efficiencies (deleveraging/ share repurchases) that could be deployed in the future, and
- Scarcity value as the only pure play Animal Health company with significant scale and Global reach.

We see further room for multiple expansion as the management team continues to deliver as a separate public entity and is able to more clearly communicate the revenue growth and margin expansion drivers to the market. We also anticipate that increasing capital allocation towards deleveraging and share repurchases over the next few years could deliver further upside. Last, we think there is a reasonable chance that Zoetis could become an acquisition target over the next few years, though this may be less likely over the next two years as it may have significant taxation implications for Pfizer.

Limited Dividend and Share repurchases expected near term

Whilst we do not expect Zoetis to change the current dividend payout ratio of circa 18% over the next few years, we note that the strong earnings growth of the company (15% EPS CAGR, 2012E-17E) should deliver meaningful increases in the absolute payout to shareholders over time.

In terms of our US Pharmaceuticals coverage universe, Zoetis has the lowest dividend yield expectation throughout our forecast period (Exhibit 20).

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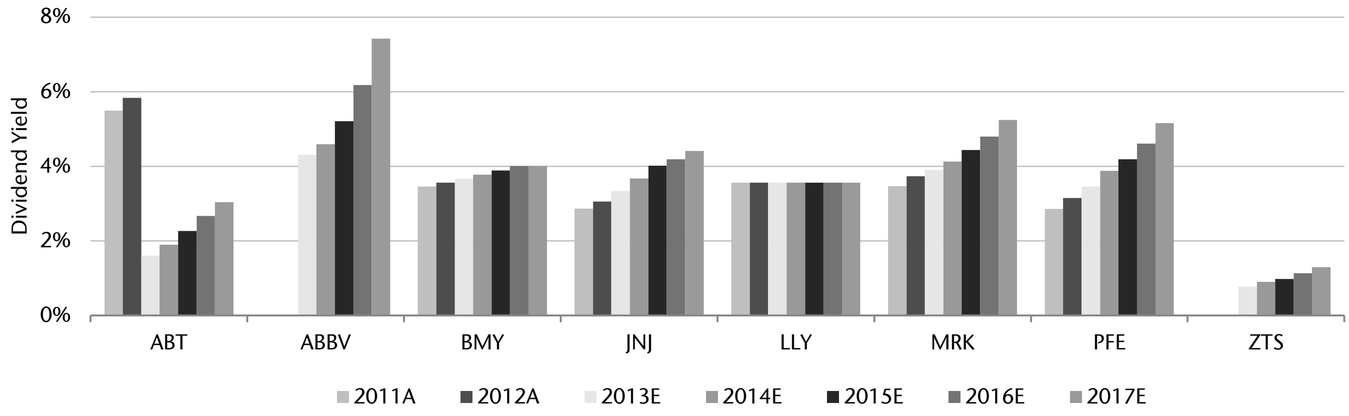
Exhibit 20: Comparative US large cap pharmaceuticals dividend yield progression, 2011A-17E



Source: Company data, DataStream, Jefferies estimates

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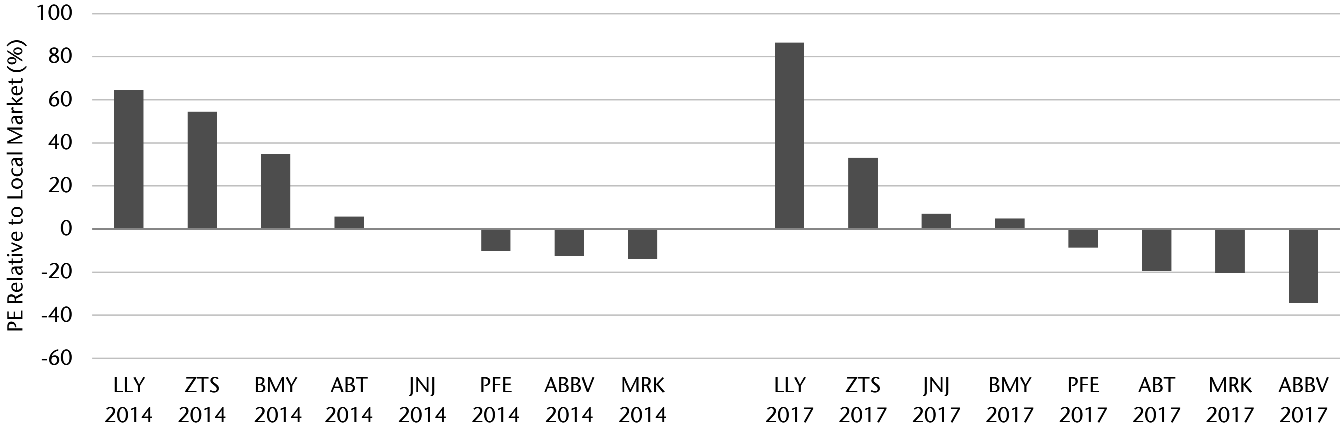
Initiating Coverage with a Buy Rating

Our PT of $40 for Zoetis represents circa 19% upside versus the current price of $33.82, inclusive of a prospective circa 1% dividend yield in 2013E. As a result we rate the shares Buy.

We forecast a five-year earnings CAGR (2012E-17E) of 15.1% for Zoetis versus a weighted average of 7.7% for our US Pharmaceuticals coverage peer group across the same period. Zoetis currently trades on a 2014E PE of 20.0x, at a 49% premium to the US Pharmaceuticals sector and at a 55% premium to the US market based on our estimates.

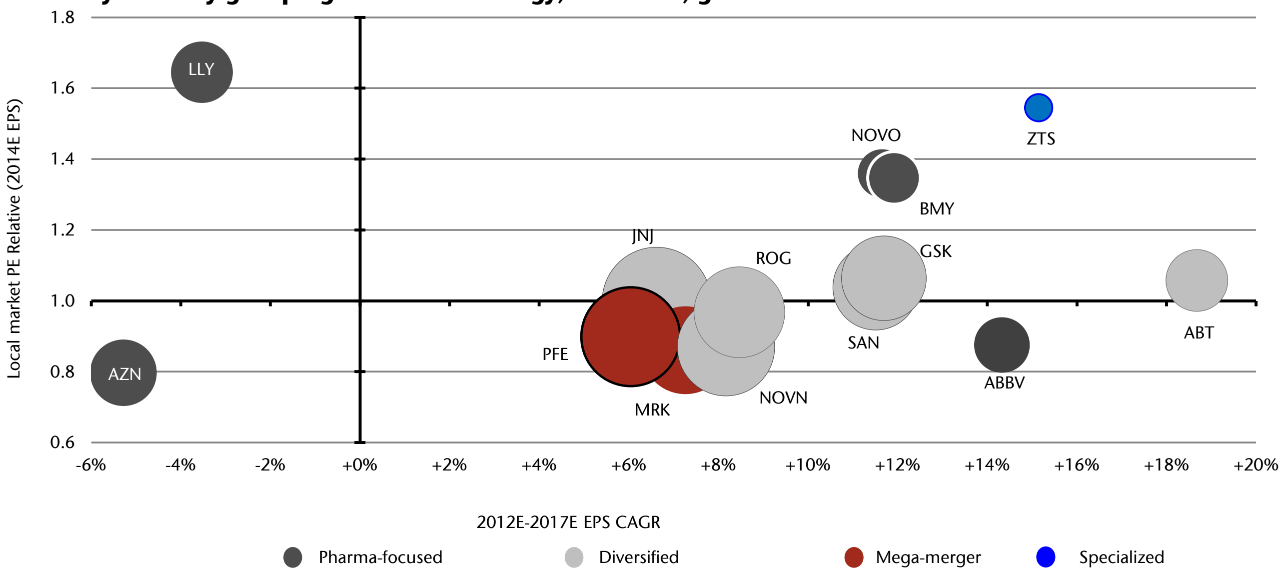
Exhibit 21: PE relative against local domestic market in 2014E and 2017E for Zoetis and US pharmaceuticals



Source: Company data, DataStream, Jefferies estimates

In the context of the Global Pharmaceuticals peer group, Zoetis shows one of the highest earnings growth rates, with only Abbott (ABT, $34.98, Buy) showing superior growth according to our estimates (Exhibit 22).

Exhibit 22: Key industry groupings based on strategy, valuation, growth and size of business



Note: Bubble size is relative to 2013E revenues in $ based on average 2012 exchange rates
Source: Jefferies estimates

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We forecast that Zoetis will deliver better-than-expected earnings growth versus consensus estimates over the next five years, driven primarily by better revenue growth. Furthermore we see the potential for further upside to our estimates from:

- Stronger than expected top line growth from bolt-on acquisitions and a potential rebound in macroeconomic conditions,
- Better than expected margin improvement driven by increased operational efficiencies and operating leverage, and
- More effective capital allocation policies including faster than expected deleveraging and share repurchases funded by a strong cash flow profile.

Exhibit 23: Summary of Jefferies global large cap pharmaceuticals coverage and ratings

Company	Ticker	Rating	MV L.C.	MV $m	Price 12-Mar-13 L.C.	Target price L.C.	Up/down side	Dividend Yield 2013E	Total Return (%)	Revenue CAGR 12E-17E	EPS CAGR 12E-17E	PEG 12E-17E 2013 PE
Abbott*	ABT	BUY	$55,001m	$55,001	$34.98	**$40**	**14.4%**	1.6%	**16.0%**	9.0%	*18.7%	***0.89**
AbbVie*	ABBV	BUY	$59,175m	$59,175	$37.17	**$45**	**21.1%**	4.3%	**25.4%**	6.1%	*14.3%	***0.82**
AstraZeneca	AZN LN	HOLD	£39,979m	$59,571	3070p	**3000p**	**-2.3%**	6.1%	**3.8%**	-3.7%	-5.3%	**NA**
Bayer	BAYN GR	HOLD	€63,700m	$82,902	€77.03	**€79**	**2.6%**	2.5%	**5.1%**	4.9%	11.4%	**1.19**
Bristol-Myers	BMY	BUY	$64,519m	$64,519	$38.22	**$41**	**7.3%**	3.7%	**10.9%**	4.4%	11.9%	**1.73**
Eli Lilly	LLY	UNDERPERFORM	$63,915m	$63,915	$55.08	**$43**	**-21.9%**	3.6%	**-18.4%**	0.0%	-3.5%	**NA**
GlaxoSmithKline	GSK LN	HOLD	£75,645m	$112,714	1499p	**1550p**	**3.4%**	5.2%	**8.6%**	5.2%	11.7%	**1.09**
Johnson & Johnson	JNJ	HOLD	$215,653m	$215,653	$78.56	**$79**	**0.6%**	3.3%	**3.9%**	3.9%	6.6%	**2.18**
Merck & Co.	MRK	HOLD	$137,102m	$137,102	$45.04	**$46**	**2.1%**	3.9%	**6.0%**	2.1%	7.3%	**1.70**
Novartis	NOVN VX	BUY	CHF159,392m	$167,852	CHF65.90	**CHF78**	**18.4%**	3.6%	**21.9%**	3.6%	8.2%	**1.67**
Novo Nordisk	NOVOB DC	HOLD	DKK556,587m	$97,353	DKK999.50	**DKK900**	**-10.0%**	2.2%	**-7.8%**	5.8%	11.7%	**1.84**
Pfizer	PFE	BUY	$210,626m	$210,626	$27.94	**$31**	**11.0%**	3.5%	**14.4%**	1.8%	6.0%	**2.02**
Roche	ROG VX	BUY	CHF182,257m	$191,930	CHF215.00	**CHF230**	**7.0%**	3.7%	**10.7%**	3.7%	8.5%	**1.72**
Sanofi	SAN FP	BUY	€100,450m	$130,731	€75.27	**€85**	**12.9%**	3.8%	**16.7%**	5.4%	11.5%	**1.14**
Zoetis	ZTS	BUY	$17,079m	$17,079	$33.82	**$40**	**18.3%**	0.8%	**19.0%**	6.0%	15.1%	**1.58**
Pan Euro Sector (wtd)				**$843,054**				**3.8%**		**4.0%**	**9.0%**	**1.37**
US Sector (wtd)				**$823,071**				**3.4%**		**3.3%**	**7.7%**	**1.66**
EU+US Average (wtd)				**$1,666,125**				**3.6%**		**3.7%**	**8.4%**	**1.51**

*Note: ABT and ABBV EPS CAGRs are for 2013E-17E as 2012E/13E EPS growth is materially impacted by lack of prior cash EPS disclosure and separation costs

Source: Company data, DataStream, Jefferies estimates

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Business Overview & Management

Corporate History

Zoetis' origins stem back to 1950, when Pfizer researchers discovered a new antibiotic, Terramycin (oxytetracycline), which was shown to be highly effective at controlling a large range of infectious organisms in livestock. In 1952 Pfizer established a dedicated Animal Agriculture Division to promote the new product, renaming it Pfizer Animal Health in 1988. SmithKline Beecham Animal Health was acquired in 1995 expanding coverage into companion animals, whilst also adding a vaccines capability.

In 1997, it launched Rimadyl, the first canine non-steroidal anti-inflammatory. Despite losing patent protection in 2001, this still remains a key brand in the product portfolio and has grown sales by 35% since, highlighting the significant brand loyalty in the animal health area.

In 2003, Pfizer acquired Pharmacia which added a number of animal health assets, particularly to the cattle portfolio and also led to the establishment of the Kalamazoo R&D headquarters. In the same year CSL Animal Health, based in Australia was also acquired.

The launches of Draxxin in 2004 and Convenia in 2006 represented major advances in convenience enabling an entire course of either a livestock anti-infective, or a canine/feline anti-biotic to be delivered in a single shot.

Further acquisitions followed, such as Embrex in 2007, which expanded coverage into poultry devices and vaccines, whilst in 2008 Catapult/ Bovigen moved Zoetis into animal genetics.

Pfizer then acquired Wyeth in 2009 and along with it the Fort Dodge Animal Health business which added a number of significant brands, including ProHeart (canine), Synovex (bovine) and Innovator/ Duvaxyn equine vaccines for West Nile virus. Further expansion in the Emerging Markets was also facilitated through the addition of Vetnax Animal Health in India.

Synbiotics Corp and Microtek International were acquired in 2010, adding further expertise in veterinary diagnostics and expanding into aquaculture vaccines, respectively.

In 2011, Pfizer acquired King Pharmaceuticals and along with it, Alpharma, which further strengthened its presence in the poultry, cattle and swine areas. Meanwhile, in China the Jilin Pfizer Guoyuan JV was established to manufacture vaccines.

Following a portfolio review, in July 2011 Pfizer announced it would explore strategic alternatives for its Animal Health and Nutrition divisions. In June the following year, Pfizer announced it was preparing to file an IPO registration for a minority stake in the Animal Health business. Zoetis then completed its IPO on 31st January 2013, with the result that Pfizer retained 80.2% of the outstanding common stock with the remainder being placed into the hands of institutional investors at an offer price of $26 per share.

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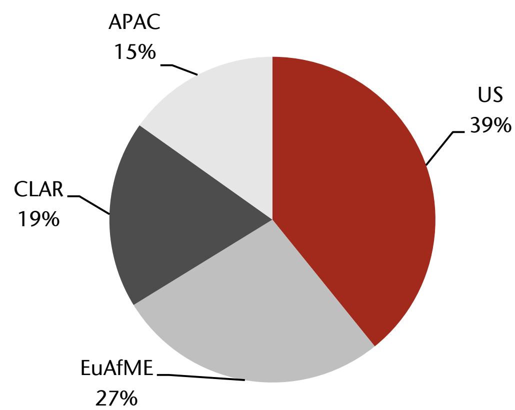
Current Activities

The dominant force in Animal Health

Zoetis discovers, develops, manufactures and markets a wide range of animal health medicines and vaccines. Its portfolio of more than 300 products is spread across both companion animals and livestock, where it is particularly focussed on cattle, swine, poultry and sheep. Approximately 66% of its sales are derived from livestock related products with the remaining third coming from companion animals. It is a global business, with its products now sold in more than 120 countries and directly marketed to livestock producers and veterinarians in around 70 countries.

Zoetis is a market leader in almost all the regions it operates and has also made a concerted effort to build a significant presence in the developing regions of the world, with sales from Emerging Markets already accounting for over a quarter of its total. Nevertheless, the US still remains its single largest market, accounting for around 39% of sales in 2011. In total, it generated over $4.2bn of sales in 2011 representing approximately 20% of the respective global market, positioning it as the global leader in the animal health market.

Exhibit 24: Zoetis 2011A geographic split of group sales (% of total sales)



Source: Company data

Zoetis has about 9,500 employees in total, of which around 3,900 are based in the US. Approximately 4,000 employees are involved in product manufacture, whilst there are approximately 3,400 in the global sales force.

