BMO Capital Markets

March 7, 2013

Zoetis

(ZTS-NYSE)

Stock Rating: **Underperform**
Industry Rating: **Market Perform**

Pharmaceuticals

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Good Business, Expensive Stock; Initiating Coverage With Underperform

Investment Thesis

Zoetis, a former business unit of Pfizer (PFE), is the largest global animal medicines and vaccines company, and the only pure-play large-cap animal health company that is publically traded. Although, we recognize that Zoetis is a unique healthcare growth story with therapeutic and geographically diversified revenues and strong fundamental growth drivers (i.e., growing global demand for animal protein and pet ownership, particularly in emerging markets), we argue that the stock is overvalued at current levels.

Forecasts

Zoetis' base revenue (excluding acquisitions, divestitures, and Fx) is growing at a similar rate as the animal vaccines and medicines market at roughly 5%, which isn't surprising to us, given that the company has about 19% market share. The market is projected to grow by a CAGR of 6% between 2011 and 2016 (ex-Fx). Forecasting revenues using two different methods (i.e., by species and operating segment), we estimate that Zoetis revenues should grow by a CAGR of 4.6% through 2023. Moreover, we forecast non-GAAP EPS CAGR of 8% and operating cash flow CAGR of 9% through 2023.

Valuation

We value ZTS shares at $28 per share using DCF per above forecasts. We assume a 2.5% terminal growth rate, given the sustainability of the business, and as such our terminal value accounts for nearly 60% of the firm value. On a relative basis, we cannot justify the stock's 27x P/E multiple, given our growth expectations. Applying a 22x multiple, which is on the top range of that seen with other roughly similar companies, to our 2013E non-GAAP EPS of $1.26 produces a price target of $28, in line with our DCF valuation.

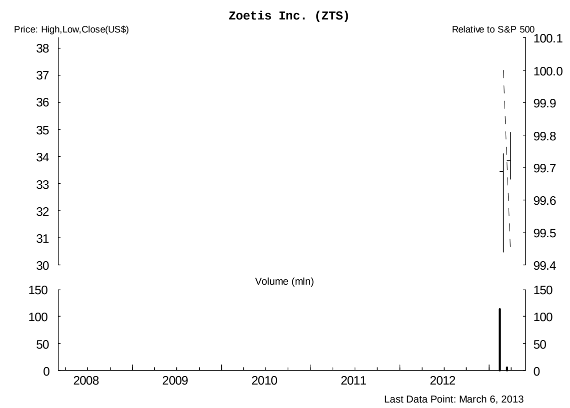
Recommendation

Given the 17% downside risk from current levels, we rate ZTS stock Underperform.

Securities Info

Price (6-Mar)	**$33.85**	**Target Price**	**$28**
52-Wk High/Low	$35/$30	Dividend	$0.26
Mkt Cap (mm)	$16,925	Yield	0.8%
Shs O/S (mm, BASIC)	500.0	Float O/S (mm)	99.0
Options O/S (mm)	na	ADVol (30-day, 000s)	5,402

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012E	2013E	2014E
EPS Pro Forma	$1.01	$1.27	$1.26	$1.38
P/E		26.7x	26.9x	24.5x
First Call Cons.				
EPS GAAP	$0.49	$1.13	$1.03	$1.24
FCF	$0.72	$0.86	$1.13	$1.20
P/FCF		39.4x	30.0x	28.2x
EBITDA ($mm)	$943	$1,210	$1,298	$1,414
EV/EBITDA		16.5x	15.4x	14.1x
Rev. ($mm)	$4,233	$4,337	$4,563	$4,822
EV/Rev		4.6x	4.4x	4.1x

Quarterly EPS	1Q	2Q	3Q	4Q
2011A	$0.24	$0.23	$0.29	$0.24
2012E	$0.30A	$0.35A	$0.31A	$0.30

Balance Sheet Data (30-Sep**)**

Net Debt ($mm)	$3,020	TotalDebt/EBITDA	3.0x
Total Debt ($mm)	$3,650	EBITDA/IntExp	11.2x
Net Debt/Cap.	47.2%	Price/Book	na

Notes: All values in US$.

Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc. For disclosure statements, including the Analyst's Certification, please refer to pages 26 to 32.

Investment Summary

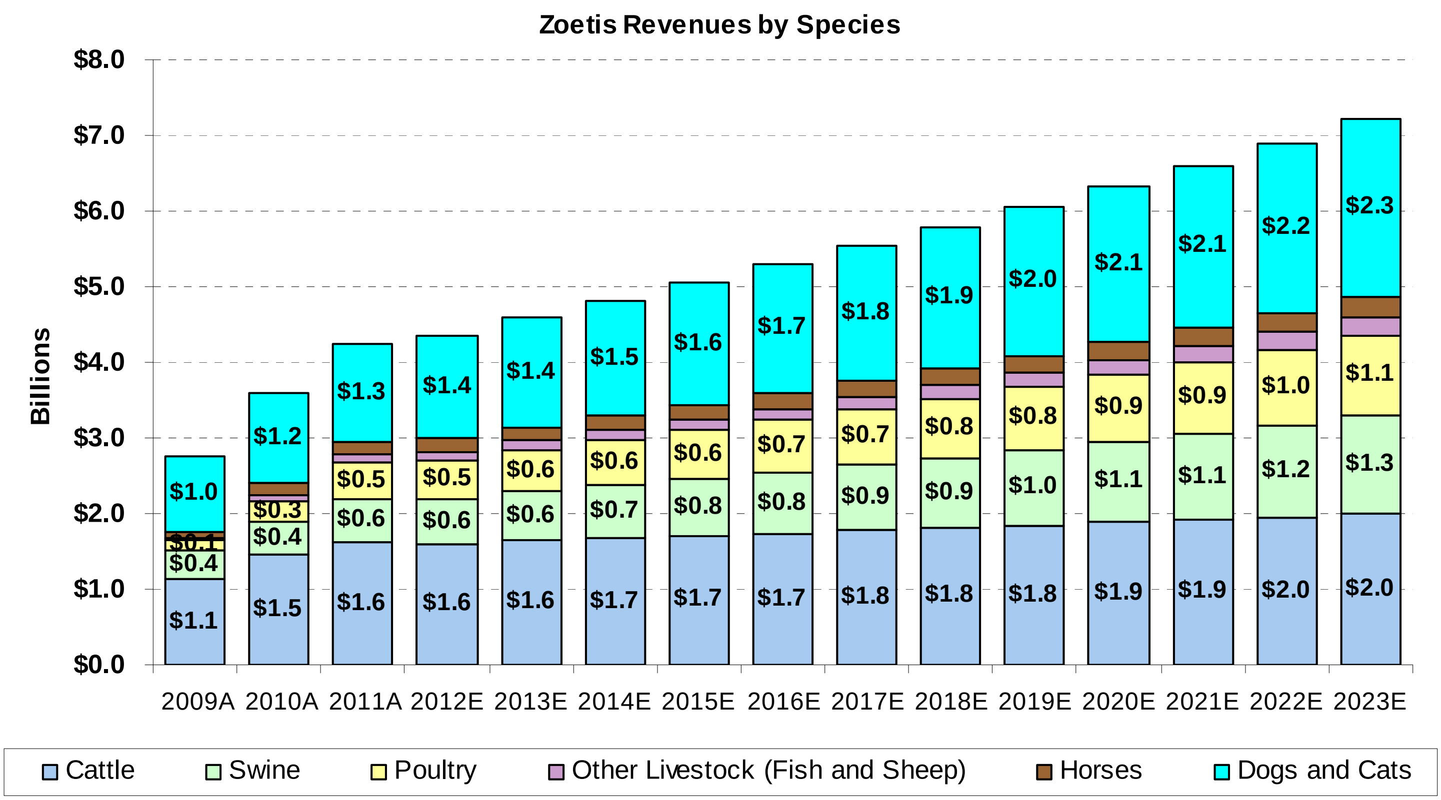
Zoetis is a unique company. Zoetis, a former business unit of Pfizer, is the largest company in the global animal medicines and vaccines market. Its recent IPO of 99.015 million shares accounts for 19.8% of the company, while shares held by Pfizer account for the remaining 80.2%. The company is the product of Pfizer's internal product development and the accumulation of animal health business units from Pfizer's numerous acquisitions. Other than being the largest player in this market, what makes Zoetis unique is that it is the only large-cap pure-play animal health company publically traded; most of its competitors remain fully integrated subsidiaries of diversified pharmaceutical companies.

The animal medicines and vaccines business is a $22 billion market, as measured by 2011 revenues, and Zoetis has about 19% market share. Moreover, this market grew at a CAGR of 6% between 2006 and 2011, and excluding the effect of foreign exchange, is also projected to grow at a CAGR of 6% between 2011 and 2016 (Source: Zoetis Prospectus, Vetnosis). Key growth drivers include growing global demand for animal protein consumption and growing pet ownership.

Zoetis has a diversified revenue base, which we forecast can grow at a CAGR of 4.6% for the next 10 years. In 2011, the company generated revenues of $4.2Bn, with 66% coming from livestock animal products and 34% from companion animal products. Its top 10 product lines contributed less than 38% of total revenues in 2011. Moreover, only 39% of revenues come from the US. In the nine months ending September 30, 2012, Zoetis' base revenue (i.e., excluding acquisitions, divestitures, and Fx) grew 5% y/y, compared with 7% in 2010 and 2011 (Source: Zoetis S-1 Filing). In fact, acquisitions accounted for roughly 55%-77% of Zoetis' total y/y revenue growth of 30% and 18% in 2010 and 2011, respectively. Because Zoetis did not disclose individual product sales in its prospectus, we forecast revenues using two methods based on the information disclosed by the company and use their average: 1) revenues by species, and 2) revenues by geographic operating segment.

Our Zoetis revenue forecast by species produces an 11-year CAGR of 4.7%. We forecast that the livestock business can grow at an 11-year CAGR of 4.6%, driven by products for swine and poultry. However, additional regulatory restrictions on the use of antibiotics in animals, based on concerns about resistance in humans, could further pressure sales. Antibacterials for livestock account for roughly 27% of Zoetis' revenues. We expect the relatively smaller companion animal health business grows by a CAGR of 5%, driven by products for cats and dogs (please see Exhibit 1 below).

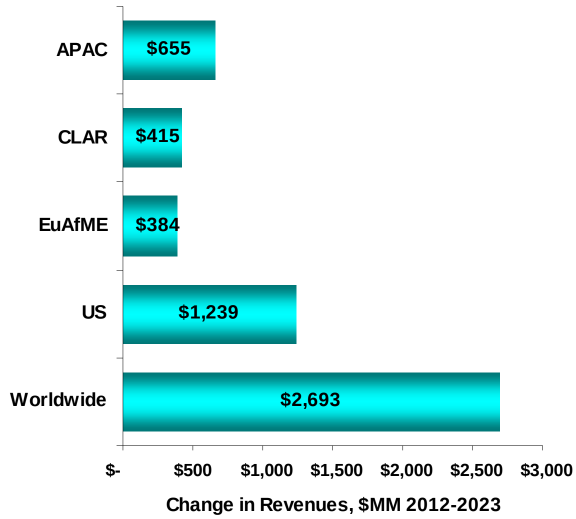
Exhibit 1. Our Zoetis Total Revenue Forecast by Species: 11-Year CAGR of 4.7%



Source: Zoetis Prospectus, BMO Capital Markets forecasts

Our Zoetis revenue forecast by geographic operating segment, which also takes into account Fx fluctuations, produces an 11-year CAGR of 4.5%, closely in line with our revenue forecast by species. Zoetis operates in four geographic segments: United States (39% of 2011 revenues), Europe/Africa/Middle East (EuAfME, 27% of 2011 revenues), Canada and Latin America (CLAR, 19% of 2011 revenues), and Asia Pacific (APAC, 15% of 2011 revenues). In the US, we forecast a 5% 11-year CAGR, driven by continued growth from companion animal products and to lesser extent livestock products. Adverse macroeconomic conditions in Europe and an unfavorable Fx have been the key headwinds in the EUAfME segment. Going forward, we forecast base revenue growth of 1.5% to 3%, as the macroeconomic conditions in Europe gradually improve and the Fx headwind reverses in 2014. Similar to the US and EuAfME segments, the majority of growth in the CLAR segment is coming from companion animal products, such as canine vaccines especially in Brazil and parasiticides in Canada. Going forward, we forecast annual operational growth of 4% in this segment and reversal of the Fx headwind in 2H2013. Finally, we expect strong growth from the APAC segment, and believe it should double in 8 to 10 years. This is driven by both livestock and companion animal products, particularly in China.

Exhibit 2. Our Zoetis Revenue Growth Forecast for 2012-2023 by Geographic Segment: US and Asia Pacific Are the Top Growth Drivers



Note: EuAfME = Europe/Africa/Middle East; CLAR = Canada and Latin America, and APAC = Asia Pacific; Source: Zoetis Prospectus, BMO Capital Markets forecasts

We expect Zoetis' net margin to improve from roughly 15% in 2012 to 21% by 2023, driven primarily by improved operational efficiency and some improvement in tax rate.

We forecast gradual gross margin improvement from 64.6% in 2012 to 66.1% by 2023 with ongoing efficiency improvements and increased contribution from companion animal products. The company's key growth strategy is to leverage its direct local presence and the strong customer relationships that it has built with its direct selling commercial model. More than 80% of Zoetis' revenues come from products that do not have patent protection for market exclusivity; thus, highlighting the need for their promotion vs. competitors. Moreover a key area of focus for the company is to further penetrate emerging markets, as illustrated by the recent sales expansion in China. As such, we expect at least low single-digit SG&A growth, but SG&A should decline as a percentage of revenues, given its slower growth rate. Most of Zoetis' R&D programs and product revenues are the result of brand lifecycle development that leverages existing products by adding new species or claims or markets. Given these ongoing brand lifecycle management efforts, we forecast R&D expenses should remain at roughly 9% of Zoetis' revenues. Finally, we conservatively maintain the effective tax rate at roughly 34%, in line with the current base rate. However, we recognize that the effective tax rate could be lowered by changes in the jurisdictional mix of earnings as well as changing cash repatriation requirements.