The majority of the products are sold directly to either livestock producers or veterinarians, who in turn also tend to do their own dispensing. This means that direct use and experience tends to drive confidence in any particular product and along with that, brand recognition. When combined with direct marketing this has meant generics have made very little in-road into this market and only pose a limited threat.

As a result the product portfolio appears relatively mature, with much of the R&D effort devoted to brand lifecycle development, leveraging existing animal health products by adding new species claims or creating new combinations and reformulations, or gaining approvals in new markets. Nevertheless, the R&D operation has been highly successful, with around 25% of all animal medicine approvals and about 20% of all the new animal vaccine approvals in the US between 2004 and 2011 being granted to Zoetis.

Zoetis' growth has been derived from both organic and business development. Over the last decade it has carried out a number of transactions, both direct bolt-on deals and also

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as a consequence of larger deals carried out under the umbrella of Pfizer. Recent bolt-on transactions have now expanded Zoetis' offering beyond pharmaceuticals and nutritionals and into diagnostics and genetic screening which will help livestock producers optimize specific characteristics of the animals they are breeding.

Zoetis' products are not just used to improve the health and well-being of the animals concerned, they are also used to increase the efficiency and raise the output of commercial livestock production. As a consequence its products contribute to maximising profitability as well as limiting potential loss, helping to create an important economic demand driver for Zoetis' offering.

Management

The company's leadership team is headed up by Juan Ramon Alaix (CEO) and Richard Passov (CFO). Beneath them are R&D managers and four regional managers who between them have overall responsibility for the day-to-day running of the various Zoetis operations.

Juan Ramon Alaix – Chief Executive Officer: Mr.Alaix was appointed CEO of Zoetis in July 2012. He joined Pfizer as a regional President in 2003, having previously been at Pharmacia where he had held the position of country president for Spain since 1998. Prior to taking up the role as CEO, he was appointed president of Pfizer Animal Health in 2006, where he was responsible for the overall strategic direction and financial performance of the company.

Richard Passov – Executive Vice President and Chief Financial Officer: Mr. Passov was appointed executive vice president and chief financial officer in July 2012. Prior to this he had held the position of senior vice president and treasurer of Pfizer Inc. since 2001. Having previously worked in financial roles at Sun Microsystems and Intel he joined Pfizer in 1997 as an assistant treasurer.

Joyce Lee – Executive Vice President and Area President, Canada & Latin America Region: Ms. Lee was appointed to her current role in October 2012, having held the same position in Pfizer Animal Health since 2010. She also leads the aquaculture business which is primarily concentrated in the region. Prior to this she was vice president, Global Poultry. She has held various positions in the animal and human health industry, having previously worked for Pharmacia, joining Pfizer in 2003 at the time of its acquisition.

Clinton Lewis, Jr. – Executive Vice President and President, US Operations: Mr. Lewis was appointed to this role in October 2012, having originally joined Pfizer Animal Health as president, US Operations in 2007. Having joined Pfizer in 1988 as a sales representative, he held positions of increasing responsibility across various commercial operations dedicated to human health, prior to joining animal health, including vice president and general manager of Pfizer's US Anti-Infectives/HIV business unit.

Alejandro Bernal – Executive Vice President and Area President, Europe, Africa and Middle East Region: Dr. Bernal had previously held this position at Pfizer Animal Health since 2010, taking up his current role in October 2012. Alejandro joined Pfizer Animal Health in 2000 and has since worked in positions of increasing responsibility. In 2007 he became a member of the Pfizer Animal Health leadership team as area president for the Canada & Latin America region.

Stefan Weiskopf – Executive Vice President and Area President, Asia Pacific Region: Mr. Weiskopf was appointed to this position in October 2012. He had previously held the same position at Pfizer Animal Health since 2007. Prior to this he was responsible

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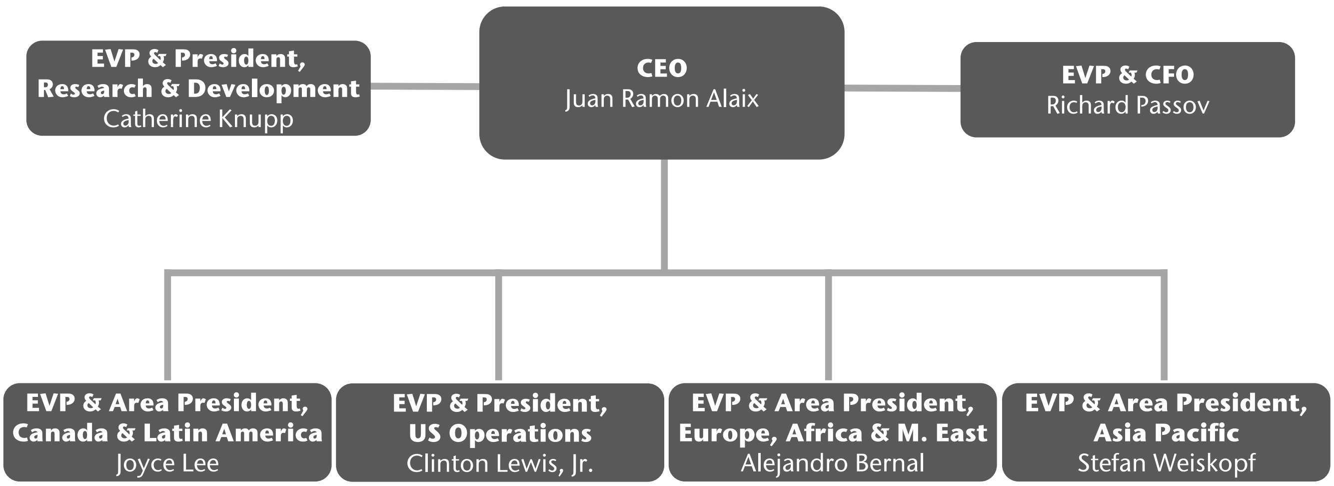
for the company's operations in Germany, Austria and Switzerland. He originally joined Pfizer Animal Health in 1986 working in a variety of roles of increasing responsibility.

Catherine Knupp – Executive Vice President and President, Research and Development: Prior to taking up her current role in October 2012, Dr. Knupp had held the equivalent position at Pfizer Animal Health since 2005. Before this she led Pfizer's Michigan laboratories in pharmacokinetics, dynamics and metabolism and chaired the Midwest exploratory Development Management Team in Pfizer Global Research and Development. She joined Pfizer in 2001, having started her career at Bristol-Myers Squibb in 1987.

Exhibit 25: Zoetis management organization chart



Source: Company data

Corporate Activity

Over the last decade it is notable that Zoetis, or Pfizer Animal Health as it was, has benefited from a significant number of M&A transactions. This has either been the result of strategic standalone transactions, or as a consequence of larger deals executed by its then parent, Pfizer, that brought animal health assets along with them. The main benefit of the M&A strategy has been to expand the company's coverage, either into new animal segments, technologies or geographies.

An important early transaction was the acquisition of SmithKline Beecham Animal Health in 1995. This was acquired for $1.45bn and expanded the business from a predominantly livestock-focused operation into the companion animal market, whilst also turning it into a world leader in animal vaccines.

In 2003, Pfizer took over Pharmacia. Inclusion of the animal health assets that accompanied this deal was the main contributor to the division's 43% increase in revenues, to $1.6bn, in that year. Pharmacia's business was predominantly livestock focused and significantly expanded the cattle portfolio. It also added CSL Animal Health for $126m, expanding the company's presence in the Australian market.

In 2007 Embrex was acquired for $155m expanding coverage into the poultry devices and vaccines market with the Inovoject automated inoculation systems. The following

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year it acquired two related companies, Catapult Genetics and Bovigen, for an undisclosed amount. The transaction moved Zoetis into DNA testing and gene markers, enabling farmers to tailor specific attributes of the animals they are rearing and so improve their quality.

Pfizer announced the $68bn Wyeth acquisition in 2009. This deal added the Fort Dodge Animal Health business to Zoetis' franchise, adding a number of key brands such as ProHeart for dogs, Synovex for cattle and the Innovator/Duvaxyn equine West Nile Virus vaccine along with a complementary poultry business. Zoetis estimates the Fort Dodge part of the transaction was valued at circa $2.3bn. In the same year a private Indian company was also bolted-on to expand the emerging market geographic reach in poultry, livestock and companion animals. Two further bolt-ons were completed the following year, adding immunodiagnostics as well as aquatic vaccines and diagnostics.

The last significant transaction prior to the Zoetis IPO occurred at the beginning of 2011 and resulted from Pfizer's $3.6bn acquisition of King Pharmaceuticals which brought with it Alpharma (King Animal Health). This further strengthened the presence in production animals, particularly cattle and swine, whilst also adding medicinal feeds to poultry.

Most disposals, though few and far between to date, appear to have been the consequence of competition requirements to facilitate the approval of the acquisition of a larger entity.

Exhibit 26: Zoetis – Strategic acquisitions

Name	Date	Last full year's sales	Value (US$)	Rationale
Alpharma (King)	Jan-11	376m	345m	Alpharma (King Animal Health) was acquired as part of Pfizer's $3.6bn King Pharmaceuticals acquisition, of which Zoetis estimates $345m related to KAH.
Synbiotics	Dec-10	N/A	24m	Private company producing immunodiagnostic tests for companion and food production animals.
Microtek	May-10	N/A	6m	Company focussed on producing aquatic vaccines and diagnostics for fish farming.
Vetnax	Dec-09	N/A	65m	Private company focussed on poultry, livestock and companion animal healthcare in India.
Fort Dodge Animal Health (Wyeth)	Oct-09	*0.9bn	2.3bn	Fort Dodge Animal Health was acquired as part of Pfizer's $68bn Wyeth acquisition, of which Zoetis estimates $2.3bn related to FDAH. (* 2009 estimate from company data)
Bovigen	Q1-08	N/A	N/A	Bovigen markets and services Catapults products throughout the Americas
Catapult Genetics	Q1-08	N/A	N/A	Livestock DNA testing and gene markers for improving food production quality
Embrex	Q1-07	52.5m	155m	The Embrex Inovoject system for inoculating animals expands the business in poultry devices and vaccines.
CSL Animal Health	Dec-03	N/A	126m	Increased the company's presence in Australia and New Zealand
Pharmacia	Apr-03	14bn	56bn	The animal health assets that were acquired as part of Pfizer's Pharmacia transaction increased the presence in cattle and drove the majority of the 43% revenue increase to $1.6bn in 2003.
SmithKline Beecham Animal Health	Jan-95	605m	1.45bn	A world leader in animal vaccines and companion animal health products. Its portfolio and geographical presence complimented Zoetis'

Source: Jefferies estimates, company data

Ownership and shareholder structure

Following the initial IPO, Zoetis only has a limited free float of c19.8%, with Pfizer still retaining the remaining c80.2% holding. Although the IPO was initially only going to place c17.2% of the shares, high investor demand meant that a "green shoe" was added increasing the placing to 19.8% of the outstanding stock. With the IPO having only occurred recently, there is only very limited information on the ownership profile of the c20% free float. However, given the high level of interest in the stock at the time of the IPO it seems likely that virtually all the free float will still be in the hands of investment managers.

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Zoetis' capital structure consists of two classes of common stock, Class A and Class B. The Class A stock was placed with investors in the recent IPO, while Pfizer still retains the Class B stock.

In total the authorized share capital consists of 6,000,000,000 shares of common stock with a par value of $0.01. There are 5,000,000,000 Class A shares, of which 99,015,000 are outstanding and 1,000,000,000 Class B, of which 400,985,000 are outstanding. Both classes have the same rights, other than in the matters of voting and conversion. Jefferies LLC acted as a Book Runner on the IPO of Zoetis (ZTS) which priced at $26/ share on 1/31/12. The IPO totalled 88.015m shares of class A common stock.

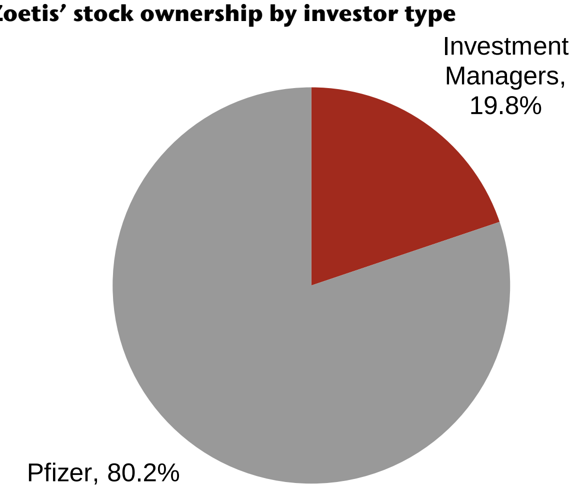
Both classes carry the same voting rights in all matters other than on the election of directors, when Class A will carry one vote and Class B will carry ten votes per share. Class B shares, that are held by Pfizer are convertible into Class A at any time at the discretion of the holder.

Zoetis described in its S1 filing that Pfizer has indicated it may make a tax-free distribution to its stockholders of all, or a portion of its remaining interest in Zoetis, effected as a dividend and in exchange for Pfizer shares, or other securities. It also highlighted that Pfizer has no obligation to pursue this route. Pfizer has received a private letter from the IRS that such a distribution would be tax free for both Pfizer and its stockholders.

On top of the authorized common stock discussed above, Zoetis also has 1,000,000,000 shares of preferred stock authorized (par value $0.01); however, there are no preferred stock outstanding.

Zoetis has also declared that it will file an S-8 to register the issuance of an aggregate of 25m shares of common stock which will be reserved for issuance under the Zoetis 2013 Equity and Incentive Plan.

Exhibit 27: Zoetis' stock ownership by investor type



Source: Company data, Jefferies estimates

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Mead Johnson may set a good precedent on timing and impact of a potential share exchange offer from Pfizer

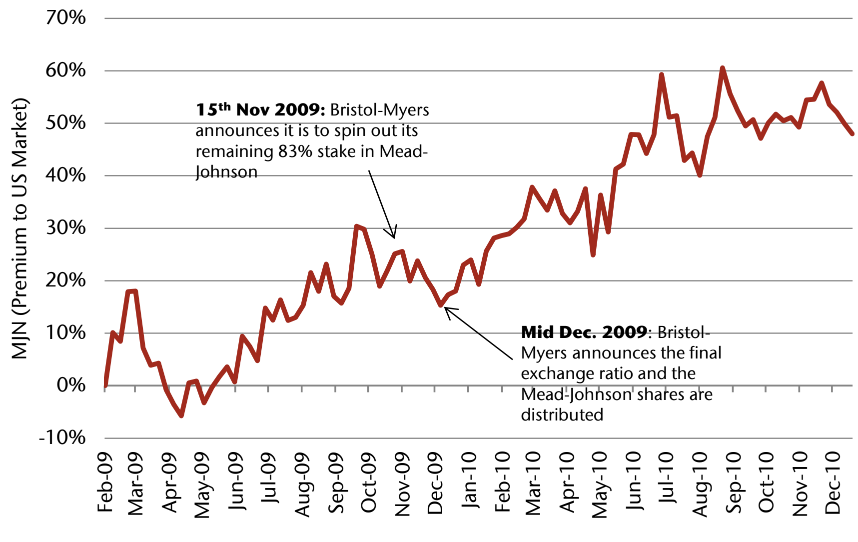
The whole shareholder structure and process of initial public offering of an initial modest c.20% stake followed by a potential distribution by way of a share exchange of the remainder is analogous to Bristol-Myers Squibb's spin out of Mead Johnson in 2009. As such it may be informative to examine how the process unfolded and how the market reacted to the initial placing and subsequent final split.

In February 2009 Bristol-Myers completed an IPO of a circa 17% stake in its Mead Johnson nutritionals business. The process occurred after what had been a low period for IPOs and was the largest such transaction seen for 10 months. It was also a relatively unique asset being a stand-alone, high growth (14% revenue growth in the 9 months to September 2008), defensive nutritionals business. Following a period of market turmoil the transaction was well received by the market and the stock rallied 10% on its debut. The initial transaction raised $720m for Bristol-Myers.

Bristol-Myers continued to hold the remaining c83% stake in Mead Johnson, predominantly in the form of Class B common stock, which was identical to the Class A stock that had been offered in the IPO, except with respect to voting and conversion rights.