We value ZTS shares at $28 per share, using DCF and P/E multiple. Given the 17% downside risk from current levels, we rate the stock Underperform. On February 1, 2013, the Zoetis IPO opened at $31.50, up 21% from its offering price of $26 share, which was already higher than the expected range of $22-$25. The stock has since gained another 7%-8%, corresponding to a market cap of roughly $17 billion. Although we recognize that Zoetis is a unique healthcare growth story with strong fundamentals, we argue that the stock is overvalued.

Our primary method of valuing ZTS shares is DCF, which also takes into account the company's leveraged balance sheet. We forecast that Zoetis can grow its operating cash flows by a CAGR of 8.8% from 2013 to 2023. We also assume a 2.5% terminal growth rate after 2023, given the probable sustainability of the business, and as such our terminal value accounts for nearly 60% of firm value. Assuming a beta of one, we estimate WACC to be around 8.6%, which is mostly in line with the discount rate we use for human pharmaceutical companies. Overall, taking into account the company's $3.02Bn net debt position, we arrive at our $28 per share intrinsic valuation (please see Exhibit 3 below for assumptions).

On a relative basis, we simply cannot justify the high P/E multiple. ZTS shares trade at roughly 28x our trailing 12-month non-GAAP EPS of $1.21, and 27x our 2013 non-GAAP EPS of $1.26. This multiple is not only higher than other roughly similar companies (see Exhibit 14), which trade at a P/E range of 14-23, but it is also exceedingly high in light of our expected revenue CAGR of 4.6%, non-GAAP EPS CAGR of 8%-10%, and operating cash flow CAGR of roughly 9%. Looking at the top end of the comparators' P/E range, if we apply a 22x P/E multiple to our 2013 non-GAAP EPS of $1.26, it would yield a $28 valuation, which is consistent with our DCF valuation. Therefore, we believe there is roughly 17% downside risk for ZTS shares at current levels and as such we rate the stock Underperform.

Exhibit 3. Our DCF and P/E Multiple Valuation of ZTS Shares: $28 Per Share

FCFF Valuation, $MM		2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	>2023E
Cash flow from operations		727	764	821	907	991	1,078	1,182	1,303	1,434	1,550	1,693	1,736
Y/Y Growth			5%	8%	10%	9%	9%	10%	10%	10%	8%	9%	2.5%
CAPEX		(132)	(134)	(131)	(127)	(134)	(136)	(138)	(136)	(137)	(143)	(138)	(141)
Interest Expense (1-t)		71	77	77	74	74	65	65	65	65	65	38	38
Free Cash Flow to the Firm (FCFF)		666	707	767	854	931	1,007	1,108	1,231	1,361	1,472	1,594	1,633
Discount Period		0.8	1.8	2.8	3.8	4.8	5.8	6.8	7.8	8.8	9.8	10.8	11.8
Discount Rate (Est. WACC is 8.6%)	8.6%												
Discounted FCFF		622	608	608	623	625	623	631	646	658	655	653	

	Total, $MM	
PV of FCFE (2012-2022)	6,950	
Terminal Value at 2023	26,831	Terminal growth rate: 2.5%
PV of Terminal Value	10,121	Accounts for nearly 60% of firm value given sustainability of business.
Cash & Equivalents	630	Source: Zoetis Form S-1
Total Debt	3,650	Current outstanding debt
Total Equity Value	14,052	
Minority Interest	(15)	Source: Zoetis Form S-1
Total Zoetis Stockholders' Equity Value	**14,037**	
Diluted shares, MM	500	As of IPO date
Equity value per current PFE share	**$28**	

DCF Assumptions:	
Required Rate of Return on Equity	10.4%
Rf	2.0%
Beta	1
Rm	10%
Cost of Debt	3%
Debt	3,650
Equity	13,000
% Debt	22%
% Equity	78%
WACC	**8.6%**
Terminal Value Growth Rate	**2.5%**

PE Multiple Valuation Using Non-GAAP EPS

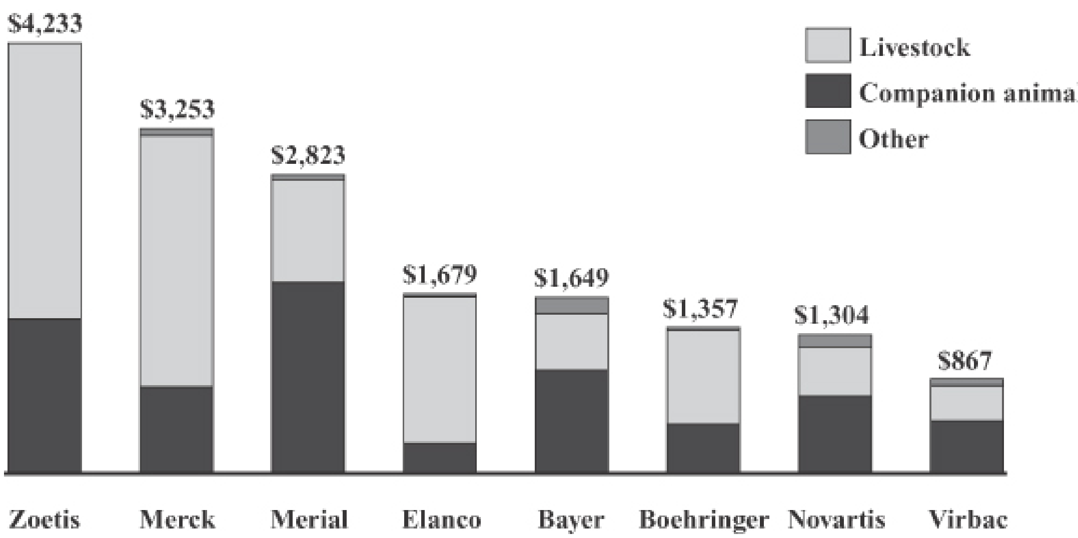
		2012E	2013E	2014E	2015E
	EPS	**$1.27**	**$1.26**	**$1.38**	**$1.52**
PEx	**19**	$24	$24	$24	$24
	20	$25	$25	$25	$26
	21	$27	$26	$27	$27
	22	$28	$28	$28	$28
	23	$29	$29	$29	$30
Discount Period		0	0	1	2
Discount rate	8.6%				

Sources: Pfizer Reports, Zoetis Form S-1, BMO Capital Markets Pharmaceuticals Research

Company Description

Zoetis, a former business unit of Pfizer, is a leading global animal health company. The company is the product of Pfizer's internal product development and the accumulation of numerous animal health business units from Pfizer's acquisitions of other pharmaceutical companies including, Pharmacia in 2003, Wyeth in 2009, and King Pharmaceuticals in 2011. Zoetis has more than 300 product lines in five categories: vaccines, parasiticides, anti-infectives, medicinal feed additives and other pharmaceutical products. The company's product line is complemented by diagnostics products and genetics tests and supported by a range of services. The products are focused on eight core species: cattle (beef, dairy), pigs, poultry, sheep, fish, dogs, cats, and horses. Zoetis markets these in more than 120 countries with a local presence in approximately 70 countries. The company's key customers are livestock producers and veterinarians. In 2011, Zoetis generated revenues of $4.2Bn, with 66% coming from livestock animal products and 34% from companion animal products. The company has a diversified revenue base as its top 10 product lines contributed less than 38% of total revenues in 2011. Roughly 39% of Zoetis' revenues come from the US. The company is based out of Madison, New Jersey; however, it recently announced plans to relocate to Florham Park, New Jersey, since Pfizer plans to sell some of its considerable properties in Madison.

Exhibit 4. Zoetis Is a Global Leader in Animal Health Medicines and Vaccines (2011 Revenues)



Notes: Merial is the animal health division of Sanofi S.A. (SNY); Elanco is the animal health division of Eli Lilly and Company (LLY).

Source: Zoetis Prospectus

Animal Health Industry

The animal health industry focuses on livestock and companion animals and is estimated to be a $100 billion global industry, as measured by 2011 revenues. It includes all products and services - other than livestock and pet food - that promote livestock health and productivity and companion animals' health. Within the broad animal health industry, the medicines and vaccines sector, which is Zoetis' core area of operation, represented a $22 billion market as measured by 2011 revenues. Moreover, the medicines and vaccines sector grew at a CAGR of 6% between 2006 and 2011, and excluding the impact of foreign exchange, is also projected to grow at a CAGR of 6% between 2011 and 2016 (Source: Zoetis Prospectus, Vetnosis).

With growing global demand for animal protein consumption, there is also growing concerns about food safety. Thus, the demand for medicines and vaccinations that improve the efficiency of livestock production and minimize livestock disease is increasing. Moreover, the growth in disposable income has led to an increase in pet ownership, leading to increased demand for companion animal health products.

Exhibit 5. Overview of Global Animal Health Medicines and Vaccines Market

Segment	2011 Revenues	Zoetis 2011 Share	Segment Growth 2006-2011	Est. Segment Growth 2011-2016*	Drivers
Livestock	$13.1 Billion (60%)	$2.8 Billion (21%)	7%	6%	* Growth in human population and improvements in standards of living is increasing demand for animal protein * Growing awareness for food safety * Natural resource constraint; pressure to enhance livestock productivity
Companion Animals	$8.9 Billion (40%)	$1.45 Billion (16%)	6%	5%	* Increase in disposable income is driving growth in pet ownership and demand for their medical treatment * Advances in medicines and vaccines
Total	**$22 Billion**	**$4.23 Billion (19%)**	**6%**	**6%**	

**Excluding the impact of foreign exchange*

Source: Zoetis – S1 filing, Vetnosis

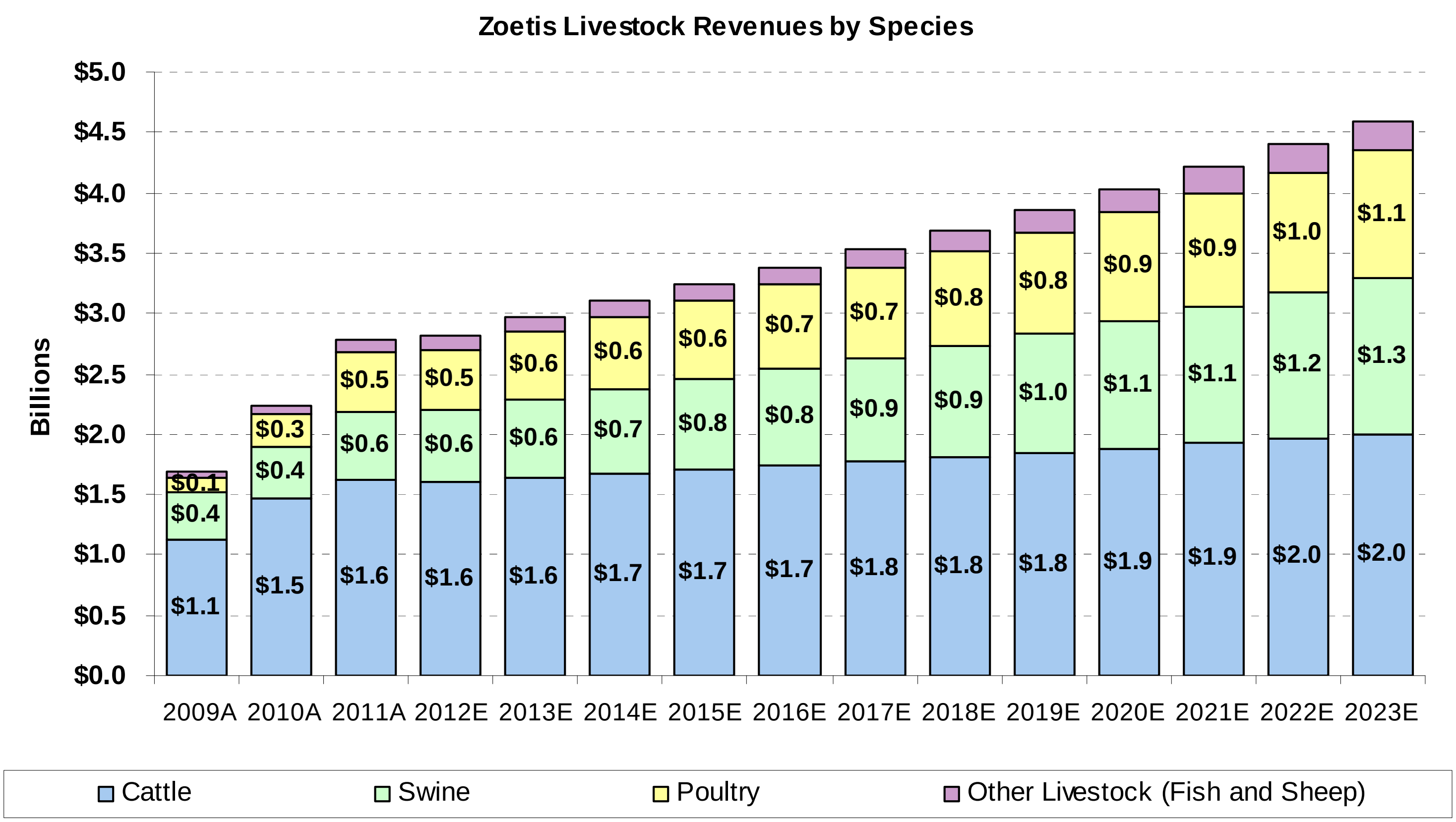
Zoetis Livestock Business

Similar to the overall sector, livestock products represented approximately 66% of Zoetis' revenues in 2011. Overall, Zoetis has about 21% of the Livestock medicines and vaccines market. The company's key product in this segment is the anti-infective Ceftiofur line used in cattle, horses (included in companion animal products), sheep, and swine. In 2011, this was Zoetis' top selling product line, but only contributed less than 8% of its total revenues. Other notable products include: 1) Draxxin (launched in 2003), a novel antibiotic for livestock that delivers a full course of antibiotics in one injection and 2) Inforce (launched in 2010), the first and only respiratory vaccine for cattle that prevents certain respiratory diseases. Finally, Zoetis is the second-largest company for medicinal feed additives, which represented approximately 8% of 2011 revenues and No. 2 in vaccines, which represented approximately 26% of 2011 revenues, and features vaccines for cattle and swine.