The attractive proposition of high, yet defensive growth resulted in the shares continuing to outperform the US market over the remainder of 2009, with the shares rerating from the $24 IPO price to over $40 by November. On 15th November, Bristol-Myers announced it was to spin out the remaining 83% stake by way of a share exchange, converting its Class B stock to Class A. Bristol-Myers shareholders were able to exchange Bristol-Myers stock for new Mead Johnson Class A common stock in a tax-fee transaction. The exchanged Bristol-Myers stock was cancelled, driving earnings accretion for Bristol-Myers.

Exhibit 28: Mead Johnson share price performance relative to the US Market (Feb'09 - Dec'10)



Source: Jefferies estimates, company data, Datastream

Following Mead Johnson's significant outperformance, the announcement that a further 83% of the company was soon to be on the market caused the stock trend to reverse and it began to underperform (Exhibit 28).

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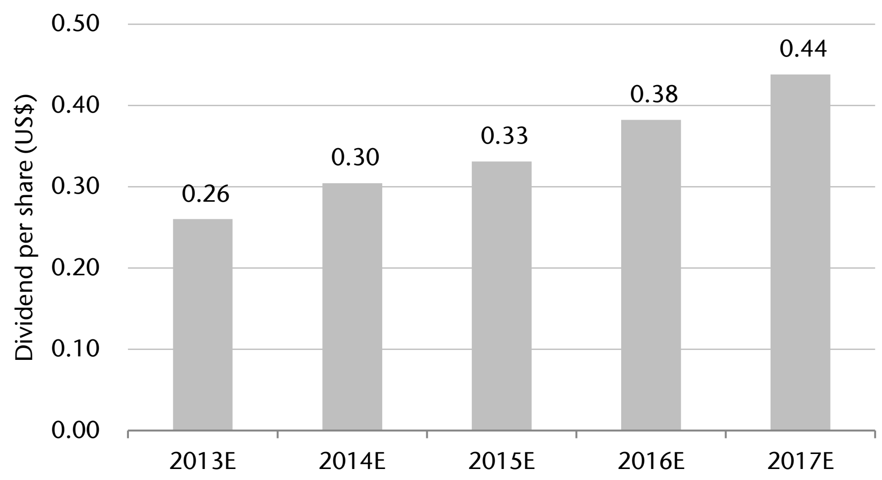
The Mead Johnson shares were to be exchanged at a 10% discount to a ratio that was determined by taking the average share prices of Bristol-Myers and Mead Johnson over a designated three day period and simply dividing one by the other, with the ratio subject to a cap. The exchange offer was almost twice oversubscribed.

Mead Johnson shares continued to underperform until mid-December when the finalised exchange ratio was announced and the Mead Johnson shares distributed. In total 269m Bristol-Myers shares were exchanged for 170m Mead Johnson. From then on the Mead Johnson stock outperformed for most of 2010.

Dividend policy

Zoetis stated in its S1 offering document that, at the discretion of the board of directors, it intends to pay a quarterly cash dividend to its Class A and Class B common stockholders. The dividend is initially intended to be set at $0.065 per share. It further notes that investor returns will be primarily dependent upon the share price performance of the Class A common stock as it intends to retain most of the company's future earnings for use in the development and expansion of the business, the paying down of debt and for general corporate purposes. Our dividend forecasts are shown in the chart below (Exhibit 29).

Exhibit 29: Zoetis dividend forecasts, 2013E-17E



Source: Company data, Jefferies estimates

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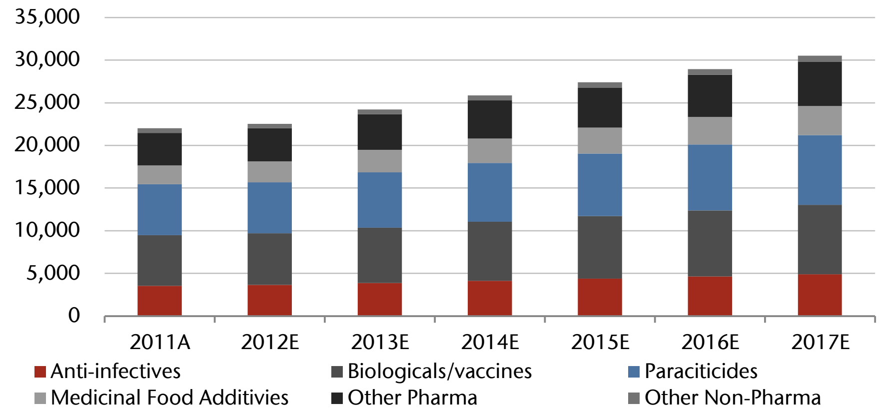
Animal Health Industry Overview

The total Animal Health market is worth approximately $100bn in annual revenues including all products and services such as feed, medicines, vaccines, diagnostics, medical devices, pet supplies, nutritional supplements, veterinary services and other related services. The Medicines, Vaccines, Medical Feed Additives and Parasiticide segments, which are the primary focus of Zoetis, are worth approximately $22bn and is projected by us to grow at a CAGR of 6.3% between 2012E-17E.

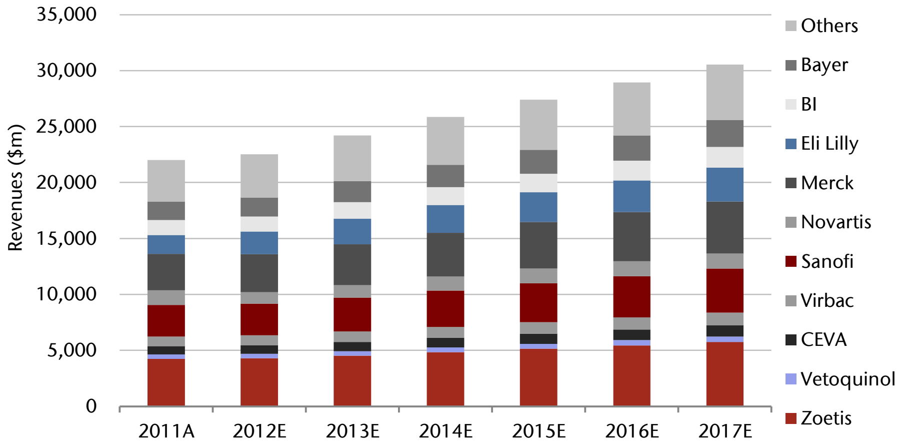
Exhibit 30: Animal health market for medicines, vaccines, medical feed additives and parasiticide revenue forecasts, 2011A-17E ($m)



Source: Company data, Jefferies estimates

Zoetis is the largest player in this market with 2012E revenues estimated at circa $4,305m, or an estimated 19% of the total market in that year. We estimate that the top 10 players represent 83% of the total market, though just the top three players (Zoetis, Merck & Co. and Sanofi) hold circa 47% of the market between them (Exhibit 31).

Exhibit 31: Animal health market revenue forecasts split by key participants, 2011A-17E ($m)



Source: Company data, Jefferies estimates

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It's Pharmaceuticals, but not as we know it

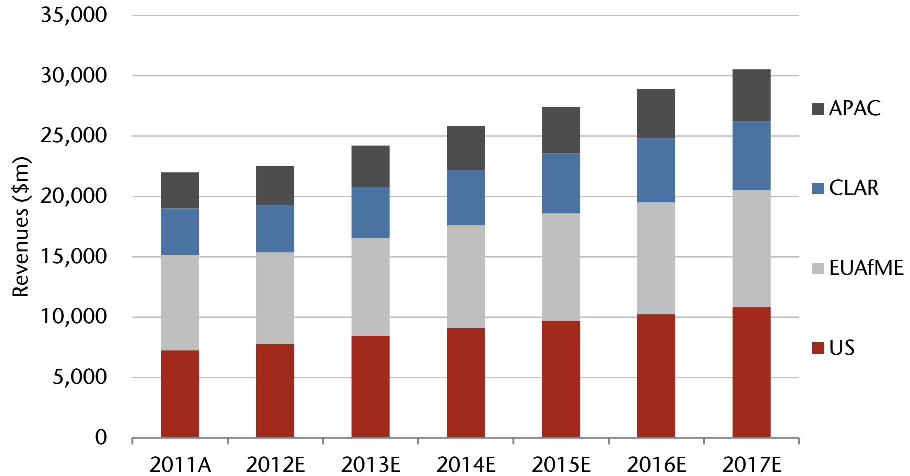
Whilst the basic prinicples of researching, developing, manufacturing and commercialising Animal Health products such as prescription drugs and vaccines are very similar to those for humans, some key differences make the Animal Health market much more appealing. In addition the drivers of growth are stronger in our view, with a much stronger demographic pull than is seen for Human prescription medicines. In this section we describe the key dynamics, players and markets for Animal health, whilst focusing on the differentiating features from Human health, namely:

- Stronger growth drivers exist in our view,
- The pricing environment is more benign,
- Asset durations are longer,
- More highly diversified product portfolios, and
- R&D productivity is higher.

Stronger growth drivers exist in our view

Just as with Human medicines and vaccines, demographics and increasing affluence in Emerging Markets act as strong base growth drivers. Whilst regions with increased exposure to Emerging Markets (i.e. CLAR, APAC) are expected to show the high-single-digit growth rates, even the more developed markets such as the US and Europe are expected to sustain mid-single-digit growth rates.

Exhibit 32: Animal health market revenue forecasts split by key geographic regions, 2011A-17E ($m)



Source: Company data, Jefferies estimates

On the livestock side of the market these factors are likely to drive 3- to 4-fold increases in demand for meat and dairy products over the next 40 years. Whilst similar demographic drivers could be argued for human pharmaceuticals, the animal production market is challenged by significant resource constraints (arable land, water and food sources) that are likely to result in sustained growth in the demand for medicines, vaccines and feed additives that result in improved productivity (feed conversion, yield and production cycle times) based on existing resources.

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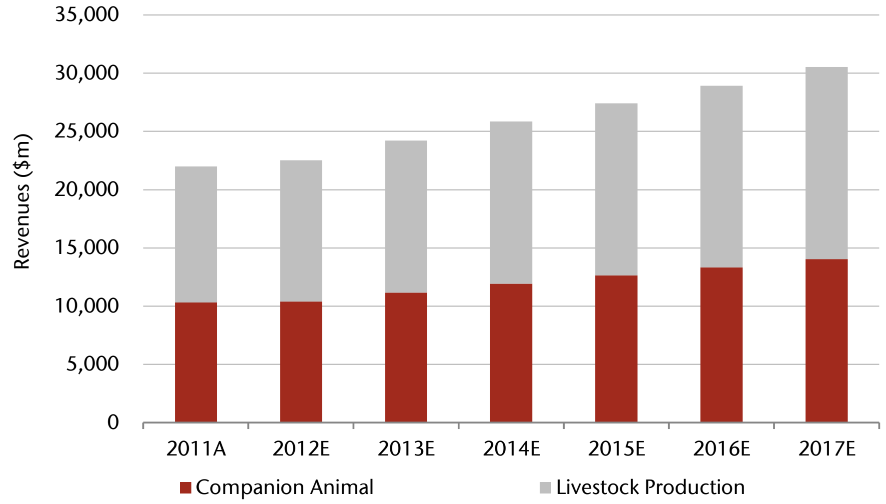
The Companion Animal market sees increasing pet ownership as well as increased medicalization of pets as key drivers of growth in the future with Emerging Markets in particular being the most significant opportunity.

Exhibit 33: Animal health market revenue forecasts split by livestock production animal and companion animal markets, 2011A-17E ($m)



Source: Company data, Jefferies estimates

More benign pricing environment and streamlined payor decision-making

An additional significant part of the overall expected better growth prospects for Animal Health over Human health is the more benign pricing environment. More specifically, the increasing demand for Human prescription medicines has seen a number of controls from payors to help control burgeoning healthcare costs of which pricing pressure has been a major weapon in the overall arsenal. Managed care and healthcare reform in the US as well as more aggressive austerity measures and reference pricing policies in other regions have had a major impact on the pricing power of the Human Pharmaceuticals industry, with negative price growth seen in most territories outside of the United States.

A key difference in Animal Health markets is that there is little direct involvement from governmental or managed care type organizations. The key payors are large livestock producers who pay “out of pocket” and veterinarians who rely on direct sales of pharmaceuticals, vaccines and anti-parasitics to pet owners to drive their businesses. Therefore, there is much less resistance on pricing than in Human health due to the lack of large centralised decision makers that are not the actual users of the product.

These factors lean the Animal Health business towards greater promotional sensitivity as key decision makers are often the user (in the case of production animals) or only one step removed from the user (as in the case of veterinarians). Therefore we see greater traction and returns in the Animal Health industry from direct selling and promotional efforts, which has become less effective in recent times in human healthcare as “gatekeepers” such as managed care and pharmacies have been incentivised to reduce overall costs.

Whilst there are clear pricing advantages in the pricing power of Animal Health medicines over Human products, we would point out several threats that could weaken these in the future. First, we expect that livestock producers will become increasingly consolidated and therefore more able to assert pricing pressure on their suppliers (such as Zoetis) in the

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future. Second, as has already occurred with Human Health, use of internet-based resources could lead to increasing "owner-diagnosis" of their pet's conditions as well as the use of Internet-based retailers, "big-box" retail stores or other over-the-counter distribution channels to access companion animal products at lower prices.

Longer asset duration improves returns

In addition to stronger overall pricing power, the Animal Health industry also displays longer asset duration profiles, more akin to branded consumer staples than branded human Pharmaceuticals, which often show rapid declines in revenues once their market exclusivity expires. Because medicines represent a very small percentage of the overall production costs of meat and milk (circa 2%) the temptation to use (what may be inferior) generic alternatives does not represent a significant saving when compared to the potential risk of using cheaper generic alternative. In the case of Companion Animals, the veterinarian's recommendation to the owner is often key and the practitioner has little incentive to offer a cheaper generic alternative when the absolute profits from the sale of a branded product may be substantially higher.

Whilst Zoetis can rely on its patents to protect market exclusivity on some products, only 20% of its portfolio is covered by market exclusivities protected by patents or other means, some of which will expire over the next few years. Furthermore we are aware of legislation in the US that is currently being proposed to force veterinarians to offer pet owners written prescriptions and disclosure that the pet owner may fill prescriptions through a third party. This could potentially lead to increased use of generic alternatives to Zoetis' products or the increased substitution of its products with other Animal Health products or human health products if such other products are deemed to be lower-cost alternatives. Many states already have regulations requiring veterinarians to provide prescriptions to pet owners upon request and the American Veterinary Medical Association has policies in place to encourage this practice. Over time, these and other competitive conditions may increase Zoetis' reliance on Internet-based retailers, "big-box" retail stores or other over-the-counter distribution channels to sell their companion animal products, which could adversely impact realised prices and profits.

The Animal Health industry is also more amenable to ever-greening strategies for medical products, such as reformulation, than the Human Pharmaceuticals market. This is because the perceived advantages of such products can be more easily transmitted to and received by the payor and/ or key decision maker. Last, we note that the industry has demonstrated extremely strong brand loyalty in the past as perceptions of quality and reliability are extremely important to livestock producers, in particular. This helps to further extend the duration of branded products once generics make it into the marketplace.

More highly diversified product portfolios

Even once the stronger pricing power and lower exposure to generic usage are factored in to the overall growth profile of the industry, Animal Health companies generally benefit from more diversified product portfolios for the simple reason that they tend to cover more species (>7 in most cases) than Human Health companies (which of course only cover 1 species). Furthermore, different regions of the world have their own distinct needs based on the varying species mix and disease burden present. This helps to balance the overall risk profile of companies, making them less reliant on any one particular product than is generally the case for Human Pharmaceuticals companies.

Whilst this is true for most companies in the Animal Health industry, it is particularly so for Zoetis with just 8% of its sales in 2011 being represented by its largest product line, ceftiofur. This compares well versus the Animal Health industry average of 21% across the largest players with only Merck & Co. showing a more diversified revenue base.

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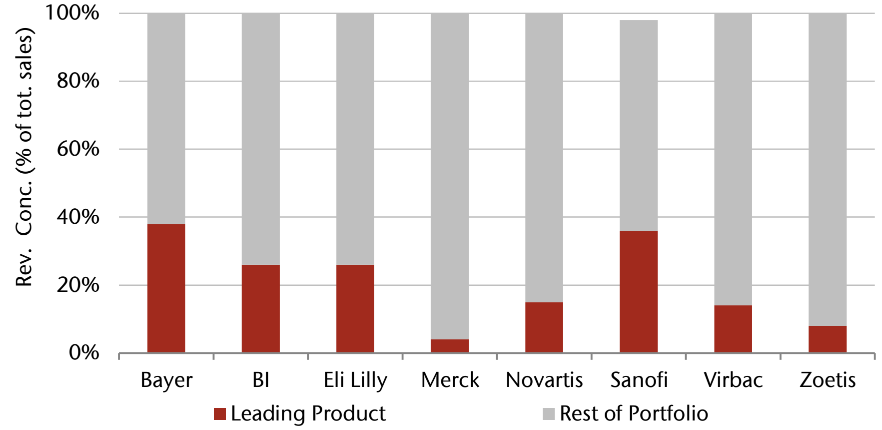
Exhibit 34: Revenue concentration from leading product as a percentage of total sales, 2012E (%)



Source: Company data, Jefferies estimates

Higher R&D productivity

One further point of major differentiation between Animal Health and Human Health medicines and vaccines is that the R&D productivity is superior with shorter development times, as well as lower risks and costs. Animal Health products typically show faster research and development timelines in all stages ranging from research through to the regulatory review process. In aggregate total development timelines are typically 2.5 to 5 years faster than in Human drug development.

Most importantly, overall productivity is generally better than for Human pharmaceuticals due to higher success rates. This primarily comes from the fact that novel agents can be studied in the target species of animal earlier during the R&D process. A second key driver of higher success rates is that the Animal Health market is still more amenable to reformulation as a means of drug development, which is typically a low risk venture as the active ingredient is already known to be safe and effective. Furthermore, a number of products are derived from treatments that have already been developed for the Human Health market.

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Base Business Review

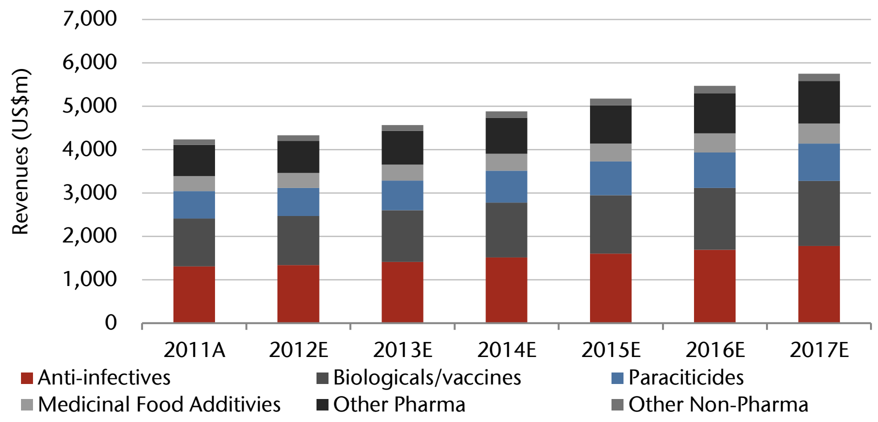
Overview

Zoetis is the world's largest Animal Health company focused on the discovery, development, manufacture and commercialization of veterinary vaccines and medicines with estimated revenues of circa $4.3bn in 2012E (Exhibit 35). The company has sales in 120 countries and employs more than 9,000 people of which more than 1,000 are veterinary R&D scientists and specialists.

In terms of the product portfoilio, Zoetis has a leading position in anti-infectives, with second-place positions in Medical Feed Additives and Vaccines and a third-place market share position in Paraciticides.

We estimate that circa two-thirds of Zoetis' revenues were from Livestock products in 2012E, with the remainder being in the Companion Animal market. The company is the leading seller of products for cattle and swine and holds the number two position in the Companion Animal and Poultry species segments.

Exhibit 35: Revenues growth by key product category segmentation, 2011A-17E ($m)



Source: Company data, Jefferies estimates

Four Key Geographic Regions

With significant differences in growth and customer needs across regions, Zoetis management believe that geographic segmentation of the business is the most meaningful way to help understand the underlying growth drivers and profile of the company. For Zoetis, there are four key regions, namely:

- United States (US), representing circa 41% of revenues in 2012E at $1,752m,
- Europe/ Africa/ Middle East (EuAfME), representing circa 25% of revenues in 2012E at $1,083m,
- Canada/ Latin America (CLAR), representing circa 18% of revenues in 2012E at $781m,
- Asia/ Pacific (APAC), representing circa 16% of revenues in 2012E at $689m

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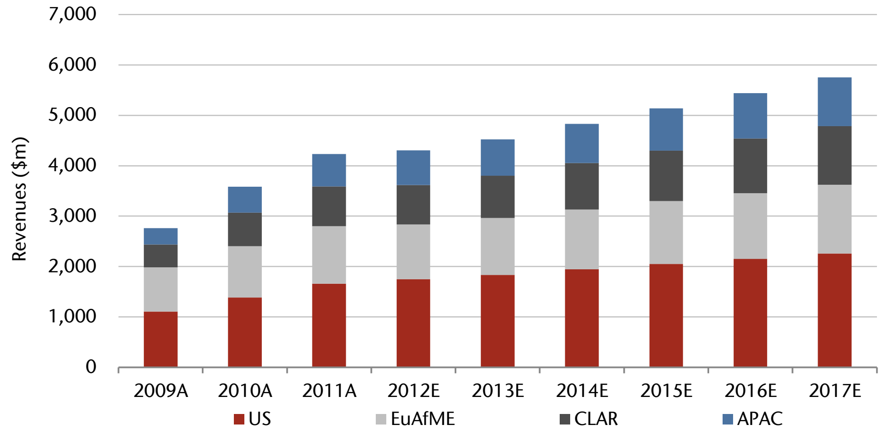
Zoetis dominates its competition with a No. 1 market share position in most geographic segments, with the exception of Western Europe where it holds a No. 2 market share position.

Exhibit 36 shows our revenue estimates for the company split by the four key geographic segments during the period of 2009A-17E. As can be seen, the business experienced significant growth in 2009A-11A due to the acquisitions of Fort Dodge Animal health (FDAH) on October 15, 2009, and King Animal Health (KAH) on January 31, 2011. Key features of these acquisitions were that FDAH added significant canine and cattle brands along with equine and poultry vaccines, whilst KAH further strengthened the poultry, cattle and swine business areas.

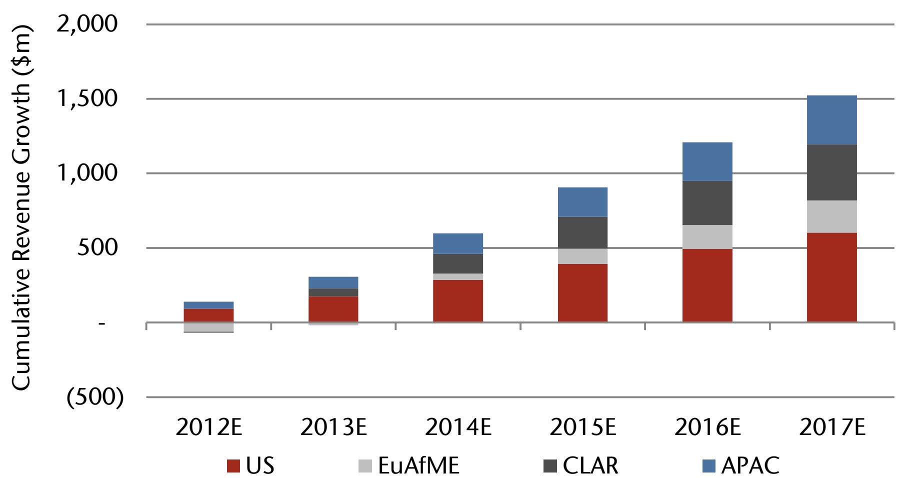
Exhibit 36: Revenue growth split by geographic operating segment, 2009A-2017E ($m)



Source: Company data, Jefferies estimates

Exhibit 37 shows how the various geographic operating segments contribute to growth through our forecast period of 2012E-17E.

Exhibit 37: Cumulative revenue growth by geographic operating segment, 2012E-17E ($m)



Source: Company data, Jefferies estimates

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- The US is expected to show the greatest overall absolute contribution to revenue growth in this period due to the size of the base business in 2011A and CAGR of 5.2% (2012E-17E).

- Canada/ Latin America is expected by us to be the second most important contributor to growth during our forecast period. This predominantly reflects the relative strength of the developing economies combined with the benefits of some recently launched swine products. Overall we expect a CAGR of 8.3% for this region during our forecast period (2012E-17E).

- The Asia/ Pacific region is expected to be the next most important contributor to growth during our forecast period. Again, this is predominantly a reflection of the relative strength of the emerging economies, with demand for poultry products likely to be a specific focus in this region. Overall we expect a CAGR of 7.0% for this region during our forecast period (2012E-17E).

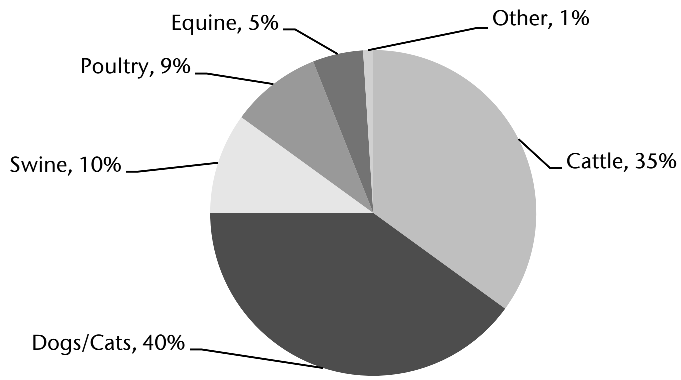
- EuAfME is actually expected to be a drag on the business in 2012E and 2013E as a result of the continuing challenging macroeconomic environment and strict regulatory environment. However, we do expect that these issues will annualise or be addressed by management over the next few years so that the region returns to growth from 2014E, with an overall CAGR of 4.7% (2012E-17E). However, due to the slowdown in 2012E/ 13E we expect that the EuAfME region will be the least important contributor to growth during our forecast period.

In the following sections we give a more detailed overview of each of these key geographic operating segments in terms of recent quartlerly growth trends and our near to mid term forecasts.

US Operating Segment

The US operating segment of Zoetis is expected to generate $1.75bn of revenues in 2012E with a revenue CAGR of 5.2% over the next five years (2012E-17E). The two largest segments of the business by revenue are Companion Animals (circa 40%) and Cattle (circa 35%) with Swine, Poultry, Equine and other species representing 10% or less of sales each (Exhibit 38).

Exhibit 38: US operating segment revenue split by species, 2012E (%)



Source: Jefferies estimates

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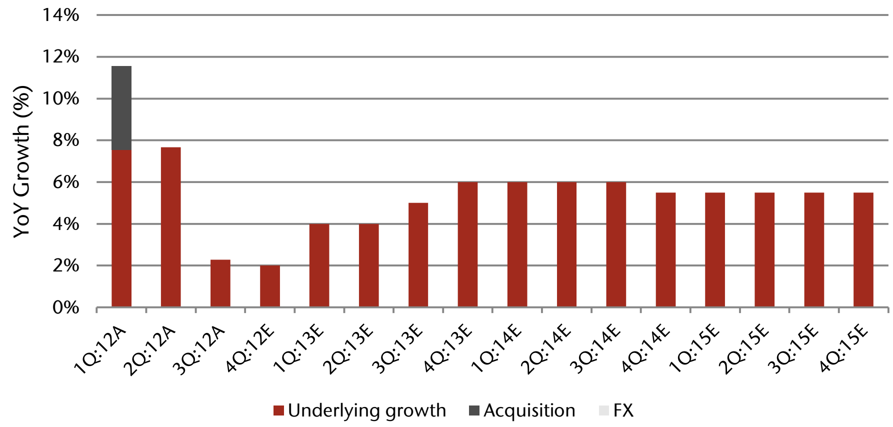
In recent times, notably in Q3'12, the US operations have seen a slowdown in revenue growth due to a number of factors, including:

- Negative impact from the economy in general,
- A degree of channel shifting in the pet OTC/ retail segment, though the role of the vetenarian remains extremely important as more than 90% of Zoetis' Companion Animal portfolio is prescritption based,
- Increasing customer consolidation, and
- The impact of a severe drought on livestock production and cattle revenues in particular, which has meant that the majority of growth in the US during 2012 has been driven by the Companion Animal segment.

More positive recent trends on the livestock side of the business during 2012 in the US have included increased demand for medical feed additives in swine due to an outbreak of gut infections in late stage pigs, the launch of an improved formulation of a swine vaccine to prevent porcine circovirus type 2 and increased demand for premium anti-infectives in cattle and swine due to intensified promotional efforts by Zoetis. The Companion Animal side of the business saw strong revenue growth in paraciticides due to an extended tick and flea season caused by unusually warm weather and a competitor supply issue.

As can be seen in Exhibit 39, we expect that the US operations will deliver robust revenue growth over the next few years despite some of the recent pressures, with the largest single variable being the extent and duration of the drought given its severity and the business' concentration on the cattle market in the United States. We would remind investors that the US is experiencing its worst drought in 50 years and as a result many producers have been accelerating the culling of their inventory as pressures on feed prices and grazing pasture continue to impact the profitability of beef production.

Exhibit 39: US geographic operating segment quarterly revenue growth, Q1'12A-Q4'15E (%)



Source: Company data, Jefferies estimates

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Furthermore, to help offset some of the recent pressures highlighted above, we expect Zoetis to increase its growth potential in the US market through a number of initiatives including:

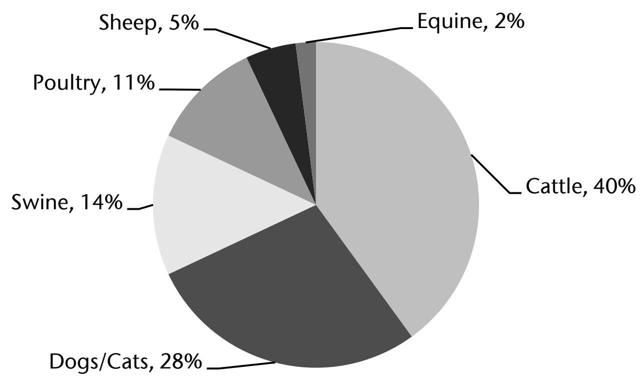
- Launches of innovative new products as well as lifecycle management of existing products through label extensions and generic offerings,
- The implementation of outcomes research and strategic pricing to enhance the competitiveness of Zoetis' offerings,
- Launch of new business platforms including diagnostics, genetics and other service based offerings, and
- Use of multi-channel marketing and telesales to generate incremental revenue.

As a result we expect that the US operations will deliver revenue growth in the 4-6% range in 2013E, before trending back towards the industry growth rate for the region of circa 6% in 2014E/15E.

EuAfME Operating Segment

The European, Africa and Middle East operating segment of Zoetis is expected to generate $1.08bn of revenues in 2012E with a revenue CAGR of 4.7% over the next five years (2012E-17E). Similar to the US, the two largest segments of the business by revenue are Cattle (circa 40%) and Companion Animals (circa 28%), with Swine (circa 14%) and Poultry (circa 11%) the next most significant species. The remainder is accounted for by Sheep and Equine, with each representing less than 10% of sales.

Exhibit 40: EuAfME operating segment revenue split by species, 2012E (%)



Source: Jefferies estimates

During the first nine months of 2012 the segment came under increased pressure in Western Europe, albeit partially offset by the Emerging Market areas. This was predominantly a result of:

- Challenging European macroeconomic conditions, and
- A strict regulatory environment, with ongoing restrictions on the use of certain antibacterials.

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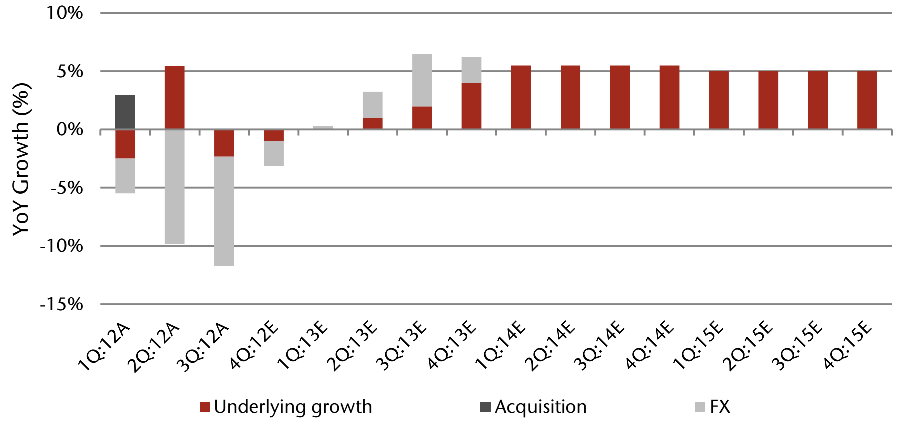
The partial offset to these European overhangs was mainly attributable to the on-going demand growth for animal protein from the Emerging Market regions within the segment. Companion animal revenues have also performed well, being favourably impacted by parasiticide demand and branded generic product launches throughout the region. Equine vaccines also gained a temporary benefit from a competitor's supply disruption.