The key concern in this segment is that there could be increased restrictions against the use of antibiotics in livestock. For example, in April 2012, the FDA announced guidance calling for the voluntary elimination over a period of time of the use of medically important antibacterials that are also used in humans in animal feed for growth promotion. The FDA's objective here is to help preserve the efficacy of these antibacterials to treat infections in humans. There are similar restrictions in place in Western Europe.

Finally, several patents that cover the Ceftiofur product line, including formulation and use patents, begin expiring in the US in 2015, while others extend until 2024. Draxxin has patent protection until 2021. The compound patent on doramectin, which is the active ingredient in Dectomax, an antiparasitic, has expired in all regions; however, process patents and the injectable formulation patent for this product do not expire in the United States until 2020 and 2016, respectively. Nonetheless, more than 80% of Zoetis' revenues come from products that do not have market exclusivity; thus, we don't expect a significant negative impact.

Exhibit 6. Our Forecast for Zoetis' Livestock Business: 11 Year CAGR of 4.6%,



Source: Zoetis Prospectus, BMO Capital Markets forecasts

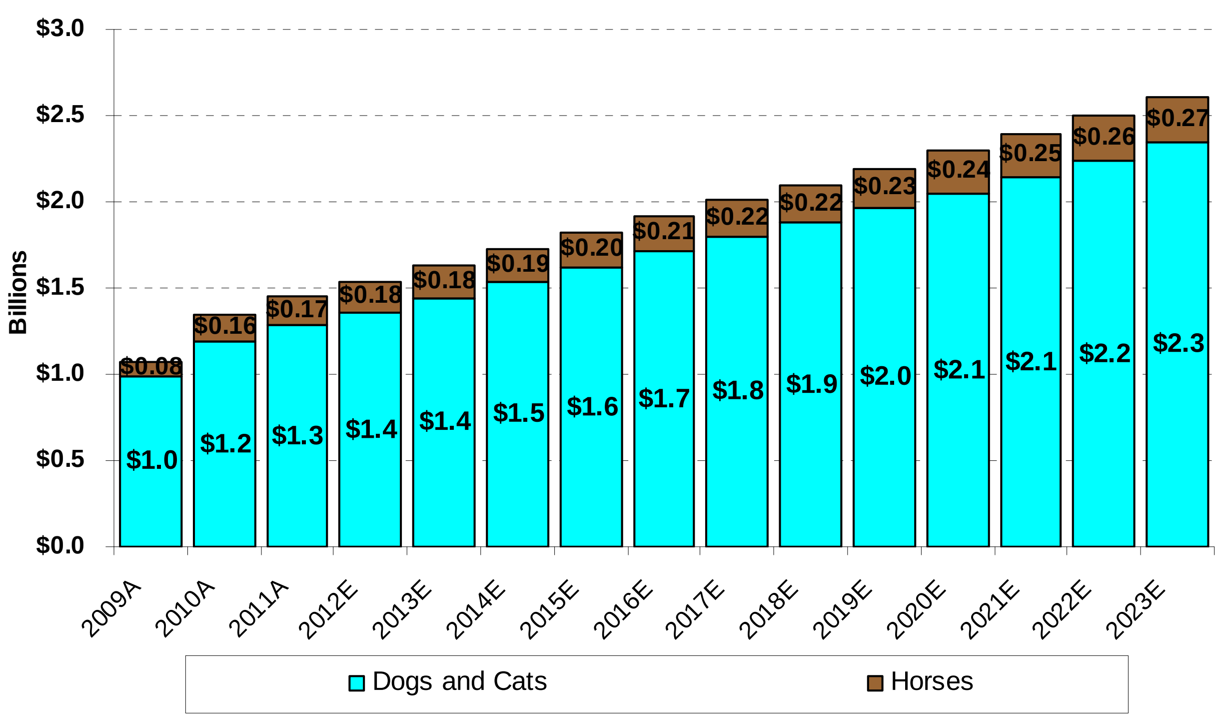
Companion Animal Segment

Companion animal medicines and vaccines represented 40% of the total market in 2011. The segment grew at a CAGR of 6% between 2006 and 2011. With companion animals living longer because of improved medication and vaccinations, spending on their medical treatment is also increasing. Importantly, the growth of disposable income in emerging markets has led to an increase in pet ownership and thereby an increase in their healthcare spending. Veterinarians are the key decision-makers (i.e., prescribers) and dispensers of medicines and vaccines for companion animals. Moreover, the sale of animal health products directly to pet owners is a meaningful contributor to veterinary practice economics. Overall, the companion animal segment is projected to grow at a CAGR of 5% between 2011 and 2016 (Sources: Zoetis, Vetnosis). Finally, based on recent comments from Eli Lilly (LLY), we believe that the companion animal segment has higher margins than the livestock segment.

Zoetis Companion Animal Business

Similar to the overall sector, the companion animal products represented approximately 34% of Zoetis' revenues in 2011. Overall, Zoetis has about 16% of the companion animal medicines and vaccines market. Its key product in this segment are for cats and dogs, including the Vanguard vaccines for dogs; the parasiticide Revolution to protect cats and dogs against fleas, ticks, and hookworms; and the anti-infective Convenia, the first single-injection anti-infective for common bacterial skin infections in cats and dogs, launched in 2006. The compound patent on selamectin (Revolution), expires in the US, Canada and Europe in 2014. Convenia is covered by patents in the US with terms that expire in 2023.

Exhibit 7. Our Zoetis Companion Animal Forecast: 11-Year CAGR of 5% Driven by Products for Cats and Dogs



Source: Zoetis Prospectus, BMO Capital Markets forecasts

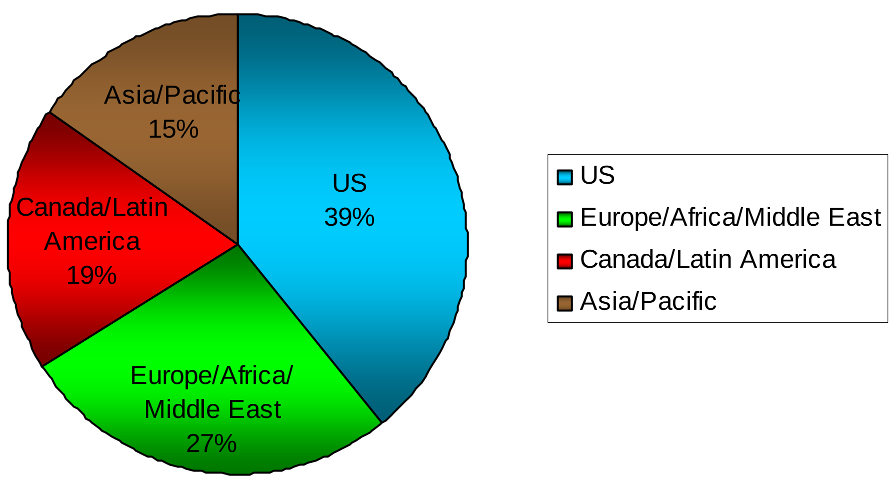
Zoetis Performance and Forecasts by Geographic Operating Segment and Impact of Recent Acquisitions

Zoetis' base revenue is growing at a similar rate as the overall vaccines and medicines market. Base revenue is defined as revenue growth, excluding the impact of recent significant acquisitions, government-mandated divestitures and foreign exchange. Its base revenue growth was 5% in the nine months ended September 30, 2012, primarily from growth in the US, APAC, and CLAR segments. Base revenue growth was 7% y/y in 2010 and 2011 (Source: Zoetis S-1 Filing). Based on the company's reported y/y revenue growth rate, we estimate that acquisitions accounted for roughly 55%-77% of Zoetis' revenue growth during 2010 and 2011.

Foreign Exchange: Significant Headwind in 2012, We Expect Minimal Impact in 2013

In 2011, approximately 61% of Zoetis' revenues were denominated in foreign currencies and thus exposed to currency fluctuations. In 2011, year-over-year revenue growth benefited by 3% from favorable Fx. However, in the first nine months of 2012, revenue growth was unfavorably affected by 4% from changes in foreign currency. We estimate the Fx impact on revenues by leveraging the BMO Capital Markets Economics team's forecasts for major currencies and calibrating our model based on revenue contribution by segment. Overall, we forecast negligible Fx impact on revenues in 2013, and a low single-digit positive tailwind in 2014.

Exhibit 8. Zoetis 2011 Revenues by Operating Segment



Source: Zoetis Prospectus

US: Key Growth Driver Is the Companion Animal Products

In the US, which accounts for roughly 40% of total revenues, Zoetis' base revenue grew 13% in 2010, 7% in 2011, and 6% for the nine months ended September 30, 2012. Roughly 67% of the $70MM growth in 2012 base revenues came from companion animal products. This was driven by parasiticides, benefiting from an extended flea-and-tick season, caused by unusually warm weather, a temporary competitor supply disruption, and growth in canine vaccines. Livestock product revenue growth was principally driven by increased demand for medicinal feed additives in swine, increased demand for premium anti-infectives in cattle and swine, as a result of new promotional campaigns focused on superior efficacy supported by economic outcomes studies, and the launch of an improved formulation of a swine vaccine. This revenue growth was partially offset by the effect of the drought in the US.

In the US, the base revenue growth rate for the nine months ended September 30, 2012 was 6%. Going forward, we forecast 5% 11-year CAGR in the US, driven by continued growth from companion animal products and to lesser extent livestock products. However, as stated earlier, the key risk in this segment is more restrictions on the use of antibiotics in animal feed.

Europe/Africa/Middle East (EuAfME): Adverse Macroeconomic Conditions in Europe Are the Key Headwind

Europe/Africa/Middle East collectively account for roughly 25%-27% of Zoetis' revenues. Key developed markets in this segment include the United Kingdom, Germany, and France. Key emerging markets in this segment include Russia, Turkey, and South Africa. In this segment, Zoetis' base revenue declined 1% in 2010, and grew 3% in 2011 and grew less than 1% for the nine months ended September 30, 2012. In 2012, base revenue declined slightly for livestock products, which was offset by growth from companion animal products. Livestock product revenues were negatively affected by continued adverse macroeconomic conditions throughout Western Europe and pressure from the ongoing restrictions on the use of certain antibacterials. This was partially offset by good performance in emerging markets, driven by growing demand for animal protein. Similar to the US, in 2012, companion animal product revenues were favorably impacted by parasiticides, the launch of new branded generic products, and a temporary competitor supply disruption. However, results were partially offset by continued adverse macroeconomic conditions throughout Western Europe. Finally, the segments revenues were unfavorably affected by 7% because of foreign exchange for the nine months ended September 30, 2012.

Going forward, we forecast base revenue growth of 1.5% to 3%, as the macroeconomic conditions in Europe improve. We expect continued growth from companion animal products and livestock products in emerging markets in this segment. Finally, we forecast the Fx headwind to moderate in 2013 and reverse in 2014.

Canada and Latin America (CLAR): Companion Animal Products Driving Mid-Single-Digit Growth

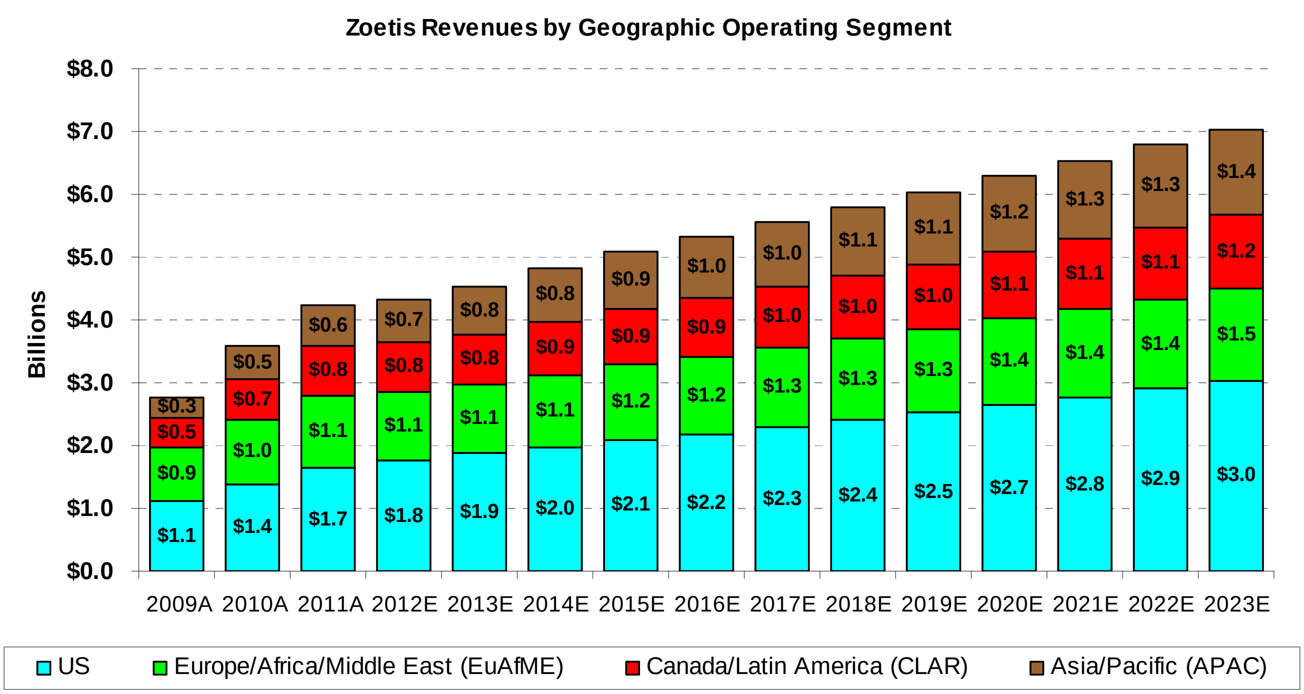
Canada and Latin America account for about 17%-19% of total revenues. The developed market in this segment is Canada, while the key emerging markets in this segment include Brazil and Mexico. Zoetis' base business grew 5% in 2010, 9% in 2011, and 4% for the nine months ended September 30, 2012 in this segment. Similar to the US and EuAfME segment, roughly 72% of the growth in base revenues came from companion animal products, driven by canine vaccines especially in Brazil and parasiticides in Canada. Livestock sales growth was driven by sale of swine vaccines, which launched in multiple markets. Finally, year-to-date 2012 revenues were unfavorably impacted by 8% because of foreign exchange. Going forward, we forecast annual operational growth of 4%. Moreover, we forecast the Fx headwind to reverse in 2H2013.