Looking ahead over the next few years we expect that the EuAfME operations will start to deliver an improving revenue growth trend (Exhibit 41). Zoetis is already the fastest growing animal health company in the emerging markets and as the adverse European macro economic overhang begins to abate, this growth should once again become apparent.

Exhibit 41: EuAfME geographic operating segment quarterly revenue growth, Q1'12A-Q4'15E (%)



Source: Company data, Jefferies estimates

Furthermore, we expect Zoetis to supplement this recovering growth through a number of initiatives including:

- Use of its field force to drive differentiation from the competiton, whilst enhancing core products with complimentary offerings, such as diagnostics and services,
- Maximising market share of its key brands and new product launches, and
- Increase the use of branded generics that are complementary to its current portfolio, enabling it to build share in existing 'after-LOE' segments.

As a result we expect that the EuAfME operations will deliver quarterly revenue growth in the 0-6% range in 2013E, before recovering back towards the industry growth rate for the region of circa 5% in 2014E/15E.

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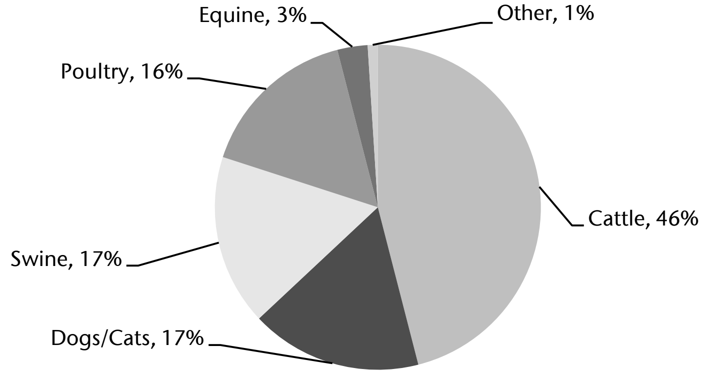
CLAR Operating Segment

The Canada/Latin American Region operating segment of Zoetis is expected to generate $781m of revenues in 2012E with a revenue CAGR of 8.3% over the next five years (2012E-17E). The main focus of the business is Cattle which accounts for almost half of the division's revenues. The vast majority of the remainder is evenly split between Companion animals, Swine and Poultry. Equine and other species represent less than 5% of sales, in total.

Exhibit 42: CLAR operating segment revenue split by species, 2012E (%)



Source: Jefferies estimates

The North American drought and increased competition in the Brazilian cattle business has continued to negatively influence the performance of the CLAR segment during the first nine months of 2012. Nevertheless, these have been partially offset by a number of other items, including:

- Increased swine vaccine demand, with a new formulation covering porcine circovirus type2,
- Continuing demand growth for Improvac/Improvest for reducing boar taint, and
- Increased promotional activity behind KAH drove higher Brazilian demand for poultry medicinal feed additives.

The Companion Animal market also benefitted from increased demand for canine vaccines in Brazil, where an ever increasing middle class population is not only driving up meat protein consumption, but also pet ownership. In Canada, a competitor's temporary supply disruption combined with an unusually warm season to drive up paraciticide demand in an extended flea and tick season.

As we show in Exhibit 43, we expect that the CLAR operations will provide robust revenue growth over the next few years. The North American drought should eventually give way to more typical seasonal weather patterns, but it is the developing economic conditions that will be the predominant driver of growth in Latin America. Increasing affluence in the Emerging Latin American markets drives increasing aspirations and quality of life and along with that, higher animal protein consumption. From a companion animal perspective, it will not only increase the ownership of animals *per se*, but will also increasingly raise the amount individuals are willing to spend on each pet.

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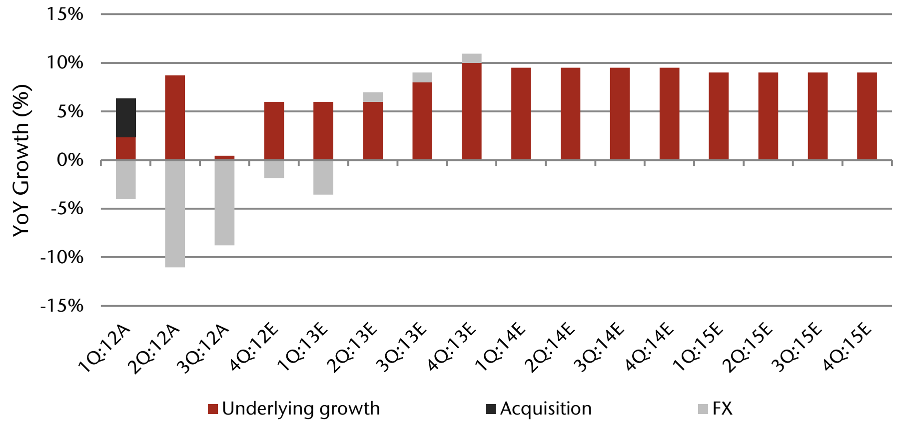
Exhibit 43: CLAR geographic operating segment quarterly revenue growth, Q1’12A-Q4’15E (%)



Source: Company data, Jefferies estimates

Zoetis is looking to further capitalize on this underlying growth through a number of additional actions:

- Optimizing solutions and commercialization models,
- Maximizing field force effectiveness through a new sales model & training, along with developing a CLAR specific pipeline,
- Strengthen regional R&D and global alliances, and
- Achieve breakthrough sales growth by enabling smaller producers to increase profitability.

As a result we expect the CLAR operations to deliver quarterly revenue growth in the 2-11% range for 2013E, stabilising towards the industry growth rate for the region of circa 9% in 2014E/15E.

APAC Operating Segment

The Asia Pacific operating segment of Zoetis is expected to generate $689m of revenues in 2012E with a revenue CAGR of c7% over the next five years (2012E-17E). With a roughly even split Companion Animals, Cattle and Swine together account for just under three quarters of the divisional revenues. Poultry then contributes a further circa 18%, with Sheep, Equine and Others each adding less than 10% to make up the balance.

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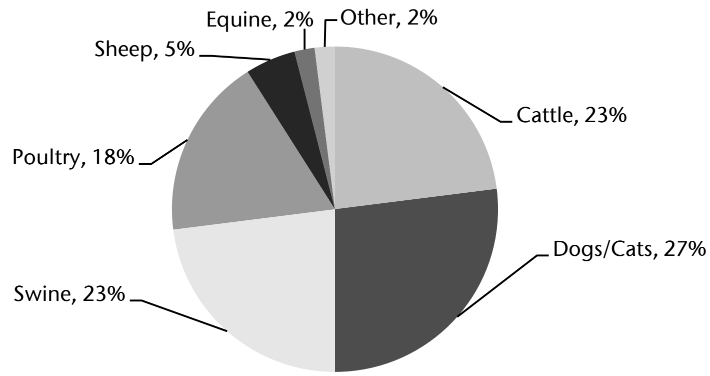
Exhibit 44: APAC operating segment revenue split by species, 2012E (%)



Source: Jefferies estimates

With the APAC region including both China and India it is already witnessing strong growth and is anticipated to continue doing so over the forecast period. Over the first nine months of 2012 demand for both livestock and companion animal products delivered growth:

- Higher demand for intramammary products for dairy cattle drove growth in Australia,
- In China an enlarged sales force and the improved swine vaccine (including porcine circovirus 2 prevention) were key to higher growth in premium price swine products,
- Japanese companion animal sales benefitted from promotional campaigns that increased product inclusion on veterinary treatment protocols, and
- Increased sales force activity also increased Australian parasiticide sales and canine vaccine uptake in China.

As already observed in the Emerging Latin America region, increasing affluence combined with a growing population means the Asia-Pacific area is also going to increasingly drive demand for higher quality animal protein. Increasing industrialization of animal production will also raise demand for products that can help maximise output. South East Asia is also one of the top poultry production regions and the 2015 ASEAN free trade zone could also trigger additional growth.

As shown in Exhibit 45, we expect that the APAC region will deliver strong revenue growth over the next few years as a result of the increasing economic prosperity and demographics.

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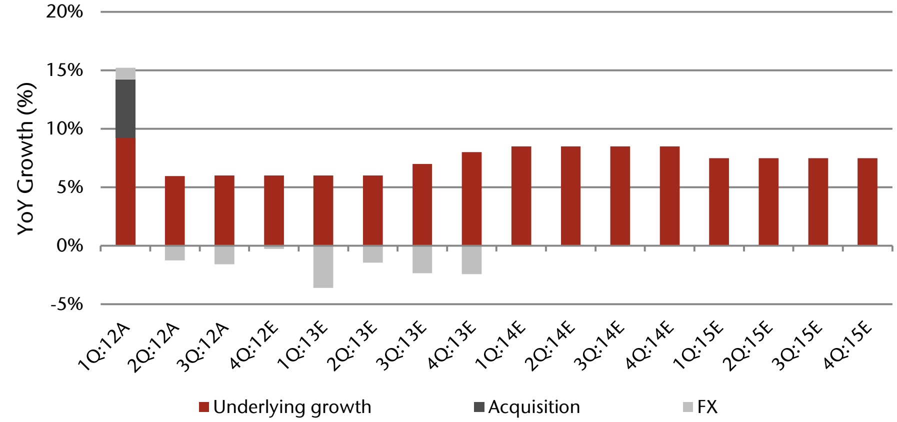
Exhibit 45: APAC geographic operating segment quarterly revenue growth, Q1'12A-Q4'15E (%)



Source: Company data, Jefferies estimates

Zoetis is expecting to further leverage this growth potential through a number of specific actions:

- Expanding its market leadership in the Asia Pacific region, with a particular focus on the emerging markets,
- In China, use local R&D and JV focusing on vaccines along with increasing sales force and complimentary branded generics,
- India to also benefit from increasing sales force and use of complementary branded generics, and
- In the new SE Asia Emerging Markets of Indonesia and Vietnam, the move to a more direct business model.

As a result we expect that the APAC operations will deliver quarterly revenue growth in the 2-6% range in 2013E, before recovering back towards the industry growth rate for the region of circa 8% in 2014E/15E.

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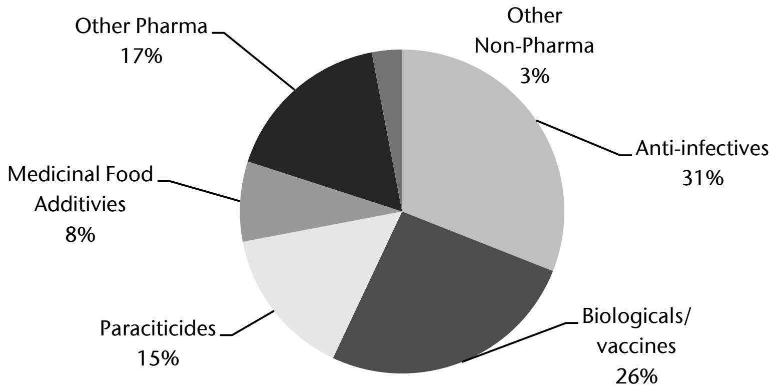
Product Portfolio Review - Key Therapeutic Categories

Whilst Zoetis provides very few financial details for its revenues on a product by product basis, we have conducted a more qualitative review of the portfolio by key Product category in the remainder of this section to put Zoetis in further context.

As already described in this report, Zoetis' product portfolio can be segmented into five basic product categories: Medicinal Feed Additives, Biologics, Anti-infectives, Parasiticides and Other Pharmaceuticals and within each of these product classes, Zoetis is a top three global position.

Out of the five product segments, Anti-infectives and Biologicals are the most significant, with each accounting for over a quarter of the company's sales. It is also notable that whilst there are a number of products with in each segment, there tend to be just one or two key products that dominate each area.

Exhibit 46: Zoetis 2012E revenue split by key therapeutic areas, (%)



Source: Jefferies estimates

Anti Infectives

Anti Infectives is the largest product segment accounting for an estimated 31% of 2012E revenues. As can be seen in Exhibit 47, we estimate that Zoetis will remain the market leader in this segment throughout our forecast period with market share of circa 37% and 2012E revenues of $1,402m. Key competitors within this segment include Merck & Co, Bayer and Virbac.

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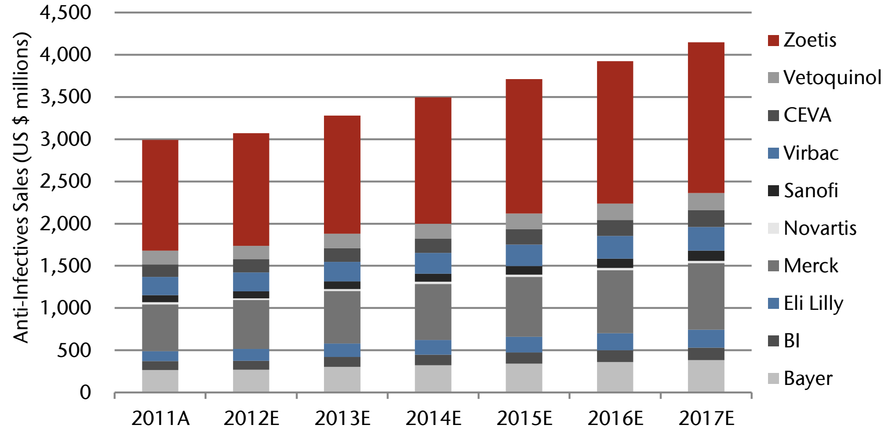
Exhibit 47: Jefferies global animal health market estimates for anti-infectives split by key competitors



Source: Company data, Jefferies estimates

The largest product grouping within Zoetis' Anti-infectives segment is the ceftiofur line of broad spectrum cephalosporin antibiotics for cattle, swine, sheep and horses, for which the latest formulations administer a single course in just one injection. The Spectramyst brand is also part of this franchise, being specifically formulated for intra-mammary administration to target the treatment and prevention of bovine mastitis.

According to Zoetis, the ceftiofur range accounts for just under 8% of group sales. The ceftiofur formulation and use patents start to expire in major markets from 2015, but with the brands around this being already well established we do not anticipate significant generic erosion as has been the case with other key brands in the past.

Other important products in this segment include:

- BMD and Terramycin which are also used in the livestock markets for treating a range of conditions such as enteritis and promoting feed efficiency and weight gain,
- The Lincomycin range for treating and preventing Chronic Respiratory Disease in poultry along with swine dysentery,
- The Draxxin product line targeted at the cattle and swine markets. Its single-dose, low-volume formulation should help it to become one of the more important growth drivers in this segment over the longer term. It also appears to be patent protected to at least 2019,
- Clavamox/ Synulox (amoxicillin/ clavulanic acid), which are the only potentiated penicillin approved in cats and dogs within the Companion Animal market, and
- Convenia, which was first launched in 2006 for treating bacterial skin infections. Again with a full course provided in a single injection it is highlighted as a future platform for brand life cycle development. Patents on Convenia extend out to 2023.

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Exhibit 48 summarises the key products within the Anti-infectives segment for Zoetis, with our revenue range estimates for 2012E.

Exhibit 48: Major Anti-Infective products and estimated sales ranges

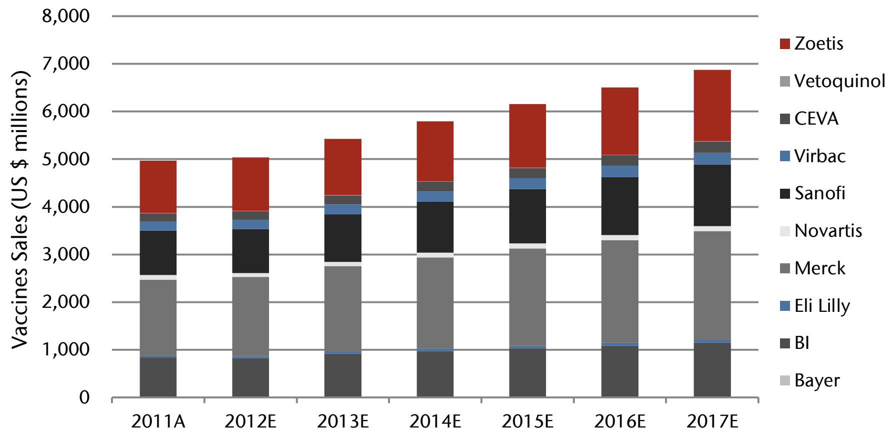
Product	Species	Indication	Estimated Annual 2012E Sales Range (US$)
BMD	Cattle, poultry, swine	Prevention of enteritis, promoting weight gain and feed efficiency	50m-100m
Ceftiofur line	Cattle, horses, sheep, swine	Broad spectrum antibiotic, with some formulations having a single shot treatment.	c300m
Spectramast (ceftiofur)	Cattle	Intramammary ceftiofur for treatment of mastitis.	c50m
Lincomycin line	Swine, poultry	Treatment of chronic respiratory diseases in poultry and swine dysentery.	c50m
Draxxin	Cattle, swine	Single dose, low volume antibiotic for bovine and swine respiratory diseases and foot rot.	200m-250m
Terramycin	Cattle, poultry, sheep, swine, cats, dogs, horses	Antibiotic, used for wide range of infections	50m-100m
Clavamox / Synulox	Cats, dogs	Broad spectrum antibiotic. The only potentiated penicillin available for cats and dogs.	100m-150m
Convenia	Cats, dogs	Single shot anti-infective for bacterial skin infections.	50m-100m

Source: Jefferies estimates, company data

Vaccines

Vaccines is Zoetis' second largest product segment, accounting for an estimated 26% of 2012E group revenues. As shown in Exhibit 49, we estimate that Zoetis will remain the second largest player in this segment throughout our forecast period with market share of circa 19% and 2012E revenues of $1,119m. The market leader in vaccines is Merck & Co, with other key competitors including Sanofi's Merial and Boehringer Ingelheim.

Exhibit 49: Jefferies global animal health market estimates for vaccines split by key competitors



Source: Company data, Jefferies estimates

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Although products spread across all major livestock and companion animal segments, the key areas of focus for Zoetis' vaccines are cattle, swine and dogs. Key brands include the Bovishield and Rispoval lines which predominantly target bovine viral diarrhoea, parainfluenza3 virus and bovine respiratory syncytial virus (BRSV).

Other important products in this segment include:

- The RespiSure line for use in preventing pneumonia in swine,
- The Improvac / Improvest vaccine, launched in 2004 to help prevent 'boar taint' in swine and provide an easy alternative to surgical castration,
- Inforce, launched in 2010, the only respiratory cattle vaccine that prevents disease caused by BRSV whilst also aiding in the prevention of infectious bovine rhinotracheitis and parainfluenza3, and
- The Vanguard range of products to protect against leptospirosis along with canine distemper, hepatitis, adenovirus respiratory disease, parainfluenza and parvoviral enterisis.

Both Improvac and Inforce are highlighted by Zoetis as likely platforms for future brand lifecycle development.

Exhibit 50 summarises the key products within the Vaccines segment for Zoetis, with our revenue range estimates for 2012E.

Exhibit 50: Major Vaccine products and estimated sales ranges

Product	Species	Indication	Estimated Annual 2012E Sales Range (US$)
Bovishield line	Cattle	Prevention of infectious bovine rhinotracheitis; bovine viral diarrhoea; parainfluenza3; bovine respiratory syncytial virus.	100m-150m
Improvac/ Improvest	Swine	Reduction of 'boar taint'	50m-100m
RespiSure line	Swine	Prevention of chronic pneumonia	50m-100m
Rispoval line	Cattle	Prevention of three key viruses involved in cattle pneumonia	50m-100m
Vanguard 4-way Lepto	Dogs	Protection against leptospirosis	50m-100m
Vanguard High Titer	Dogs	Prevention of canine distemper, hepatitis (adenovirus type 1), respiratory disease, parainfluenza and parvoviral enteritis	100m-150m

Source: Jefferies estimates, company data

Parasiticides

Parasiticides is the fourth largest product segment for Zoetis, accounting for about 15% of 2012E revenues. Parasiticides are used to prevent or eliminate internal (endoparisiticides) or external (ectoparisiticides) parasites, such as fleas, tick and worms. They are usually formulated as either an injectable or a pour-on preparation.

As shown in Exhibit 51, we estimate that Zoetis will remain the third largest player in this segment throughout our forecast period with market share of circa 11% and 2012E revenues of $646m. The No. 1 and 2 positions are occupied by Sanofi's Merial and Bayer, whilst Novartis is just behind Zoetis in fourth place.

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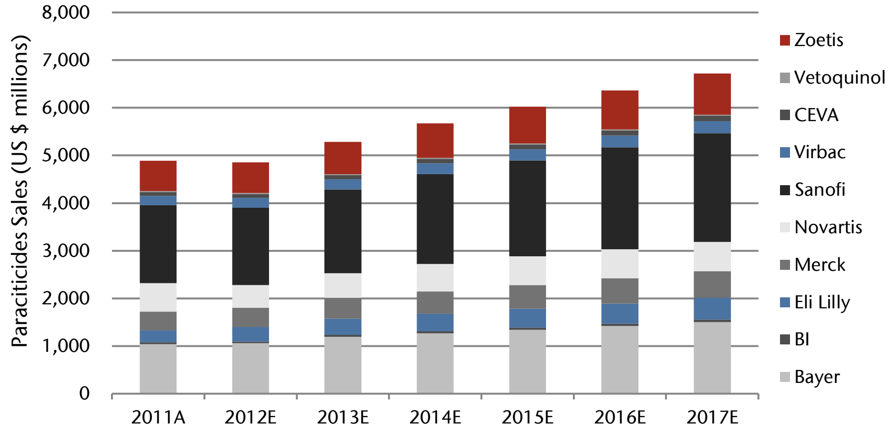
Exhibit 51: Jefferies global animal health market estimates for parasiticides split by key competitors



Source: Company data, Jefferies estimates

One of the key products is Revolution for the companion animal market. It protects against fleas and flea larvae, heartworm and ear mites as well as a number of other common parasites in cats and dogs. The Revolution (selamectin) composition of matter patent expires in 2014, but again significant brand recognition is expected to severely curtail any potential generic threat.

Other important products in this segment are for livestock and include:

- Dectomax, with an extended duration of activity for both internal and external parasites in cattle and swine. The Dectomax COM patents have already expired, but the injectable formulation and process patents run to 2016 and 2020, respectively, and
- Cydectin for gastrointestinal roundworms, lungworms, cattle grubs, mites and lice in sheep and cattle.

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Exhibit 52 summarises the key products within the Parasiticides segment for Zoetis, with our revenue range estimates for 2012E.

Exhibit 52: Major Parasiticide products and estimated sales ranges

Product	Species	Indication	Estimated Annual 2012E Sales Range (US$)
Cydectin	Cattle, sheep	Pour-on/ injectable endectocide for roundworms, lungworms, cattlegrubs, mites and lice	50m-100m
Dectomax	Cattle, swine	Long duration endectocide	100m-150m
Revolution	Cats, dogs	Endectocide for fleas, heartworm, earmites and a range of other parasites.	200m-300m

Source: Jefferies estimates, company data

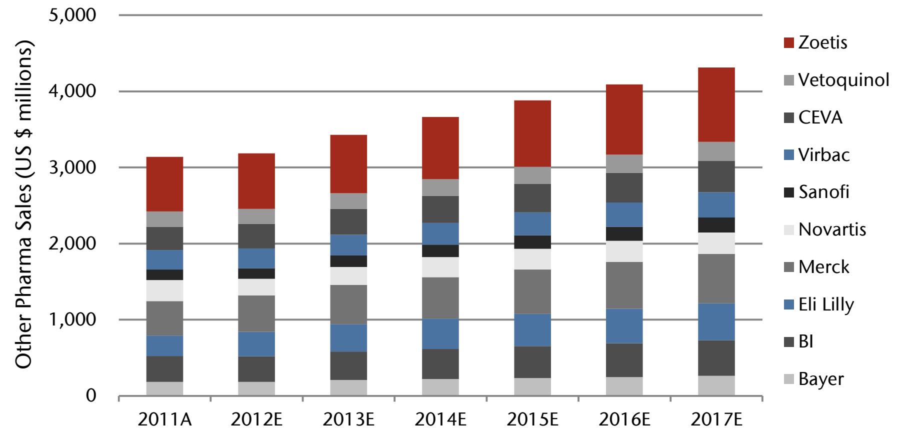
Other Pharmaceuticals

The Other Pharmaceutical segment is the third largest product area, accounting for around an estimated 17% of 2012E sales. "Other" Pharmaceuticals encompasses a number of different therapeutic areas, including pain, sedation, antiemetics, fertility and even oncology.

As shown in Exhibit 53, we estimate that Zoetis is the leading player in the 'Other Pharmaceuticals' segment and is expected to remain so throughout our forecast period with market share of circa 19% and 2012E revenues of $732m. Merck & Co and Eli Lilly's Elanco also have a significant presence in this area.

Key products include Rimadyl, a long standing NSAID (non-steroidal anti-inflammatory drug) that is used for treating osteoarthritis in dogs and post-operative pain across a number of species.

Exhibit 53: Jefferies global animal health market estimates for other pharmaceuticals split by key competitors



Source: Company data, Jefferies estimates

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Other important products in this segment are for livestock and include:

- The Eazi-Breed CIDR progesterone releasing device for controlling the fertility cycle in cattle and sheep,
- Embrex poultry devices are used for enhancing hatchery operations through *in ovo* detection and vaccination, and
- Palladia, which was launched in 2009 and is the first drug approved for treating cancer in dogs. It appears to have patent protection to 2021 and is highlighted by Zoetis as a likely platform for future brand lifecycle development.

Exhibit 54 summarises the key products within the Other Pharmaceuticals segment for Zoetis, with our revenue range estimates for 2012E.

Exhibit 54: Major other pharmaceuticals products and estimated sales ranges

Product	Species	Indication	Estimated Annual 2012E Sales Range (US$)
Eazi-Breed CIDR	Cattle, sheep	Progesterone releasing device for controlling fertility cycle	50m-100m
Embrex devices	Poultry	*in ovo* detection and vaccination devices	50m-100m
Lutalyse	Cattle, swine	Fertility control, induction	50m-100m
Rimadyl	dogs	NSAID for osteoarthritis and post-operative pain relief	150m-200m

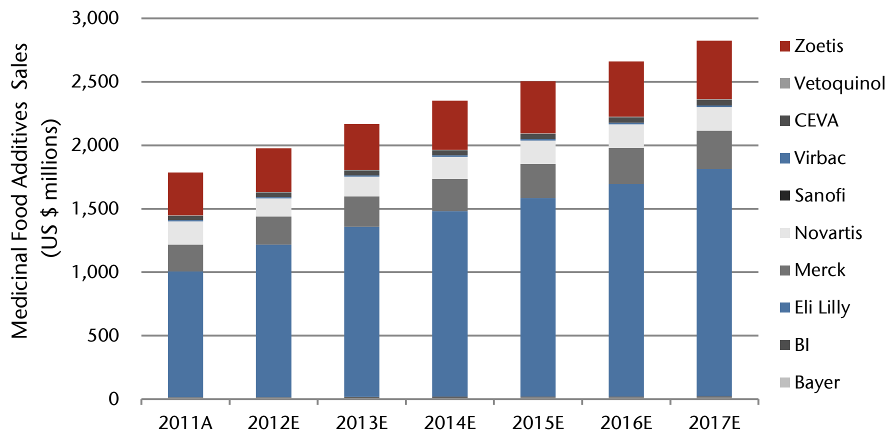
Source: Jefferies estimates, company data

Medicinal Feed Additives

Medicinal Feed Additives is the smallest product segment within Zoetis. It accounts for approximately 8% of the 2012E group revenues. Feed additives are used to introduce a range of medicinal, nutritional or probiotic preparations to livestock and provide an easy and efficient way to treat large numbers of animals.

As shown in Exhibit 55, we estimate that Zoetis will remain the No. 2 player in this segment throughout our forecast period with market share of circa 14% and 2012E revenues of $344m. Eli Lilly's Elanco is the dominant player in this business area, with Merck & Co and Novartis the other important players in third and fourth place, respectively.

Exhibit 55: Jefferies global animal health market estimates for medicinal food additives split by key competitors



Source: Company data, Jefferies estimates

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Zoetis produces a wide range of feed additive products, including a number of mixes predominantly aimed at beef cattle, swine and poultry. These products are typically aimed at improving feed efficiency, improving weight gain in the animals whilst also introducing anti-bacterial/ infectives and parasiticides to simultaneously control disease and infection.

Major products in this area include:

- Antibiotics such as aureomycin used against a wide range of respiratory, enteric and reproductive diseases in cattle, swine, poultry and sheep,
- Anticoccidials such as Robenz and Deccocx to control coccidiosis single cell parasites in poultry and cattle, and
- Animal specific food supplement / anticoccidials, such as Bovatec for cattle and Albac for swine and poultry which are used to help increase feed efficiency, increasing the conversion of feed into animal weight gain.

Zoetis does not highlight any Medicinal Feed Additive products as accounting for more than 1% of its total group revenues. This implies that the individual products in this segment are all relatively small, with none accounting for more than c$40m of sales.

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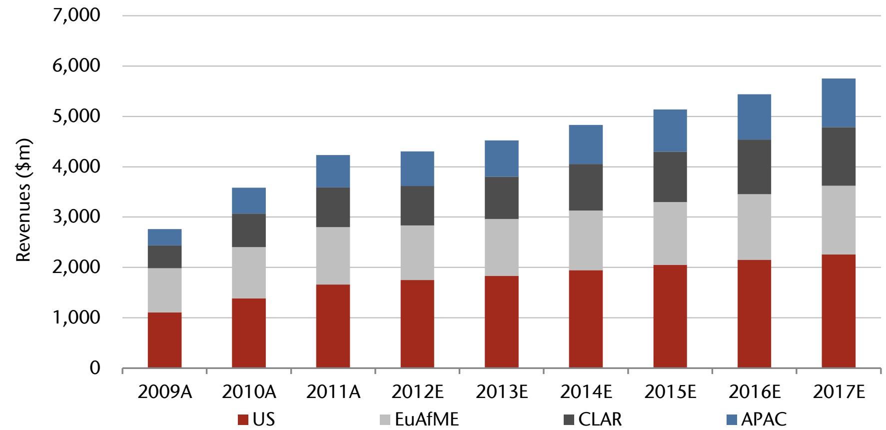
Financial Overview

6% Revenue CAGR Expected 2012E-17E

As already discussed in detail in the Base Business Overview section, we expect a 6% revenue CAGR for the business between 2012E-17E with the US geographic segment being the most significant driver of overall growth (Exhibit 56). Our estimates have incorporated our expectations for organic growth only assuming global volume growth of circa 2-3%, annualised price increases of circa 2-3% and new product launch contributions of circa 1-2%.

Exhibit 56: Zoetis revenues estimates by key geographic segments, 2011A–2017E ($m)



Source: Jefferies estimates, company data

We are 4% ahead of 2017E consensus sales and see room for further upside

Whilst we are already 4% ahead of consensus estimates for revenues by 2017E (and -1% to +4% ahead in the interim period), we see further room for upside versus our estimates both from a potential improvement in the macroeconomic environment as well as from the impact of bolt-on acquisitions, for which we have made no assumptions in our model. Whilst we do not anticipate that Zoetis will make any major acquisitions due to its size and potential anti-trust issues, we do expect that circa $500m of additional revenues (circa 9% upside to our 2017E revenue estimate) could be added during the forecast period.