Asia Pacific (APAC): Strong High Single-Digit Growth Driven by Both Livestock and Companion Animal Products

The Asia/Pacific segment accounts for roughly 15%-16% of Zoetis' revenues. Key developed markets in this segment include Australia, Japan, New Zealand, and South Korea, while key emerging markets in this segment include India and China. The company's base revenues in this segment grew 12% in 2011, 15% in 2010, and 8% for the nine months ended September 30, 2012. In the first nine months of 2012, roughly 55% of the base revenue growth came from livestock products, while the remaining 45% came from companion animal products. Livestock sales benefited from growth in the dairy cattle segment in Australia, increased sales force presence in China, which drove growth in premium priced swine products, and the launch of an improved formulation of a swine vaccine in multiple markets. Companion animal product revenues benefited from increased adoption of products into veterinarian treatment protocols. Growth in parasiticides in Australia and growth in canine vaccines in China were driven by the expansion of the sales organization.

We expect strong growth from the APAC segment; should double in 8 to 10 years. Current per capita consumption of animal protein and dairy products in emerging markets, including China, are a fraction of the consumption levels in developed markets. We expect this gap to narrow with improved economic conditions in emerging markets, rising overall demand for animal protein, and more efficient production. These drivers bode well for Zoetis. Going forward, we forecast operational growth of 8.5% in 2013, declining to 7% in 2016 and about 4% in 2021. Moreover, we expect the Fx headwind to reverse in 2013 and provide a modest boost in 2014.

Exhibit 9. Our Zoetis Revenue Forecast by Geographic Segment; 11-Year CAGR of 4.5%. We Expect APAC to Double.



Source: Zoetis, BMO Capital Markets forecasts

Zoetis Operating Expenses

Gross margin: We forecast gradual gross margin improvement with ongoing efficiency improvements and increased contribution from companion animal products

Zoetis' cost of goods sold as a percentage of revenues decreased from 39.7% in the nine months ending September 2011 to 35.8% in the nine months ending September 2012, because of increased operational efficiencies and savings associated with margin-improvement initiatives, including plant network optimization, yield improvements, and overall cost reductions. We note that COGS as a percentage of revenues was in the 39%-40% range during 2009-2011; thus, the improvement in 2012 is significant. Zoetis management intends to continue its efficiency improvement programs in manufacturing and supply chain. Another source of margin improvement could come from favorable product mix, as contribution from companion animal products increases from 34% in 2011 to 36% by 2015. Overall, we conservatively forecast the company's gross margin to improve from 64.4% in 2012 to 66.1% in 2023.

SG&A: We expect low single-digit growth, but it should decline as a percentage of revenues

Zoetis' sales organization includes sales representatives and technical and veterinary operations specialists. As of September 2012, the sales organization consisted of 3,400 employees, or roughly 36% of the expected number of employees following the separation Pfizer. Zoetis also markets its products by advertising to veterinarians, livestock producers, and pet owners. In the first nine months of 2012, SG&A expenses declined 1% or $9 million driven by acquisition-related synergies, cost reduction initiatives and favorable Fx. However, this was partially offset by the company's initiatives to increase its direct sales and marketing presence in certain emerging markets, such as China.

Its key growth strategy is to leverage its direct local presence and strong customer relationships that it has built with its direct selling commercial model. Moreover a key area of focus is to further penetrate emerging markets. Finally, more than 80% of Zoetis' revenues come from products that do not have patent protection for market exclusivity; thus, highlighting the need for its promotion vs. competitors. As such, going forward, we forecast at least low single-digit annual increase in SG&A expenses. However, since this is lower than our 4.6% revenue CAGR, we expect SG&A as a percentage of revenues to decline from about 34% in 2011 to 25% in 2023.

R&D: We assume it remains fairly steady at roughly 9% of revenues

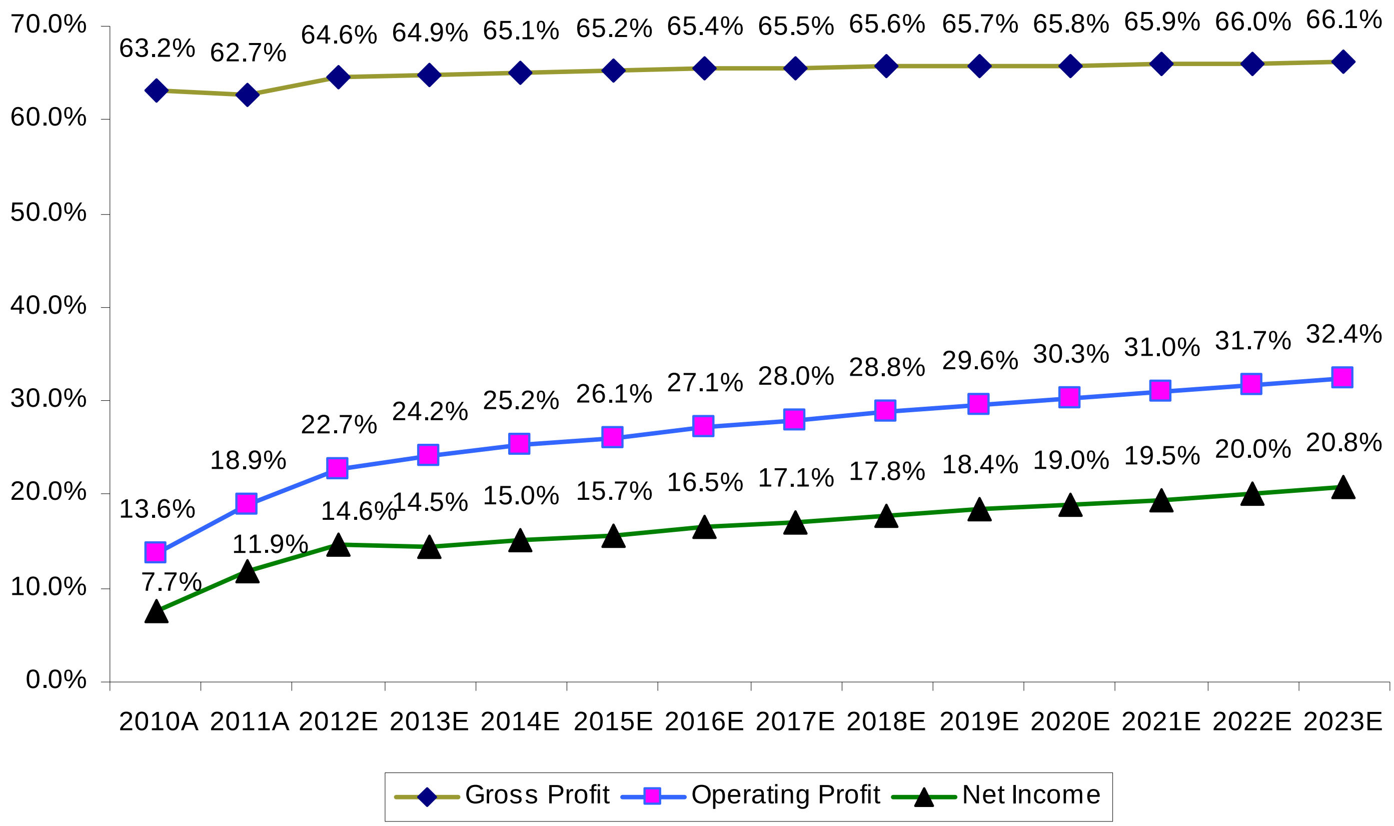
The R&D process in the animal health industry is faster, less expensive, and more predictable and sustainable relative to human pharmaceuticals. Animal health R&D programs generally require fewer clinical studies and involve fewer subjects. Moreover, the majority of animal health R&D investment is focused on brand lifecycle development, while the development of new chemical and biological entities plays a smaller role.

Zoetis has an impressive R&D track record. From 2004 to 2011, Zoetis obtained approximately one-fourth of all animal health medicine approvals granted by the FDA and approximately one-fifth of all animal health vaccine approvals granted by the USDA. However, most of the company's R&D programs and product revenues are the result of brand lifecycle development that leverage existing animal health products by adding new species or claims, achieving approvals in new markets, or creating new combinations and reformulations. Given these ongoing brand lifecycle management efforts, we forecast R&D expenses should remain at roughly 9% of Zoetis' revenues.

Effective tax rate: We conservatively forecast ~34%

If Zoetis would have filed a separate tax return, its effective tax rate would be 29.9% for the nine months ended September 30, 2012, compared with 34.6% for the nine months ended October 2, 2011. The lower effective tax rate in the first nine months of 2012 is primarily driven by a $29.3MM benefit related to a Pfizer settlement with the IRS. Excluding this settlement, the rate would have been almost flat at 34.5%; therefore, this is our estimated base rate starting 4Q2012. Going forward, we conservatively maintain the effective tax rate at roughly 34%. However, we recognize that the effective tax rate could be lowered by changes in the jurisdictional mix of earnings, as well as cash repatriation requirements.

Exhibit 10. We Expect Zoetis' Margins to Improve Overtime, Driven Primarily by Improved Operational Efficiency



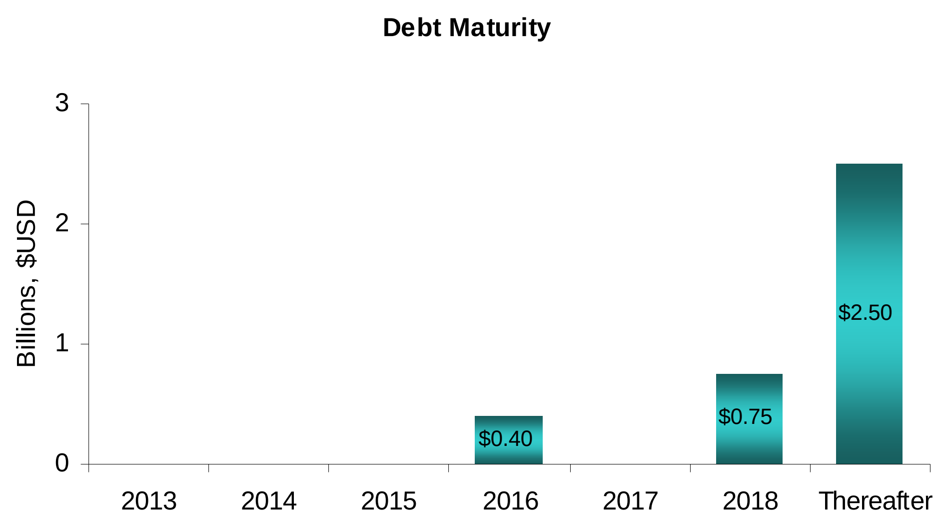
Source: Zoetis Prospectus, BMO Capital Markets estimates.

Financial Strength: Highly Levered Balance Sheet, but More Than Enough Cash Flows

With a total debt of $3.6 billion and cash and cash equivalents of $0.7 billion, Zoetis will start with a highly levered balance sheet. The company depends primarily on its operating cash flows, cash and cash equivalents, and its credit facility for liquidity requirements. Zoetis' operating cash flows almost doubled from $254 million in 2010 to $497 million in 2011, following the acquisition of King Pharmaceuticals. We expect operating cash flows to grow to $1.7 billion by 2023 (CAGR of 8.8%). Moreover, Zoetis has entered into a five-year $1 billion revolving credit facility, which, subject to certain conditions can be increased up to $1.5 billion.

Historically, the company's capital expenditure remained in the range of $124-$135 million. As Zoetis will be operating as a stand-alone company and will incur one-time expenses in setting up its infrastructure, we expect the capital expenditure to remain in the higher range. Also, Zoetis has no debt maturing in the near future. In our view, the company should easily meet its financial obligations with its operating cash flows.

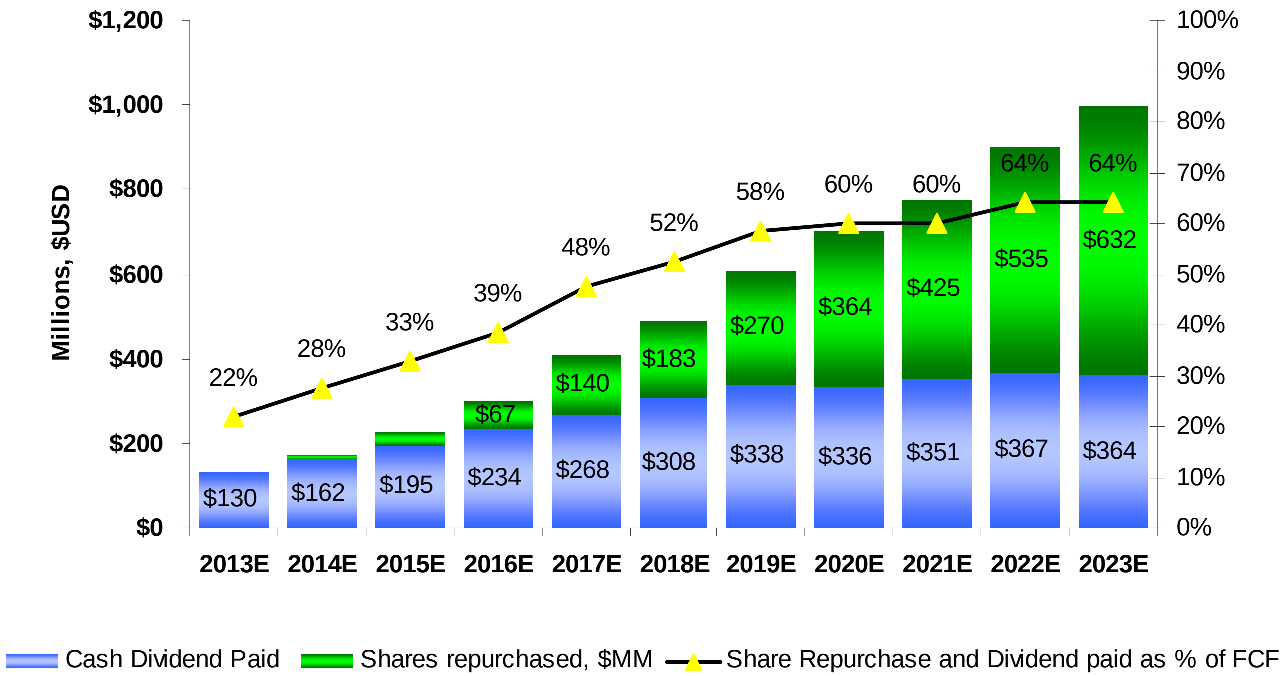
Exhibit 11. Zoetis Debt Maturity Schedule; Nothing in the Near Term



Source: Zoetis Form S-1

We expect that Zoetis will eventually return up to 60% of its FCF to shareholders; plenty of upside for the dividend. The company will pay a nominal quarterly dividend of $0.065 per share, which we expect will increase in time. However, we expect limited share repurchase in the near term, as management will likely focus on debt retirement to bring down leverage in order to enhance financial flexibility.

Exhibit 12. Zoetis Can Return Up to 60% of its FCF to Shareholders



Source: BMO Capital Markets Pharmaceuticals Research Estimates

Zoetis Is Led by Pfizer's Experienced Management Team

Zoetis is led by CEO, Juan Ramon Alaix, who has been in senior leadership positions in Pfizer's animal health business since 2006. He has 35 years of experience in finance, sales, and management, including 20 years in the pharmaceutical industry.

Richard A. Passov is the executive vice president and CFO. Mr. Passov has been with Pfizer since 1997, serving in various management positions including senior vice president and treasurer.

Catherine A. Knupp is serving as the executive vice president and president of research and development. She has spent more than 10 years in Pfizer and has served in various capacities including vice president of veterinary medicine research and development.

Valuation: $28 Using DCF and P/E Multiple

Our primary method of valuation for ZTS shares is a DCF model, which also takes into account the company's leveraged balance sheet. We forecast that Zoetis can grow its operating cash flows by a CAGR of 8.8% from 2013 to 2023. We assume a 2.5% terminal growth rate after 2023, given the probable sustainability of the business, and as such our terminal value accounts for nearly 60% of firm value. Our discount rate, assuming a beta of one, is 8.6%, which is mostly in line with the rate we use for human pharmaceutical companies.

Exhibit 13. Our DCF Valuation of ZTS Shares: $28/share

FCFF Valuation, $MM		**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**>2023E**
Cash flow from operations		727	764	821	907	991	1,078	1,182	1,303	1,434	1,550	1,693	1,736
Y/Y Growth			5%	8%	10%	9%	9%	10%	10%	10%	8%	9%	2.5%
CAPEX		(132)	(134)	(131)	(127)	(134)	(136)	(138)	(136)	(137)	(143)	(138)	(141)
Interest Expense (1-t)		71	77	77	74	74	65	65	65	65	65	38	38
Free Cash Flow to the Firm (FCFF)		666	707	767	854	931	1,007	1,108	1,231	1,361	1,472	1,594	1,633
Discount Period		0.8	1.8	2.8	3.8	4.8	5.8	6.8	7.8	8.8	9.8	10.8	11.8
Discount Rate (Est. WACC is 8.6%)	8.6%												
Discounted FCFF		622	608	608	623	625	623	631	646	658	655	653	

	Total, $MM	
PV of FCFE (2012-2022)	6,950	
Terminal Value at 2023	26,831	Terminal growth rate: 2.5%
PV of Terminal Value	10,121	Accounts for nearly 60% of firm value given sustainability of business.
Cash & Equivalents	630	Source: Zoetis Form S-1
Total Debt	3,650	Current outstanding debt
Total Equity Value	14,052	
Minority Interest	(15)	Source: Zoetis Form S-1
Total Zoetis Stockholders' Equity Value	**14,037**	
Diluted shares, MM	500	As of IPO date
Equity value per current PFE share	**$28**	

DCF Assumptions:	
Required Rate of Return on Equity	10.4%
Rf	2.0%
Beta	1
Rm	10%
Cost of Debt	3%
Debt	3,650
Equity	13,000
% Debt	22%
% Equity	78%
WACC	**8.6%**
Terminal Value Growth Rate	**2.5%**

Sources: Pfizer Reports, Zoetis Form S-1, BMO Capital Markets Pharmaceuticals Research

Our relative valuation of ZTS shares supports our intrinsic valuation. It is difficult to find a suitable peer comparator group for Zoetis. Most of the other leading animal health businesses are subsidiaries of other large pharmaceutical companies: e.g., Merck Animal Health (MRK); Merial, the animal health division of Sanofi S.A (SNY); and Elanco, the animal health division of Eli Lilly and Company (LLY). Given that these companies derive most of their revenues from human biopharmaceuticals, they are not adequate comparators for Zoetis. Below we've listed a number of relatively pure-play animal health companies, with the French company Virbac being the most similar, in our view.

As we illustrate below, the average P/E multiple for these companies is about 18, with the range being between 13 and 23. Virbac currently has a P/E of 21; however, with a market cap of 1.3Bn Euros, Virbac is considerably smaller than Zoetis. Even if we apply a 22x multiple to our Zoetis 2013 EPS estimate of $1.26, we arrive at our $28 price target, which is in line with our intrinsic DCF valuation.

Exhibit 14. Zoetis Trades at a Significant Premium to Other Pure-Play Animal Health Companies

Company Name	Business Description	MCAP (Millions)	P/E FY1	EV/ EBITDA	EBIT Margin	Net margin	2013 Sales Growth	Est. EPS growth
Zoetis	See Report	$17,145	27	17	23%	15%	5%	11 YR CAGR of 7.8%
Virbac SA	Virbac SA, a France-based veterinarian pharmaceutical company, specializes in the development and production of vaccines and medicines for domestic animals and livestock. It also offers food and electronic identification chips for pets.	€ 1,337	21	13	14%	9%	13%	16%
Vetoquinol SA	Vetoquinol SA, a France-based company, specializes in research, development, manufacture, marketing and sale of veterinary drugs and products serving both the companion and the production animal markets. The Company's offerings include anti-infectives, cardiovascular and nephrology treatment.	€ 304	13	7	11%	8%	5%	7%
Guangdong Dahuanong Animal Health	Guangdong Dahuanong Animal Health Products Co., Ltd. is engaged in the research, development, manufacture and distribution of veterinary drugs. The Company's main products are veterinary vaccine products, veterinary pharmaceutical products and feed additives.	CNY 4659	23	16	23%	23%	NA	22%
China Animal Husbandry Industry Co., Ltd	China Animal Husbandry Industry Co., Ltd. is engaged in production and marketing of animal feeds, animal vaccine products and animal medicines.	CNY 5628	15	NA	12%	16%	NA	8%

Note: Ratios are based on Trailing Twelve months P&L data; Source: Bloomberg Finance LP

Exhibit 15. Our $27-28 Relative Valuation of ZTS Shares Supports Our Intrinsic DCF Valuation

		Non-GAAP EPS			
		2012	**2013**	**2014**	**2015**
		$1.27	**$1.26**	**$1.38**	**$1.52**
P/E Multiple	**15**	$19	$19	$19	$19
	16	$20	$20	$20	$21
	17	$22	$21	$22	$22
	18	$23	$23	$23	$23
	19	$24	$24	$24	$24
	20	$25	$25	$25	$26
	21	$27	$26	$27	$27
	22	**$28**	**$28**	**$28**	**$28**
	23	$29	$29	$29	$30
	24	$30	$30	$31	$31
	25	$32	$31	$32	$32
	26	$33	$33	$33	$33
	27	$34	$34	$34	$35
	Discount Period	0	0	1	2
	Discount rate	8.6%			
		Average	**$27**		

Source: BMO Capital Markets Pharmaceuticals Research Estimates

Zoetis Income Statement: Our Non-GAAP Quarterly Forecasts

	2012E				2013E				2014E			
Non-GAAP Income Statement, $MM	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenues	**1,047**	**1,094**	**1,019**	**1,177**	**1,096**	**1,153**	**1,075**	**1,239**	**1,154**	**1,218**	**1,138**	**1,312**
Cost of Sales	388	382	352	414	385	405	378	435	403	426	398	459
Gross Profit	659	712	667	764	711	748	698	803	751	792	740	854
Selling, Informational and Administrative Expenses	331	351	330	424	336	346	337	435	345	355	346	447
R&D Expenses	93	91	94	103	96	101	94	109	102	108	101	117
Operating Profit	235	270	243	237	278	300	266	259	304	329	293	290
Amortization of Intangible Assets	4	3	4	6	6	6	6	6	7	7	7	7
EBIT	231	267	239	231	273	294	260	253	297	322	287	283
Other (Income) / Deductions -- Net	2	2	(4)	2	14	23	23	23	23	23	23	23
Income From Cont. Operations Before Provision for Taxes	229	265	243	229	259	271	237	230	274	299	263	260
(Benefit) / Provision for Taxes on Income	76	90	89	76	86	91	79	76	92	100	88	87
Net income/(loss) before allocation to non-controlling interests	153	175	154	152	172	181	158	154	182	199	175	173
Less: Income / (Loss) Attributable to Non-Controlling Interests	1	(1)		1	1	1	1	1	1	1	1	1
Net Income/ (loss) Attributable to Zoetis	**152**	**176**	**154**	**151**	**171**	**180**	**157**	**153**	**181**	**198**	**174**	**172**
Earnings Per Share - Basic	$0.30	$0.35	$0.31	$0.30	$0.34	$0.36	$0.31	$0.31	$0.36	$0.40	$0.35	$0.34
Earnings Per Share - Diluted	**$0.30**	**$0.35**	**$0.31**	**$0.30**	**$0.33**	**$0.34**	**$0.30**	**$0.29**	**$0.35**	**$0.38**	**$0.33**	**$0.33**
Weighted-Average Shares - Basic	500	500	500	500	500	500	500	500	500	500	500	500
Weighted-Average Shares - Diluted	500	500	500	500	525	525	525	525	525	525	525	525
Dividend per Share	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.07**	**$0.07**	**$0.07**	**$0.07**	**$0.08**	**$0.08**	**$0.08**	**$0.08**

	2012E				2013E				2014E			
	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Growth Rates												
Revenue growth (YOY)	7%	2%	-3%	4%	5%	5%	6%	5%	5%	6%	6%	6%
Gross Profit	7%	10%	1%	4%	8%	5%	5%	5%	6%	6%	6%	6%
Operating Income (EBIT)	31%	46%	5%	18%	18%	10%	9%	10%	9%	9%	10%	12%
Net Income	26%	54%	5%	24%	13%	2%	2%	1%	6%	10%	11%	13%
EPS- Diluted	26%	54%	5%	0%	-7%	11%	-3%	-4%	6%	10%	11%	13%
Dividend									25%	25%	25%	25%
Margins												
Gross Profit	63%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Operating Profit	22%	25%	24%	20%	25%	26%	25%	21%	26%	27%	26%	22%
Net Income	15%	16%	15%	13%	16%	16%	15%	12%	16%	16%	15%	13%
Return Analysis												
Payout Ratio					20%	19%	22%	22%	24%	22%	24%	25%

Sources: Pfizer Reports, Zoetis Form S-1, BMO Capital Markets Pharmaceuticals Research