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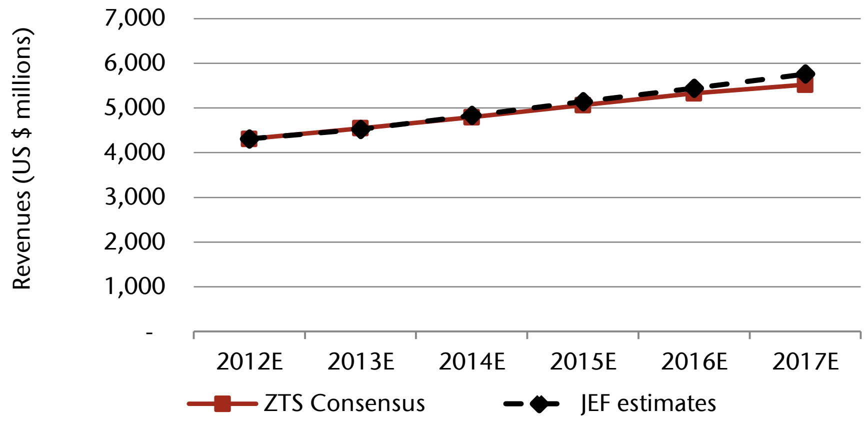
Exhibit 57: Jefferies revenue estimates versus consensus for Zoetis, 2012E-2017E ($millions)



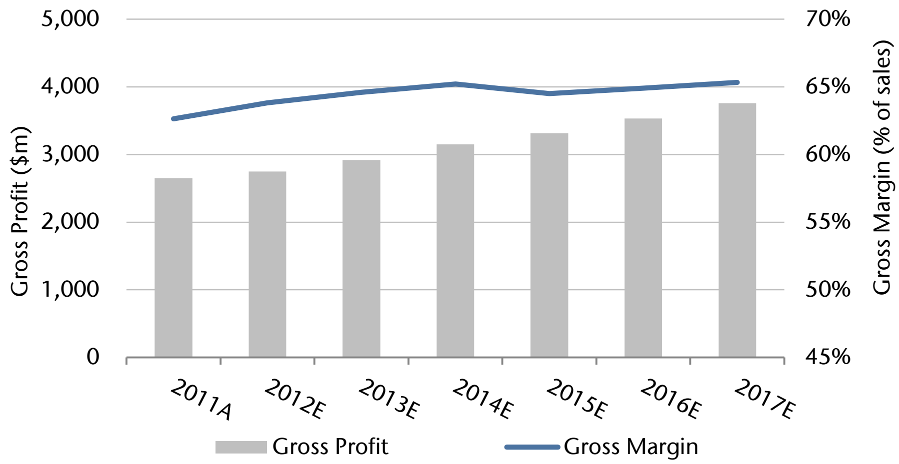
Source: Jefferies estimates, company data

Gross margin expansion limited by mix and supply agreements

We estimate that the gross margin will expand by circa 150bps during the forecast period as price increases and operational efficiencies help to boost profitability. However, we have limited some of the potential margin gains for a couple of factors:

- First, we expect that the increasing growth from Emerging Markets, where gross margins are weaker than in developed markets, will drag on profitability as it contributes a greater portion of revenue growth, and
- Second, the manufacturing agreement with Pfizer as part of the separation implies that Zoetis will see a one-time step-up in COGS in 2015.

Exhibit 58: Estimated Zoetis gross profit ($m) and gross margin (% of sales), 2011A–2017E



Source: Jefferies estimates, company data

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Manufacturing and Supply agreement may pressure 2015 margins

Products sold by Zoetis come from three different manufacturing entities:

- Zoetis owned facilities,
- Pfizer owned plants, and
- Contract Manufacturing Organizations (CMOs).

Zoetis and Pfizer entered into a Manufacturing and Supply agreement as part of the transfer of assets between the two entities at the time of completion of the separation. Zoetis currently has 29 manufacturing facilities under its management and in 2011 the cost of manufacturing in these facilities was 58% of total COGS spend.

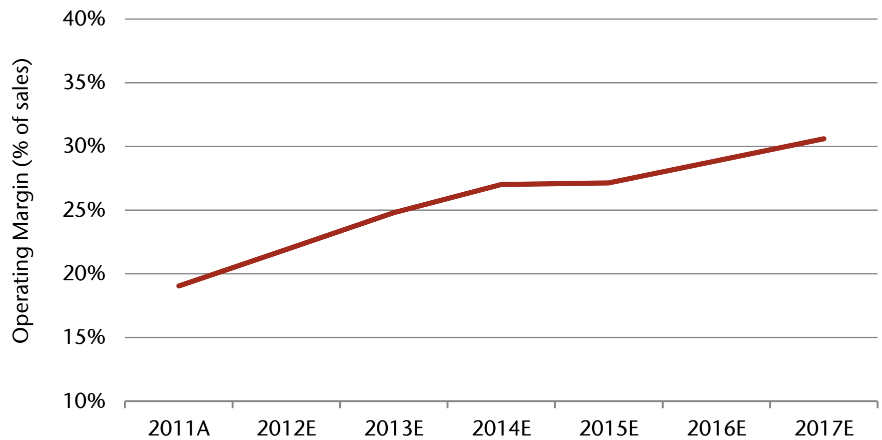
Zoetis will also receive products from 14 facilities that currently are and will continue to be under Pfizer management. In 2011, circa 21% of the total COGS of $1,652m or approximately $340m was recorded as expenses related to products manufactured in these Pfizer-owned facilities. The remaining 21% of COGS came from products produced by CMOs.

According to the agreement, Pfizer will not charge any mark up on the products they manufacture for Zoetis during the first two years after separation. From 2015, Pfizer may charge a 15% mark up on their manufacturing cost. As Pfizer manufactured products only make up circa 21% of the entire COGS, we estimate that the impact on the gross margin would be an approximately 3% headwind on total COGS in 2015E against the underlying improvement of 50bps from pricing increases and operational efficiencies that we expect in that year. As a result we expect a circa 70bp one-time step down in the gross margin in 2015E, after which the underlying improvements begin to become evident once more.

Significant operating margin expansion expected

We anticipate that Zoetis will show significant operating margin expansion as leverages its Global infrastructure and continues to find further operational efficiencies following the separation from Pfizer. We anticipate that Zoetis should be able to deliver circa 870bps of operating margin expansion during our forecast period, 2012E-17E, with the majority of this being delivered from leverage at the SG&A level (Exhibit 59 and Exhibit 60). This, combined with the projected underlying revenue growth expected by us leads to an operating profit CAGR of 13.3% during our forecast period (2012E-17E).

Exhibit 59: Estimated Zoetis operating margin (% of sales), 2011A–2017E



Source: Jefferies estimates, company data

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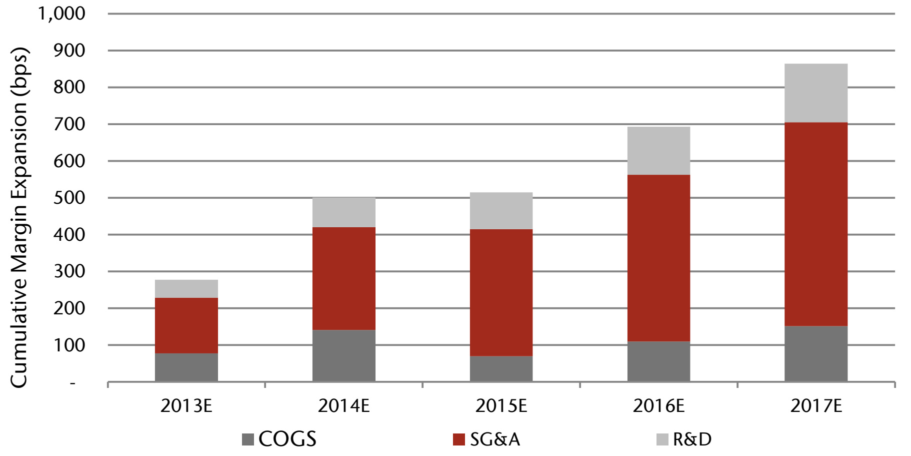
Exhibit 60: Zoetis operating margin expansion by source (bps), 2013E–2017E



Source: Jefferies estimates, company data

A key feature of Zoetis is that we believe that the company already has the required sales and distribution infrastructure to exploit the growth opportunity in Emerging Markets and other regions. Furthermore, the company does not need to significantly expand its R&D efforts in our view with it already being one of the most productive companies in the industry. Zoetis management report that the company obtained approximately one-fourth of all animal health medicine approvals granted by the U.S. Food and Drug Administration, and approximately one-fifth of all animal health vaccine approvals granted by the U.S. Department of Agriculture between 2004 and 2011.

Last, given that Zoetis' historical operational costs are somewhat artificial in that they have been calculated based on theoretical allocations from Pfizer, we believe that the real operational cost base as a standalone entity could be considerably lower.

Service Agreements with Pfizer may impact mid-term margins

Currently, Zoetis has an agreement in place to receive certain services that are required to run the business from Pfizer. Based on the agreement, Pfizer has the option to charge a markup of 7% from 2015 onwards. The cost of these services historically had a negligible impact on COGS but accounted for circa 17% of total SG&A expenses and circa 14% of total R&D expenses. Currently, we have assumed that Pfizer will exercise their option and raise the cost of their services in 2015, the effect of which can clearly be seen in Exhibit 59.

However, Zoetis management have been implementing measures to improve operating efficiency as evidenced in the expansion of the operating margin from 12% in 2009A to 19% in 2011A. We anticipate that the management will continue to look for opportunities to improve operating efficiencies as they evolve as an independent entity.

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We forecast a 15.1% EPS growth CAGR

Our financial model projects a 15.1% EPS growth CAGR between 2012E-17E with the 13.3% CAGR expected at the operating level being boosted by the net effect of tax rate changes and changes in financial income during the forecast period.

At the level of financial income, we would point out to investors that the business sees a significant increase in costs from 2013E (versus 2012E) due to the issuance of $3.65bn of senior notes as part of the separation from Pfizer. As a reminder, Zoetis did not retain the cash proceeds from this offering, with Pfizer receiving these amounts instead. However, from 2013E we anticipate a certain degree of debt repayment during the forecast period ($1bn 2013E-17E) as well as the accumulation of c$3bn of gross cash by 2017E, which helps to accelerate earnings growth from 2013E onwards.

In terms of the tax rate, we have included the assumption within our estimates that this will see a step down from the historical rate of circa 34% in 2011A/12E to an initial rate of circa 29% in 2013E following the separation from Pfizer as certain changes in the jurisdictional allocation of profits are made. We anticipate further steady declines in the tax rate during the remainder of the forecast period, reaching circa 27% by 2017E.

We currently do not anticipate the management will initiate a share repurchase program but do expect them to follow a progressive dividend policy in line with EPS growth.

The net result of these factors leads us to forecast an EPS CAGR of 15.1% between 2012E-17E. Our EPS estimates are 6-17% ahead of consensus through our forecast period 2012E-17E. Additional swing factors during the mid-term that significantly boost EPS growth potentially include:

- Improving macroeconomic conditions and faster than expected rebound from ongoing drought conditions in the US,
- Faster than expected growth from Emerging Markets within the EuAfME, CLAR and APAC geographies,
- Bolt-on acquisitions,
- Incremental operational cost efficiencies, and
- Increased share repurchases and debt repayments.

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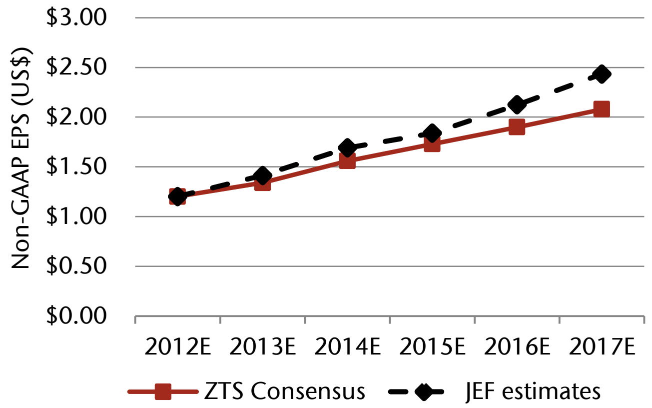
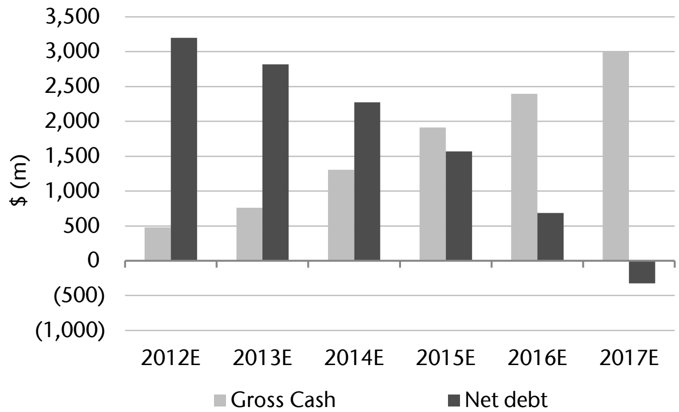
Exhibit 61: Jefferies earnings estimates versus Consensus, 2012E-2017E



Source: Company data, Jefferies estimates

Exhibit 62: Gross cash and net debt estimates for Zoetis, 2012E-2017E



Source: Company data, Jefferies estimates

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Financial Model

Exhibit 63: Key global revenues for Zoetis, 2011A-2017E

($) millions	2011A	2012E	2013E	2014E	2015E	2016E	2017E	Incr. abs. '12E-'17E	CAGR '12E-'17E
Total Sales	**4,233**	**4,305**	**4,521**	**4,832**	**5,139**	**5,441**	**5,756**	**1,451**	**6.0%**
U.S.	**1,659**	**1,752**	**1,836**	**1,943**	**2,050**	**2,153**	**2,260**	**508**	**5.2%**
ex-US	**2,574**	**2,553**	**2,685**	**2,888**	**3,089**	**3,288**	**3,496**	**942**	**6.5%**
YOY growth (%)	18%	2%	5%	7%	6%	6%	6%		
Underlying growth	7%	5%	5%	7%	6%	6%	6%		
Acquisition	9%	0%	0%	0%	0%	0%	0%		
Divested products	-1%	0%	0%	0%	0%	0%	0%		
FX	3%	-3%	0%	0%	0%	0%	0%		
US	**1,659**	**1,752**	**1,836**	**1,943**	**2,050**	**2,153**	**2,260**	**508**	**5.2%**
YOY growth (%)	20%	6%	5%	6%	5%	5%	5%		
Underlying growth	7%	6%	5%	6%	5%	5%	5%		
Acquisition	13%	0%	0%	0%	0%	0%	0%		
Divested products	0%	0%	0%	0%	0%	0%	0%		
FX	0%	0%	0%	0%	0%	0%	0%		
EuAfME	**1,144**	**1,083**	**1,126**	**1,188**	**1,247**	**1,303**	**1,362**	**279**	**4.7%**
YOY growth (%)	12%	-5%	4%	5%	5%	5%	4%		
Underlying growth	3%	1%	2%	5%	5%	5%	4%		
Acquisition	6%	0%	0%	0%	0%	0%	0%		
Divested products	0%	0%	0%	0%	0%	0%	0%		
FX	3%	-6%	2%	0%	0%	0%	0%		
CLAR	**788**	**781**	**841**	**920**	**1,003**	**1,083**	**1,165**	**383**	**8.3%**
YOY growth (%)	19%	-1%	8%	10%	9%	8%	7%		
Underlying growth	9%	6%	8%	10%	9%	8%	7%		
Acquisition	7%	0%	0%	0%	0%	0%	0%		
Divested products	-1%	0%	0%	0%	0%	0%	0%		
FX	4%	-7%	0%	0%	0%	0%	0%		
APAC	**642**	**689**	**719**	**780**	**838**	**901**	**969**	**280**	**7.0%**
YOY growth (%)	25%	7%	4%	8%	8%	8%	8%		
Underlying growth	12%	7%	7%	8%	8%	8%	8%		
Acquisition	7%	0%	0%	0%	0%	0%	0%		
Divested products	-2%	0%	0%	0%	0%	0%	0%		
FX	8%	0%	-2%	0%	0%	0%	0%		

Source: Jefferies estimates, company data

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Exhibit 64: Annual income statement for Zoetis, 2011A-2017E