Zoetis Income Statement: Our Non-GAAP Annual Forecasts

Non-GAAP Income Statement, $MM	2010A	2011A	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	**$3,582**	**$4,233**	**$4,337**	**$4,563**	**$4,822**	**$5,071**	**$5,310**	**$5,549**	**$5,792**	**$6,045**	**$6,307**	**$6,570**	**$6,842**	**$7,117**
Cost of Sales	1,318	1,581	1,536	1,603	1,685	1,762	1,835	1,912	1,990	2,071	2,155	2,238	2,324	2,411
Gross Profit	2,264	2,652	2,802	2,959	3,137	3,309	3,475	3,637	3,802	3,974	4,152	4,332	4,518	4,706
SG&A	1,365	1,443	1,436	1,455	1,493	1,528	1,557	1,585	1,613	1,642	1,670	1,698	1,727	1,755
R&D	411	407	381	401	429	456	478	500	522	546	570	594	619	644
Operating Profit	488	802	985	1,103	1,215	1,325	1,440	1,552	1,666	1,786	1,912	2,039	2,172	2,307
Amortization of Intangible Assets	17	20	17	22	26	26	26	26	26	26	26	26	26	26
Restructuring Charges & Certain Acquisition-Related Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (Income) / Deductions -- Net	12	12	2	84	93	93	88	88	75	74	74	74	74	34
Income From Cont. Operations Before Provision for Taxes	459	770	966	997	1,096	1,206	1,326	1,438	1,565	1,686	1,812	1,939	2,072	2,247
(Benefit) / Provision for Taxes on Income	183	264	331	332	367	405	446	484	528	569	611	655	700	759
Effective Tax Rate	39.9%	34.3%	34.3%	33.3%	33.5%	33.6%	33.7%	33.7%	33.7%	33.7%	33.7%	33.8%	33.8%	33.8%
Net income/(loss) before allocation to non-controlling interests	276	506	634	665	729	801	880	954	1,038	1,118	1,200	1,284	1,372	1,488
Gain / (Loss) Attributable to Non-Controlling Interests	1	3	1	4	4	4	4	4	4	4	4	4	4	4
Net Income (Loss) Attributable to Zoetis	**$275**	**$503**	**$633**	**$661**	**$725**	**$797**	**$876**	**$950**	**$1,034**	**$1,114**	**$1,196**	**$1,280**	**$1,368**	**$1,484**
Earnings Per Share - Basic	$0.55	$1.01	$1.27	$1.32	$1.45	$1.59	$1.75	$1.90	$2.08	$2.25	$2.42	$2.61	$2.80	$3.06
Earnings Per Share - Diluted	**$0.55**	**$1.01**	**$1.27**	**$1.26**	**$1.38**	**$1.52**	**$1.67**	**$1.81**	**$1.98**	**$2.14**	**$2.31**	**$2.48**	**$2.66**	**$2.91**
Weighted-Average Shares - Basic	500	500	500	500	500	500	499	499	497	496	494	491	489	485
Weighted-Average Shares - Diluted	500	500	500	525	525	525	524	524	522	521	519	516	514	510
Cash Dividend Paid per Share				**$0.26**	**$0.33**	**$0.39**	**$0.47**	**$0.54**	**$0.62**	**$0.68**	**$0.68**	**$0.71**	**$0.75**	**$0.75**

	2010A	2011A	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Growth Rates														
Revenue	30%	18%	2%	5%	6%	5%	5%	5%	4%	4%	4%	4%	4%	4%
Gross Profit	29%	17%	6%	6%	6%	5%	5%	5%	5%	5%	4%	4%	4%	4%
Operating Profit	49%	64%	23%	12%	10%	9%	9%	8%	7%	7%	7%	7%	7%	6%
Net Income	54%	83%	26%	4%	10%	10%	10%	8%	9%	8%	7%	7%	7%	8%
EPS		83%	26%	-1%	10%	10%	10%	9%	9%	8%	8%	8%	7%	9%
Dividend per share					25%	20%	20%	15%	15%	10%	0%	5%	5%	0%
Margins														
Gross Profit	63.2%	62.7%	64.6%	64.9%	65.1%	65.2%	65.4%	65.5%	65.6%	65.7%	65.8%	65.9%	66.0%	66.1%
Operating Profit	14%	19%	23%	24%	25%	26%	27%	28%	29%	30%	30%	31%	32%	32%
Net Income	7.7%	11.9%	14.6%	14.5%	15.0%	15.7%	16.5%	17.1%	17.8%	18.4%	19.0%	19.5%	20.0%	20.8%
Return Analysis														
Payout Ratio				21%	24%	26%	28%	30%	31%	32%	30%	29%	28%	26%

Sources: Pfizer Reports, Zoetis Form S-1, BMO Capital Markets Pharmaceuticals Research

Zoetis Income Statement: Our GAAP Annual Forecasts

GAAP Income Statement, $MM	2010A	2011A	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	**$3,582**	**$4,233**	**$4,337**	**$4,563**	**$4,822**	**$5,071**	**$5,310**	**$5,549**	**$5,792**	**$6,045**	**$6,307**	**$6,570**	**$6,842**	**$7,117**
Cost of Sales	1,444	1,652	1,545	1,607	1,689	1,766	1,839	1,916	1,994	2,075	2,159	2,242	2,328	2,415
Gross Profit	2,138	2,581	2,793	2,955	3,133	3,305	3,471	3,633	3,798	3,970	4,148	4,328	4,514	4,702
SG&A	1,382	1,453	1,448	1,475	1,509	1,540	1,569	1,597	1,625	1,654	1,682	1,710	1,739	1,767
R&D Expenses	411	427	397	421	445	468	490	512	534	558	582	606	631	656
Amortization of Intangible Assets	58	69	66	66	66	66	66	66	66	66	66	66	66	66
Restructuring Charges & Certain Acquisition-Related Costs	202	154	77	84	32	24	24	24	24	24	24	24	24	24
Other (Income) / Deductions -- Net	(93)	84	(12)	84	93	93	88	88	75	74	74	74	74	34
Income Before Provision for Taxes	178	394	817	825	988	1,114	1,234	1,346	1,473	1,594	1,720	1,847	1,980	2,155
(Benefit) / Provision for Taxes on Income	67	146	252	282	336	379	419	458	501	542	585	628	673	733
Net income/(loss) before allocation to non-controlling interests	111	248	564	543	652	735	814	888	972	1,052	1,135	1,219	1,307	1,422
Gain / (Loss) Attributable to Non-Controlling Interests	1	3	1	4	4	4	4	4	4	4	4	4	4	4
Net Income (Loss) Attributable to Zoetis	**$110**	**$245**	**$563**	**$539**	**$648**	**$731**	**$810**	**$884**	**$968**	**$1,048**	**$1,131**	**$1,215**	**$1,303**	**$1,418**
Earnings Per Share - Basic	$0.22	$0.49	$1.13	$1.08	$1.30	$1.46	$1.62	$1.77	$1.95	$2.11	$2.29	$2.47	$2.67	$2.92
Earnings Per Share - Diluted	**$0.22**	**$0.49**	**$1.13**	**$1.03**	**$1.24**	**$1.39**	**$1.55**	**$1.69**	**$1.85**	**$2.01**	**$2.18**	**$2.35**	**$2.54**	**$2.78**
Weighted-Average Shares - Basic	500	500	500	500	500	500	499	499	497	496	494	491	489	485
Weighted-Average Shares - Diluted	500	500	500	525	525	525	524	524	522	521	519	516	514	510
Cash Dividend per Share	**$0.00**	**$0.00**	**$0.00**	**$0.26**	**$0.33**	**$0.39**	**$0.47**	**$0.54**	**$0.62**	**$0.68**	**$0.68**	**$0.71**	**$0.75**	**$0.75**

Note: Includes revenues and expenses from acquisitions from the acquisition date
Sources: Pfizer Reports, Zoetis Form S-1, BMO Capital Markets Pharmaceuticals Research

Zoetis Balance Sheet

Zoetis Balance Sheet, $MM	2010A	2011A	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Assets														
Cash and cash equivalents	63	79	630	1,095	1,552	2,017	2,096	2,545	2,246	2,682	3,149	3,670	4,175	3,385
Accounts receivable, less allowance for doubtful accounts	773	871	896	916	998	1,105	1,203	1,273	1,363	1,439	1,483	1,486	1,467	1,463
Inventories	995	1,063	1,240	1,233	1,249	1,274	1,299	1,364	1,419	1,464	1,523	1,581	1,641	1,666
Current deferred tax assets	97	96	88	85	84	84	84	84	84	84	84	84	84	84
Other current assets	188	202	223	226	226	226	226	226	226	226	226	226	226	226
Total current assets	2,116	2,311	3,078	3,555	4,111	4,707	4,909	5,493	5,338	5,896	6,465	7,048	7,594	6,824
Property, plant and equipment, less accumulated depreciation	1,148	1,243	1,222	1,226	1,225	1,213	1,200	1,186	1,167	1,143	1,111	1,072	1,032	979
Identifiable intangible assets, less accumulated amortization	924	928	859	793	727	661	595	529	463	397	331	265	199	133
Goodwill	934	989	981	981	981	981	981	981	981	981	981	981	981	981
Non-current deferred tax assets	70	143	169	178	180	181	181	181	181	181	181	181	181	181
Other noncurrent assets	92	97	86	82	81	81	81	81	81	81	81	81	81	81
Total Assets	**5,284**	**5,711**	**6,393**	**6,816**	**7,305**	**7,824**	**7,947**	**8,451**	**8,211**	**8,680**	**9,150**	**9,628**	**10,068**	**9,180**
Liabilities and Equity														
Current portion of allocated long-term debt	0	0	72	0	0	0	0	0	0	0	0	0	0	0
Current portion of long-term debt	38	0	0	0	0	400	0	750	0	0	0	0	1,350	0
Accounts payable	206	214	234	237	225	208	189	186	188	183	190	198	205	213
Income taxes payable	24	18	26	30	30	31	31	31	31	31	31	31	31	31
Accrued compensation and related items	144	150	162	166	172	176	180	184	189	193	198	202	207	211
Other current liabilities	396	461	413	398	395	394	394	394	394	394	394	394	394	394
Total current liabilities	808	843	836	831	821	1,208	794	1,545	801	801	812	824	2,186	848
Allocated long-term debt	673	575	579	0	0	0	0	0	0	0	0	0	0	0
Long-term debt	0	0	0	3,650	3,650	3,250	3,250	2,500	2,500	2,500	2,500	2,500	1,150	1,150
Noncurrent deferred tax liabilities	218	311	314	313	312	312	312	312	312	312	312	312	312	312
Other taxes payable	100	122	117	113	112	112	112	112	112	112	112	112	112	112
Other noncurrent liabilities	141	124	110	105	104	104	104	104	104	104	104	104	104	104
Total Liabilities	**1,940**	**1,975**	**1,955**	**5,012**	**5,000**	**4,986**	**4,572**	**4,573**	**3,829**	**3,828**	**3,840**	**3,852**	**3,864**	**2,526**
Commitments and Contingencies														
Total Equity	**3,344**	**3,736**	**4,438**	**1,803**	**2,305**	**2,838**	**3,375**	**3,879**	**4,383**	**4,851**	**5,309**	**5,776**	**6,204**	**6,654**
Total liabilities and equity	5,284	5,711	6,393	6,816	7,305	7,824	7,947	8,451	8,211	8,680	9,150	9,628	10,068	9,180

Sources: Pfizer Reports, Zoetis Form S-1, BMO Capital Markets Pharmaceuticals Research

Zoetis Statement of Cash Flows

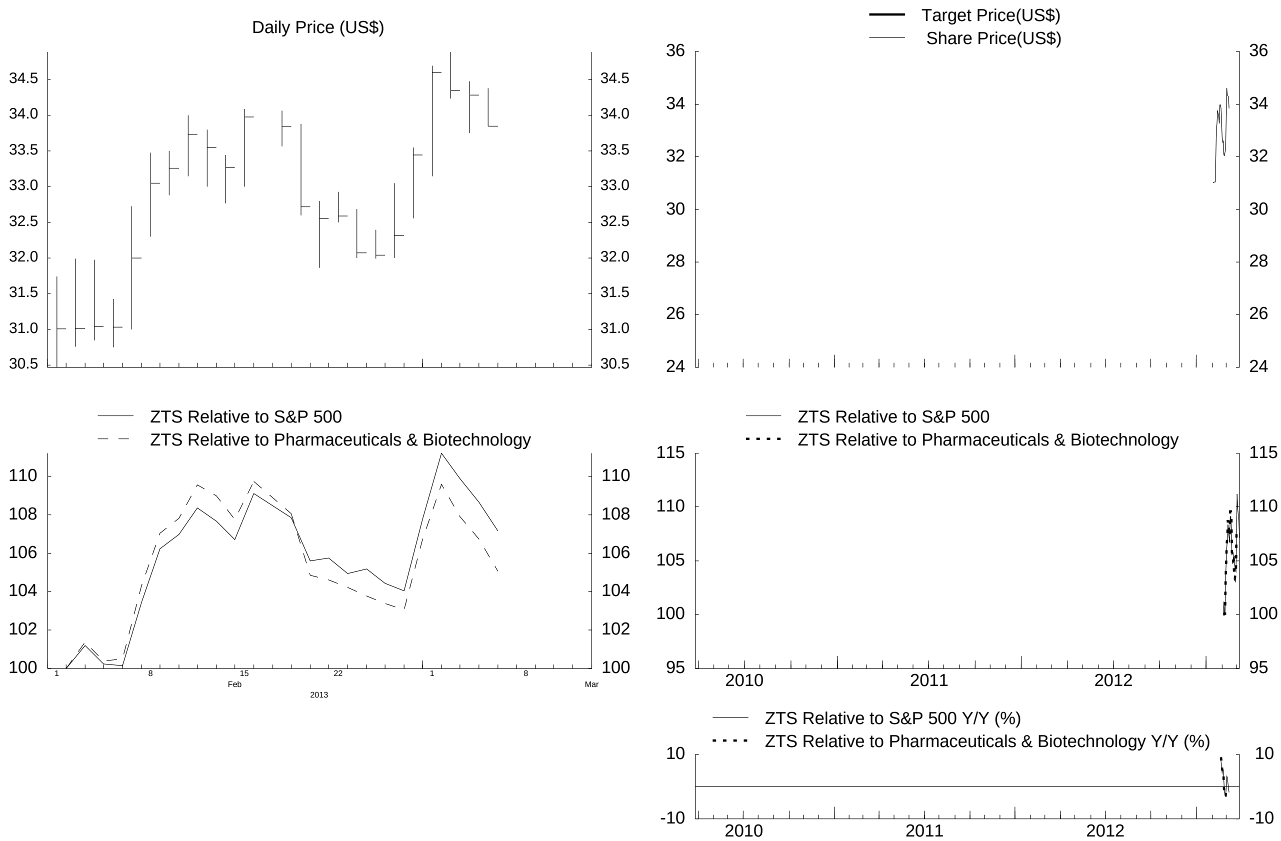
Zoetis Statement of Cash Flows, $MM	2010A	2011A	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Operating activities														
GAAP Net income/(loss) before allocation to non-controlling interests	111	248	564	543	652	735	814	888	972	1,052	1,135	1,219	1,307	1,422
Adjustments:														
Depreciation and amortization expense	185	205	213	194	201	208	207	214	221	228	235	242	249	257
Share-based compensation expense	16	19	24	23	23	23	23	23	23	23	23	23	23	23
Asset write-offs and impairments	16	78	8	0	0	0	0	0	0	0	0	0	0	0
Net gains on sales of assets	(101)	(1)	(1)	0	0	0	0	0	0	0	0	0	0	0
Deferred taxes	(68)	65	(15)	(7)	(2)	(0)	(0)	(0)	(0)	(0)	0	0	0	0
Other non-cash adjustments	(5)	0	(1)	0	0	0	0	0	0	0	0	0	0	0
Other changes in assets and liabilities, net of acquisitions and divestitures:	100	(117)	(238)	(25)	(110)	(145)	(137)	(134)	(138)	(122)	(90)	(50)	(29)	(9)
Net cash provided by operating activities	**254**	**497**	**554**	**727**	**764**	**821**	**907**	**991**	**1,078**	**1,182**	**1,303**	**1,434**	**1,550**	**1,693**
Investing Activities														
Purchases of property, plant and equipment	(124)	(135)	(125)	(132)	(134)	(131)	(127)	(134)	(136)	(138)	(136)	(137)	(143)	(138)
Net proceeds from sales of assets	203	34	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions, net of cash acquired	(81)	(345)	0	0	0	0	0	0	0	0	0	0	0	0
Other investing activities	(7)	(3)	0	0	0	0	0	0	0	0	0	0	0	0
Net cash used in investing activities	**(9)**	**(449)**	**(125)**	**(132)**	**(134)**	**(131)**	**(127)**	**(134)**	**(136)**	**(138)**	**(136)**	**(137)**	**(143)**	**(138)**
Financing activities														
Debt - Net issuance / payment	0	(143)	0	2,650	0	0	(400)	0	(750)	0	0	0	0	(1,350)
Cash dividends paid	(207)	(416)	0	(130)	(162)	(195)	(234)	(268)	(308)	(338)	(336)	(351)	(367)	(364)
Purchase of subsidiary shares from noncontrolling interests	(3)	0	0	0	0	0	0	0	0	0	0	0	0	0
Share repurchases	0	0	0	0	(11)	(31)	(67)	(140)	(183)	(270)	(364)	(425)	(535)	(632)
Net financing activities with Pfizer	(67)	529	123	(2,650)	0	0	0	0	0	0	0	0	0	0
Net cash provided by/(used in) financing activities	**(277)**	**(30)**	**123**	**(130)**	**(174)**	**(226)**	**(700)**	**(408)**	**(1,241)**	**(607)**	**(700)**	**(776)**	**(902)**	**(2,346)**
Effect of exchange-rate changes on cash and cash equivalents	(4)	(2)	0	0	0	0	0	0	0	0	0	0	0	0
Net increase/(decrease) in cash and cash equivalents	**(36)**	**16**	**551**	**465**	**457**	**465**	**79**	**449**	**(299)**	**436**	**467**	**521**	**506**	**(791)**
Cash and cash equivalents, as of beginning of year	99	63	79	630	1,095	1,552	2,017	2,096	2,545	2,246	2,682	3,149	3,670	4,175
Cash and cash equivalents, as of end of year	63	79	630	1,095	1,552	2,017	2,096	2,545	2,246	2,682	3,149	3,670	4,175	3,385

Sources: Pfizer Reports, Zoetis Form S-1, BMO Capital Markets Pharmaceuticals Research

Other companies mentioned (priced as of the close on March 6, 2013):

Bayer AG (BAYRY, $101.44, Not Rated)
China Animal Husbandry Industry Co., Ltd (SHA:600195, CNY 14.67, Not Rated)
Eli Lilly & Co. (LLY, $55.54, Market Perform)
Guangdong Dahuanong Animal Health (SHE:300186, CNY 17.48, Not Rated)
Merck & Co., Inc. (MRK, $43.25, Outperform)
Novartis AG (NVS, $68.94, Not Rated)
Pfizer Inc. (PFE, $28.07, Outperform)
Sanofi S.A (SNY, $48.41, Not Rated)
Virbac SA (EPA:VIRP, €159.20, Not Rated)
Vetoquinol SA (EPA:VETO, €25.85, Not Rated)

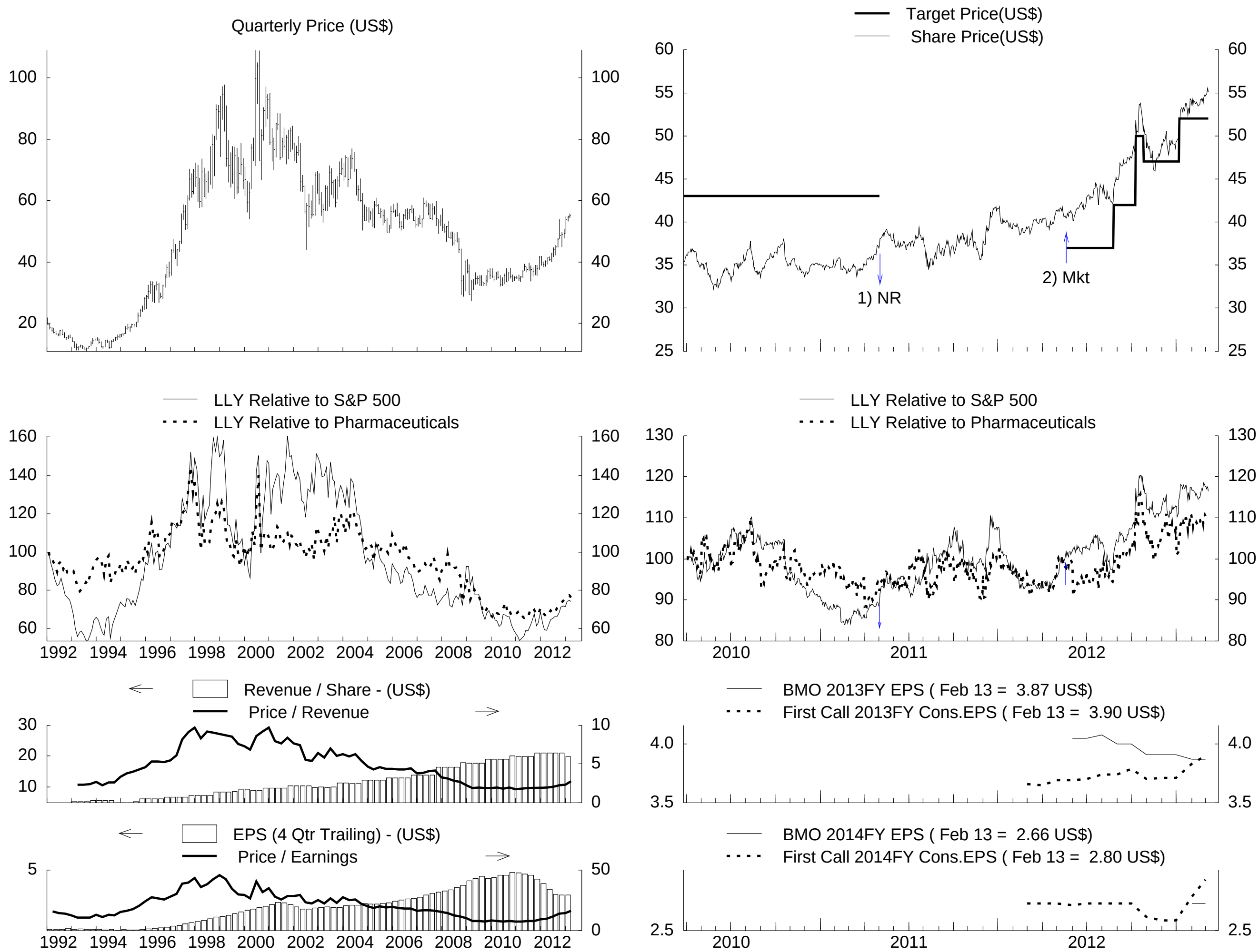
ZOETIS INC (ZTS)



ZTS - Rating as of 28-Jan-13 = NR

Last Daily Data Point: March 6, 2013

Eli Lilly & Co. (LLY)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.22	18.0	11.8	0.55	3.8	2.5	45	4.2	5.2	3.5	
1993	1.15	14.2	9.5	0.63	5.7	3.8	54	3.9	4.2	2.8	28
1994	1.10	15.1	10.7	0.65	5.5	3.9	59	4.6	3.6	2.6	26
1995	1.15	24.8	13.2	0.69	4.5	2.4	60	4.9	5.8	3.1	24
1996	1.30	30.9	18.8	0.72	3.0	1.8	55	5.5	7.3	4.4	25
1997	1.60	44.0	21.9	0.80	2.3	1.1	50	4.2	>15	8.4	33
1998	1.93	47.3	29.9	0.92	1.6	1.0	48	4.0	>15	14.3	47
1999	2.28	42.9	26.6	1.04	1.7	1.1	46	4.6	>15	13.2	>50
2000	2.65	41.1	20.4	1.12	2.1	1.0	42	5.4	>15	10.1	>50
2001	2.76	34.4	25.4	1.24	1.8	1.3	45	6.3	>15	11.1	47
2002	2.55	33.1	17.2	1.34	3.1	1.6	53	7.4	11.4	5.9	37
2003	2.58	28.6	20.5	1.42	2.7	1.9	55	8.7	8.5	6.1	32
2004	2.82	27.3	17.9	1.52	3.0	2.0	54	9.7	8.0	5.2	31
2005	2.88	21.2	17.2	1.60	3.2	2.6	56	9.6	6.4	5.2	30
2006	3.18	18.6	15.8	1.70	3.4	2.9	53	9.7	6.1	5.2	33
2007	3.55	17.2	13.8	1.88	3.8	3.1	53	12.1	5.1	4.1	33
2008	4.02	14.3	7.1	1.96	6.8	3.4	49	5.9	9.7	4.8	45
2009	4.43	9.2	6.1	1.96	7.2	4.8	44	8.3	4.9	3.3	>50
2010	4.74	8.0	6.8	1.96	6.1	5.1	41	10.8	3.5	3.0	50
2011	4.41	9.5	7.6	1.96	5.9	4.7	44	11.7	3.6	2.9	39
2012	3.39	15.9	11.0	1.96	5.3	3.6	58	13.8	3.9	2.7	27
Range*:		47.3	6.1		7.2	1.0			>15	2.6	
Current*	3.39	16.1		1.96	3.6		58	13.8	3.9		24

Growth(%):	EPS	DPS	BV
5 Year:	-0.9	0.8	2.8
10 Year:	2.9	3.9	6.5
20 Year:	5.2	6.1	6.2