($) millions	2011A	2012E	2013E	2014E	2015E	2016E	2017E	Incr. abs. '12E-'17E	CAGR '12E-'17E
Net sales	**4,233**	**4,305**	**4,521**	**4,832**	**5,139**	**5,441**	**5,756**	**1,451**	**6.0%**
COGS	1,581	1,558	1,601	1,680	1,824	1,909	1,996	438	5.1%
Gross profit	**2,652**	**2,747**	**2,920**	**3,151**	**3,315**	**3,532**	**3,760**	**1,013**	**6.5%**
SG&A	1,447	1,412	1,415	1,450	1,508	1,538	1,569	157	2.1%
R&D	407	403	401	413	430	438	447	44	2.1%
Amortization (Intangible Assets)	20	15	15	15	15	16	15	(0)	-0.6%
Other (income)/Expenses	(28)	(27)	(32)	(32)	(32)	(32)	(32)	(5)	3.5%
Total Operating Expenses	**1,846**	**1,803**	**1,799**	**1,847**	**1,921**	**1,961**	**1,999**	**195**	**2.1%**
Operating Profit	**806**	**944**	**1,121**	**1,305**	**1,395**	**1,571**	**1,761**	**817**	**13.3%**
EBITDA	**961**	**1,102**	**1,283**	**1,470**	**1,559**	**1,734**	**1,920**	**818**	**11.7%**
Net interest (income)/expense	36	30	111	106	101	88	73	43	19.6%
Pretax Income	**770**	**914**	**1,011**	**1,198**	**1,294**	**1,483**	**1,688**	**774**	**13.1%**
Taxes	264	312	293	342	362	408	456	144	7.9%
Tax rate	34.3%	34.1%	29.0%	28.5%	28.0%	27.5%	27.0%	(710)bps	NA
NI before non-control. Int.	**506**	**602**	**717**	**857**	**931**	**1,075**	**1,232**	**630**	**15.4%**
Less: NI attrib to non-control int.	3	1	4	4	4	4	4	3	32.0%
Net income	**503**	**601**	**713**	**853**	**927**	**1,071**	**1,228**	**627**	**15.4%**
DILUTED EPS	**$1.01**	**$1.20**	**$1.41**	**$1.69**	**$1.84**	**$2.12**	**$2.43**	**$1.23**	**15.1%**
Wt. avg. dil. shares outstanding	500	500	505	505	505	505	505		
Dividend per share	**na**	**na**	**0.26**	**0.30**	**0.33**	**0.38**	**0.44**		
Margin Analysis	**2011A**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**		
COGS	37.3%	36.2%	35.4%	34.8%	35.5%	35.1%	34.7%		
Gross margin	62.7%	63.8%	64.6%	65.2%	64.5%	64.9%	65.3%	151 bps	
SG&A	34.2%	32.8%	31.3%	30.0%	29.3%	28.3%	27.3%	(554)bps	
R&D	9.6%	9.4%	8.9%	8.6%	8.4%	8.1%	7.8%	(159)bps	
Total Operating Expenses	43.6%	41.9%	39.8%	38.2%	37.4%	36.0%	34.7%	(716)bps	
Operating margin	19.0%	21.9%	24.8%	27.0%	27.1%	28.9%	30.6%	867 bps	
EBITDA margin	22.7%	25.6%	28.4%	30.4%	30.3%	31.9%	33.4%	776 bps	
Pretax margin	18.2%	21.2%	22.4%	24.8%	25.2%	27.3%	29.3%	809 bps	
Net margin	11.9%	14.0%	15.8%	17.7%	18.0%	19.7%	21.3%	737 bps	
Dividend Payout ratio	na	na	18.4%	18.0%	18.0%	18.0%	18.0%		
YOY % Change	**2011A**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**		
Net sales	18%	2%	5%	7%	6%	6%	6%		
COGS	20%	-1%	3%	5%	9%	5%	5%		
Gross profit	17%	4%	6%	8%	5%	7%	6%		
SG&A	6%	-2%	0%	2%	4%	2%	2%		
R&D	-1%	-1%	0%	3%	4%	2%	2%		
Operating income	63%	17%	19%	16%	7%	13%	12%		
EBITDA	na	na	16%	15%	6%	11%	11%		
Pretax income	68%	19%	11%	19%	8%	15%	14%		
Net income	83%	20%	19%	20%	9%	16%	15%		
Diluted EPS	**83%**	**20%**	**18%**	**20%**	**9%**	**16%**	**15%**		
Wt. Avg. dil. shares outstanding	0%	0%	1%	0%	0%	0%	0%		

Source: Jefferies estimates, company data

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Exhibit 65: Quarterly income statement, Q1 2012A-Q4 2013E

($) millions	1Q:12A	2Q:12A	3Q:12A	4Q:12E	2012E	1Q13E	2Q13E	3Q13E	4Q13E	2013E
Net sales	**1,047**	**1,094**	**1,019**	**1,145**	**4,305**	**1,073**	**1,143**	**1,080**	**1,225**	**4,521**
COGS	388	382	352	436	1,558	379	408	378	436	1,601
Gross profit	**659**	**712**	**667**	**709**	**2,747**	**694**	**735**	**702**	**789**	**2,920**
SG&A	323	359	330	400	1,412	319	361	333	402	1,415
R&D	95	89	94	125	403	94	89	94	124	401
Amortization (Intangible Assets)	4	3	4	4	15	4	4	4	4	15
Other (income)/Expenses	(6)	(7)	(10)	(4)	(27)	(8)	(8)	(8)	(8)	(32)
Total Operating Expenses	**416**	**444**	**418**	**525**	**1,803**	**410**	**445**	**422**	**521**	**1,799**
Operating Profit	**243**	**268**	**249**	**184**	**944**	**284**	**290**	**280**	**268**	**1,121**
EBITDA	**278**	**309**	**290**	**225**	**1,102**	**325**	**330**	**320**	**309**	**1,283**
Net interest (income)/expense	8	8	7	7	30	28	28	27	27	111
Pretax Income	**235**	**260**	**242**	**177**	**914**	**256**	**262**	**252**	**241**	**1,011**
Taxes	79	87	89	57	312	74	76	73	70	293
Tax rate	33.7%	33.5%	36.7%	32.0%	34.1%	29.0%	29.0%	29.0%	29.0%	29.0%
NI before non-control. Int.	**156**	**173**	**153**	**120**	**602**	**182**	**186**	**179**	**171**	**717**
Less: NI attrib to non-control int.	1	-	(1)	1	1	1	1	1	1	4
Net income	**155**	**173**	**154**	**119**	**601**	**181**	**185**	**178**	**170**	**713**
DILUTED EPS	**$0.31**	**$0.35**	**$0.31**	**$0.24**	**$1.20**	**$0.36**	**$0.37**	**$0.35**	**$0.34**	**$1.41**
Wt. avg. dil. shares outstanding	500	500	500	500	500	505	505	505	505	505
Dividend per share	na	na	na	na	na	0.07	0.07	0.07	0.07	0.26

Margin Analysis	1Q:12A	2Q:12A	3Q:12A	4Q:12E	2012E	1Q13E	2Q13E	3Q13E	4Q13E	2013E
COGS	37.1%	34.9%	34.5%	38.1%	36.2%	35.3%	35.7%	35.0%	35.6%	35.4%
Gross margin	62.9%	65.1%	65.5%	61.9%	63.8%	64.7%	64.3%	65.0%	64.4%	64.6%
SG&A	30.9%	32.8%	32.4%	34.9%	32.8%	29.8%	31.6%	30.8%	32.8%	31.3%
R&D	9.1%	8.1%	9.2%	10.9%	9.4%	8.8%	7.8%	8.7%	10.1%	8.9%
Total Operating Expenses	39.7%	40.6%	41.0%	45.9%	41.9%	38.2%	39.0%	39.1%	42.5%	39.8%
Operating margin	23.2%	24.5%	24.4%	16.1%	21.9%	26.5%	25.3%	25.9%	21.9%	24.8%
EBITDA margin	26.5%	28.2%	28.4%	19.7%	25.6%	30.3%	28.9%	29.6%	25.2%	28.4%
Pretax margin	22.4%	23.8%	23.7%	15.5%	21.2%	23.8%	22.9%	23.4%	19.7%	22.4%
Net margin	14.8%	15.8%	15.1%	10.4%	14.0%	16.8%	16.2%	16.5%	13.9%	15.8%
Dividend Payout ratio	na	na	na	na	na	18.2%	17.8%	18.4%	19.3%	18.4%

YOY % Change	1Q:12A	2Q:12A	3Q:12A	4Q:12E	2012E	1Q13E	2Q13E	3Q13E	4Q13E	2013E
Net sales	6.5%	1.9%	-2.9%	1.6%	1.7%	2.5%	4.5%	5.9%	7.0%	5.0%
COGS	5.4%	-8.4%	-12.0%	10.1%	-1.5%	-2.3%	6.8%	7.3%	0.0%	2.8%
Gross profit	7.2%	8.4%	2.8%	-3.0%	3.6%	5.3%	3.2%	5.2%	11.3%	6.3%
SG&A	-2.1%	-0.3%	-0.9%	-5.7%	-2.4%	-1.1%	0.5%	0.8%	0.4%	0.2%
R&D	-1.0%	-15.2%	-3.1%	-17.3%	-1.0%	-0.6%	-0.4%	-0.1%	-0.6%	-0.5%
Operating income	32.1%	43.3%	6.4%	-8.5%	17.1%	17.0%	8.1%	12.3%	45.6%	18.8%
EBITDA	na	na	na	na	na	16.9%	6.9%	10.2%	37.0%	16.4%
Pretax income	34.3%	46.1%	7.6%	-7.8%	18.7%	8.9%	0.6%	4.2%	36.2%	10.6%
Net income	27.9%	51.7%	5.7%	-2.2%	19.6%	16.7%	6.8%	15.4%	42.6%	18.6%
Diluted EPS	**27.9%**	**51.7%**	**5.7%**	**-2.2%**	**19.6%**	**15.6%**	**5.9%**	**14.3%**	**41.3%**	**17.6%**
Wt. avg. dil. shares outstanding	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Jefferies estimates, company data

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Exhibit 66: Summary Balance Sheet for Zoetis, 2011A-2017E

($) millions	**2011A**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**
Cash and short-term investments	79	480	759	1,305	1,912	2,394	3,005
Cash and cash equivalents	79	480	759	1,305	1,912	2,394	3,005
Short-term investments	-	-	-	-	-	-	-
Accounts receivable	871	937	1,005	1,073	1,143	1,210	1,281
Accounts receivable days	75	79	81	81	81	81	81
Inventories	1,063	1,432	1,441	1,517	1,649	1,727	1,806
Inventory days	245	335	329	330	330	330	330
Other current assets	298	302	302	302	302	302	302
Prepaid expenses and taxes	96	72	72	72	72	72	72
Other	202	230	230	230	230	230	230
Current assets	**2,311**	**3,151**	**3,507**	**4,198**	**5,005**	**5,633**	**6,394**
Net PPE	1,243	1,193	1,217	1,237	1,208	1,181	1,158
Goodwill and intangible items	1,917	1,840	1,779	1,717	1,657	1,599	1,545
Other non-current assets	240	287	287	287	287	287	287
Total Assets	**5,711**	**6,471**	**6,789**	**7,439**	**8,157**	**8,700**	**9,384**
Short-term debt	-	-	-	-	-	-	-
Payables and accrued expenses	382	428	445	469	497	522	548
Accounts payable	214	241	242	255	277	290	303
Income taxes payable	18	42	57	69	75	87	100
Accrued comp. and rel. items	150	145	145	145	145	145	145
Other current liabilities	461	355	355	355	355	355	355
Current liabilities	**843**	**783**	**800**	**824**	**852**	**877**	**903**
Long-term debt	575	3,680	3,580	3,580	3,480	3,080	2,680
Other non-current liabilities	557	478	478	478	478	478	478
Deferred taxes and credits	311	299	299	299	299	299	299
Other	246	179	179	179	179	179	179
Total Liabilities	**1,975**	**4,941**	**4,858**	**4,882**	**4,810**	**4,435**	**4,061**
Preferred stock (carrying value)	-	-	-	-	-	-	-
Business unit equity	3,785	1,684	1,684	1,684	1,684	1,684	1,684
Equity attrib. to non-control. Int.	16	15	15	15	15	15	15
Common equity	(65)	(169)	232	858	1,648	2,566	3,623
Retained earnings	-	-	401	1,027	1,817	2,735	3,792
Other comprehensive	(65)	(169)	(169)	(169)	(169)	(169)	(169)
Shareholders' Equity	**3,736**	**1,530**	**1,931**	**2,557**	**3,347**	**4,265**	**5,322**
Total Liabilities and Equity	**5,711**	**6,471**	**6,789**	**7,439**	**8,157**	**8,700**	**9,384**
Net Debt	**496**	**3,200**	**2,821**	**2,275**	**1,568**	**686**	**(325)**

Source: Jefferies estimates, company data

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Exhibit 67: Summary Cash Flow Statement for Zoetis, 2011A-2017E

($) millions	**2011A**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**
Pro forma net income	503	601	713	853	927	1,071	1,228
Adj. for excluded gains (charges)	(255)	(40)	(215)	(115)	(15)	(16)	(15)
Net income (GAAP)	248	561	498	737	912	1,055	1,213
Adj. to reconcile NI before noncontrol int.	366	160	232	235	233	229	221
Depreciation and amortization	205	210	208	211	209	205	197
Depreciation	135	142	146	149	150	146	144
Amortization (purchase accounting)	50	53	47	46	44	43	39
Share-based compensation expense	19	24	24	24	24	24	24
Asset write-offs and impairments	78	9	-	-	-	-	-
Net gains on sales of assets	(1)	(1)	-	-	-	-	-
Deferred taxes	65	(81)	-	-	-	-	-
Other non-cash adjustments	-	(1)	-	-	-	-	-
Change in assets & liab., net of acq & divest.	(117)	(604)	(60)	(122)	(173)	(121)	(123)
Net cash from operating activities	**497**	**117**	**670**	**851**	**973**	**1,164**	**1,311**
Capital expenditures	(101)	(107)	(170)	(170)	(120)	(120)	(120)
Other	(348)	(8)	-	-	-	-	-
Net cash from investing activities	**(449)**	**(115)**	**(170)**	**(170)**	**(120)**	**(120)**	**(120)**
Net change in short-term debt	-	-	-	-	-	-	-
Net change in long-term debt	(143)	3,100	(100)	-	(100)	(400)	(400)
Cash dividends paid	(416)	(63)	(121)	(136)	(146)	(161)	(180)
Net common stock transactions	-	-	-	-	-	-	-
Net financing activities with Pfizer	529	(2,637)	-	-	-	-	-
Net cash from financing activities	**(30)**	**400**	**(221)**	**(136)**	**(246)**	**(561)**	**(580)**
Effect of exchange rates	(2)	(1)	-	-	-	-	-
Net increase in cash	16	401	279	546	606	483	611
Cash at beginning of period	63	79	480	759	1,305	1,912	2,394
Cash at end of period	**79**	**480**	**759**	**1,305**	**1,912**	**2,394**	**3,005**

Source: Jefferies estimates, company data

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Company Description

Zoetis, Inc. is a global leader in the discovery, development, manufacture and commercialization of animal health medicines and vaccines, with a focus on both livestock and companion animals. Zoetis represents the largest animal health business in the world, with over $4.2Bn in revenue in 2011.

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9. Transaction fees are not included.
10. All corporate actions are taken into account.

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- GlaxoSmithKline Plc (GSK LN: p1,498.50, HOLD)
- Johnson & Johnson (JNJ: $78.56, HOLD)
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- Novartis AG (NOVN VX: CHF65.90, BUY)
- Novo Nordisk (NOVOB DC: DKK999.50, HOLD)
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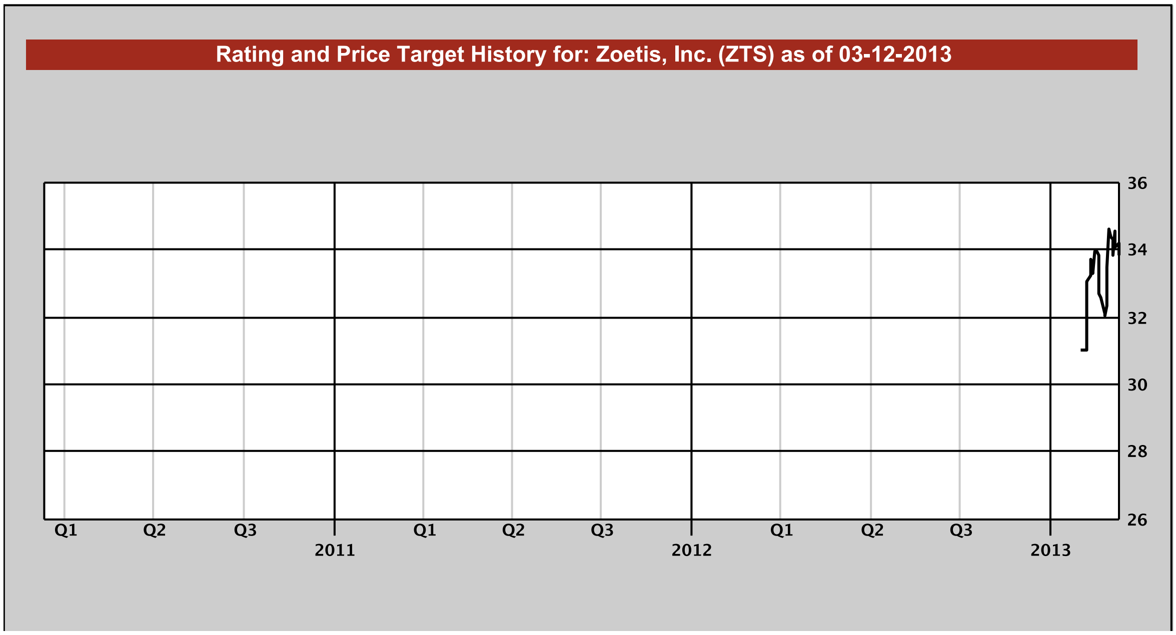

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
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HOLD	716	45.06%	85	11.87%
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