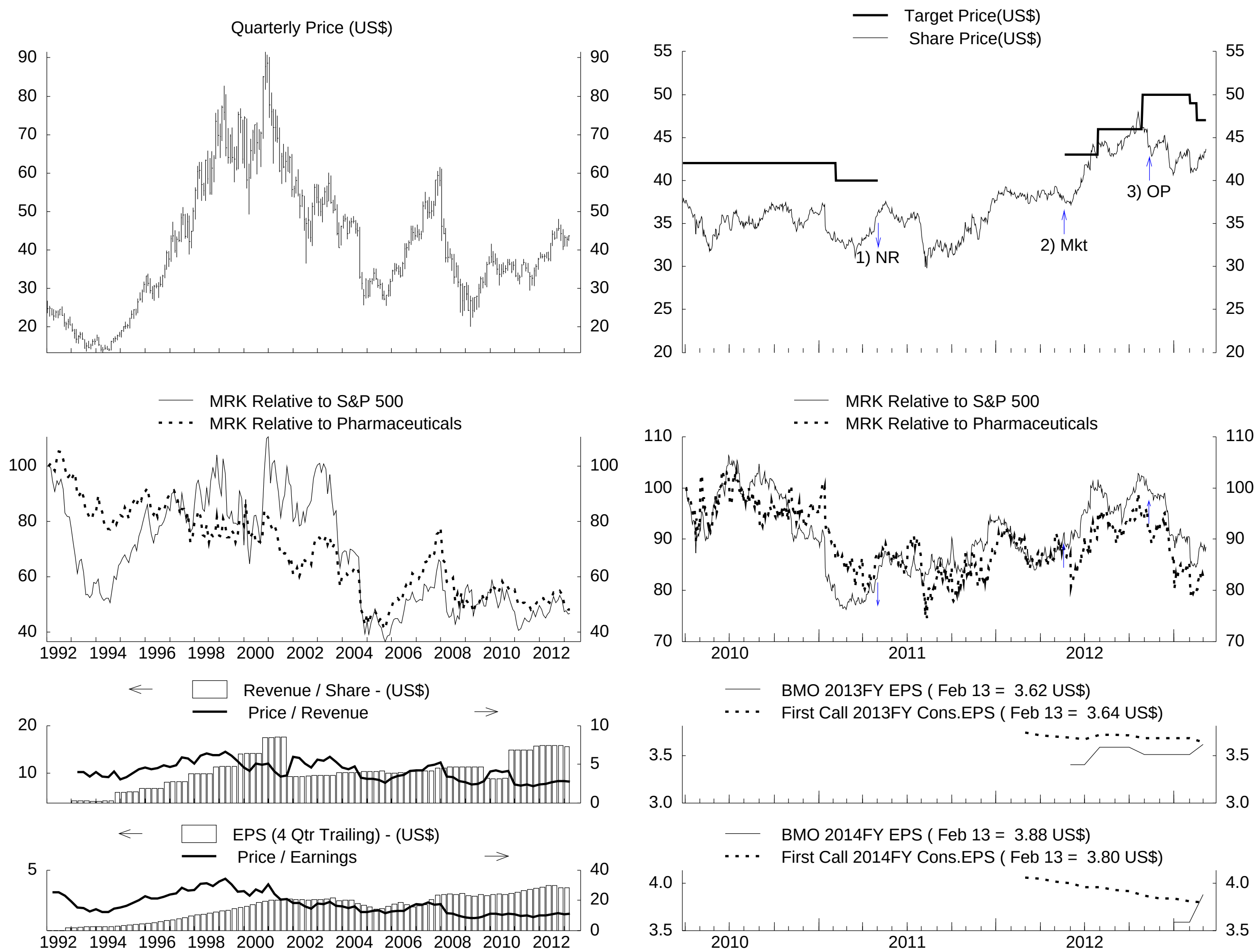
* Current EPS is the 4 Quarter Trailing to Q4/2012.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

LLY - Rating as of 26-Mar-10 = OP

	Date	Rating Change	Share Price
1	3-May-11	OP to NR	$38.09
2	18-May-12	NR to Mkt	$40.44

Last Price (March 6, 2013): $55.08
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Merck & Co. Inc. (MRK)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	1.06	25.3	18.1	0.45	2.4	1.7	43	2.2	12.2	8.8	
1993	1.17	19.3	11.6	0.53	3.9	2.3	45	4.0	5.6	3.4	38
1994	1.19	15.7	11.2	0.57	4.3	3.0	48	4.5	4.2	3.0	28
1995	1.35	23.6	12.8	0.64	3.7	2.0	48	4.8	6.7	3.6	29
1996	1.56	25.6	17.1	0.76	2.8	1.9	49	5.0	8.0	5.4	32
1997	1.87	27.4	19.0	0.85	2.4	1.7	46	5.3	9.7	6.7	37
1998	2.15	35.6	20.9	1.02	2.3	1.3	48	5.4	14.1	8.3	40
1999	2.45	33.8	23.5	1.10	1.9	1.3	45	5.7	14.5	10.1	44
2000	2.90	31.6	17.0	1.29	2.6	1.4	44	6.4	14.2	7.7	48
2001	3.04	29.9	17.7	1.33	2.5	1.5	44	7.1	12.9	7.6	45
2002	2.98	21.8	12.2	1.36	3.7	2.1	46	8.1	8.0	4.5	39
2003	2.92	20.6	13.9	1.48	3.6	2.5	51	7.0	8.6	5.8	39
2004	2.62	18.8	9.8	1.52	5.9	3.1	58	7.8	6.3	3.3	35
2005	2.53	14.0	10.1	1.52	6.0	4.3	60	8.2	4.3	3.1	32
2006	2.52	18.4	11.1	1.52	5.4	3.3	60	8.1	5.7	3.5	31
2007	3.31	18.6	12.8	1.52	3.6	2.5	46	8.4	7.4	5.1	40
2008	3.42	18.0	6.7	1.52	6.7	2.5	44	8.9	6.9	2.6	40
2009	3.26	11.8	6.2	1.52	7.6	4.0	47	19.0	2.0	1.1	23
2010	3.42	12.2	9.0	1.52	5.0	3.7	44	17.6	2.4	1.7	19
2011	3.77	10.1	7.8	1.68	5.7	4.4	45	17.9	2.1	1.6	21
2012	3.82	12.6	9.1	1.72	4.9	3.6	45	18.3	2.6	1.9	21
Range*:		35.6	6.2		7.6	1.3			14.5	1.1	
Current*	3.81	11.2		1.72	4.0		45	18.3	2.3		21
Growth(%):											
5 Year:	2.9			2.5				16.9			
10 Year:	2.5			2.4				8.5			
20 Year:	6.6			6.7				11.2			

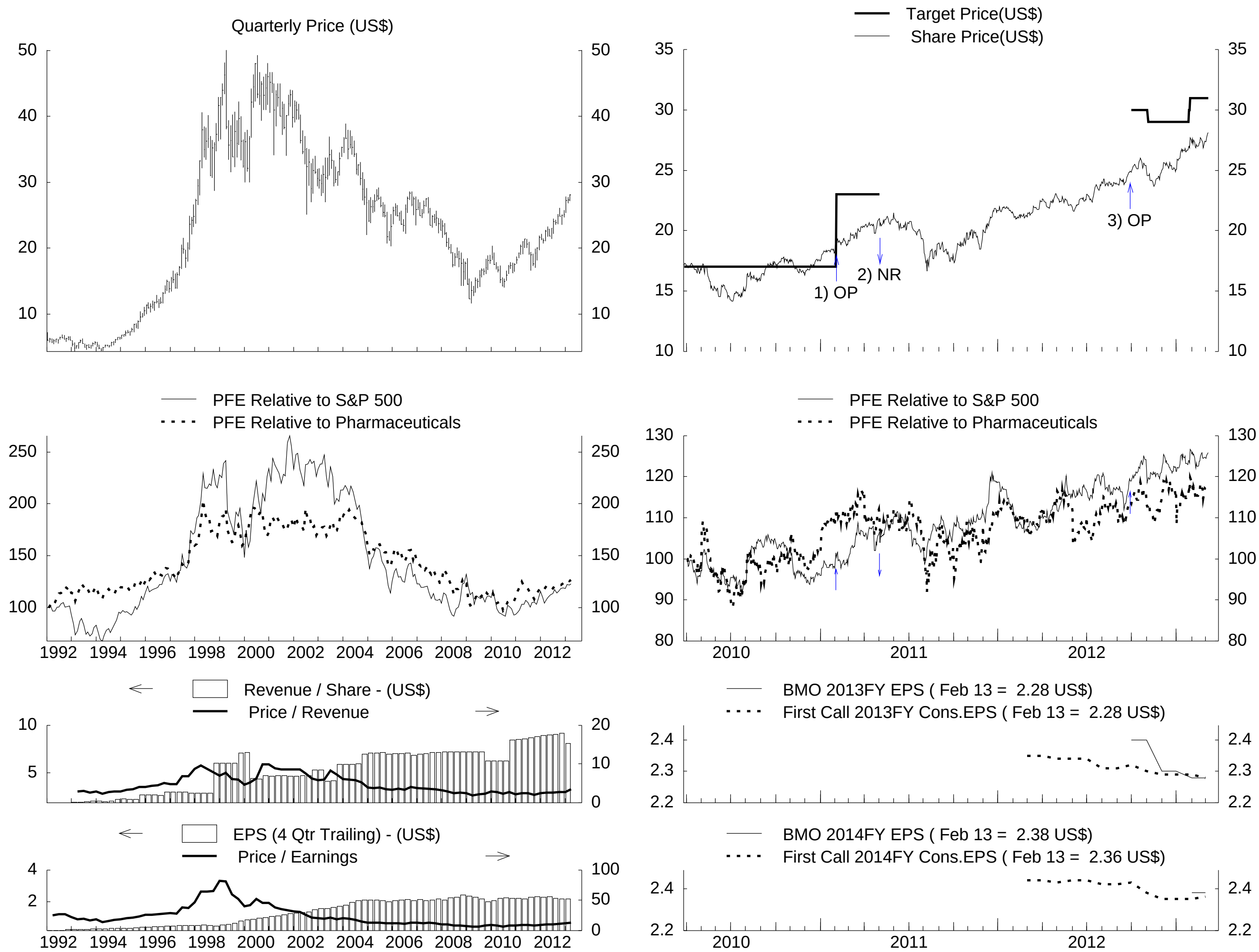
* Current EPS is the 4 Quarter Trailing to Q4/2012.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

MRK - Rating as of 26-Mar-10 = OP

	Date	Rating Change	Share Price
1	3-May-11	OP to NR	$36.41
2	18-May-12	NR to Mkt	$37.82
3	9-Nov-12	Mkt to OP	$44.05

Last Price (March 6, 2013): $43.68
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Pfizer Inc. (PFE)



FYE (Dec.)	EPS US$	P/E Hi	P/E Lo	DPS US$	Yield% Hi	Yield% Lo	Payout %	BV US$	P/B Hi	P/B Lo	ROE %
1992	0.27	26.9	20.1	0.12	2.3	1.7	46	1.2	6.0	4.5	
1993	0.31	21.5	14.1	0.14	3.2	2.1	45	1.0	6.6	4.4	28
1994	0.35	18.9	12.6	0.16	3.5	2.4	45	1.1	5.8	3.9	33
1995	0.41	27.2	14.9	0.09	1.4	0.8	21	1.4	7.7	4.3	32
1996	0.50	30.4	19.4	0.20	2.1	1.3	40	1.8	8.5	5.4	31
1997	0.53	50.3	25.0	0.23	1.7	0.9	43	2.0	13.1	6.5	28
1998	0.51	84.3	45.5	0.29	1.3	0.7	58	2.3	>15	10.2	24
1999	0.82	61.0	38.5	0.36	1.1	0.7	44	2.3	>15	13.7	36
2000	1.02	48.3	29.4	0.44	1.5	0.9	43	2.6	>15	11.8	42
2001	1.27	37.8	26.8	0.52	1.5	1.1	41	2.9	>15	11.7	47
2002	1.53	28.7	16.4	0.60	2.4	1.4	39	3.2	13.6	7.8	50
2003	1.75	21.1	15.4	0.68	2.5	1.8	39	8.5	4.3	3.2	30
2004	2.12	18.3	10.4	0.76	3.5	2.0	36	9.1	4.3	2.4	24
2005	2.02	14.5	10.0	0.96	4.7	3.3	48	8.9	3.3	2.3	22
2006	2.08	13.8	9.7	1.16	5.7	4.1	56	10.0	2.9	2.0	22
2007	2.20	12.7	10.1	1.28	5.8	4.6	58	9.6	2.9	2.3	22
2008	2.43	10.1	5.9	1.28	9.0	5.2	53	8.5	2.9	1.7	27
2009	2.02	9.4	5.8	0.72	6.2	3.8	36	11.2	1.7	1.0	21
2010	2.22	9.2	6.3	0.80	5.7	3.9	36	11.0	1.9	1.3	20
2011	2.31	9.5	7.1	0.88	5.4	4.0	38	10.8	2.0	1.5	21
2012	2.19	11.9	9.0	0.96	4.9	3.7	44	11.1	2.4	1.8	20
Range*:		84.3	5.8		9.0	0.7			>15	1.0	
Current*	2.20	12.4		0.96	3.5		44	11.1	2.5		20

Growth(%):	EPS	DPS	BV
5 Year:	0.0	-5.6	2.9
10 Year:	3.8	4.8	13.1
20 Year:	11.1	10.1	11.7

* Current EPS is the 4 Quarter Trailing to Q4/2012.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

PFE - Rating as of 26-Mar-10 = Mkt

	Date	Rating Change	Share Price
1	2-Feb-11	Mkt to OP	$18.96
2	3-May-11	OP to NR	$20.44
3	27-Sep-12	NR to OP	$24.96

Last Price (March 6, 2013): $28.12
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Important Disclosures

Analyst's Certification

I, Alex Arfaei, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosure for ZTS

Methodology and Risks to Our Price Target/Valuation
Methodology: DCF and P/E Multiple
Risks: Demand for animal health products could fluctuate and there are relatively low barriers to entry for competitors.

Company Specific Disclosures for LLY
5 - BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.
6C - This issuer is a client (or was a client) of BMO Capital Markets or an affiliate within the past 12 months: Non-Securities Related Services
9 - BMO Capital Markets makes a market in this security.
Methodology and Risks to Our Price Target/Valuation
Methodology: DCF: Free Cash Flow To Equity and multiple of sales.
Risks: Uncertainty of Phase 3 Pipeline.

Company Specific Disclosures for MRK
9 - BMO Capital Markets makes a market in this security.
Methodology and Risks to Our Price Target/Valuation
Methodology: Please fill in.
Risks: Please fill in.

Company Specific Disclosures for PFE
9 - BMO Capital Markets makes a market in this security.
Methodology and Risks to Our Price Target/Valuation
Methodology: DCF: Free Cash Flow To Equity.
Risks: Uncertainty of Phase 3 Pipeline.

Distribution of Ratings (December 31, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.0%	17.7%	52.9%	38.5%	50.5%	54.0%
Hold	Market Perform	60.7%	9.6%	47.1%	57.3%	48.4%	40.6%
Sell	Underperform	2.4%	0.0%	0.0%	4.2%	1.0%	5.4%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

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We use the following ratings system definitions:
OP = Outperform - Forecast to outperform the market;
Mkt = Market Perform - Forecast to perform roughly in line with the market;
Und = Underperform - Forecast to underperform the market;
(S) = speculative investment;

NR = No rating at this time;
R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

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