

Zoetis Inc



McGRAW HILL FINANCIAL

S&P Recommendation **BUY** ★★★★★

Price
\$30.20 (as of Aug 23, 2013)

12-Mo. Target Price
\$36.00

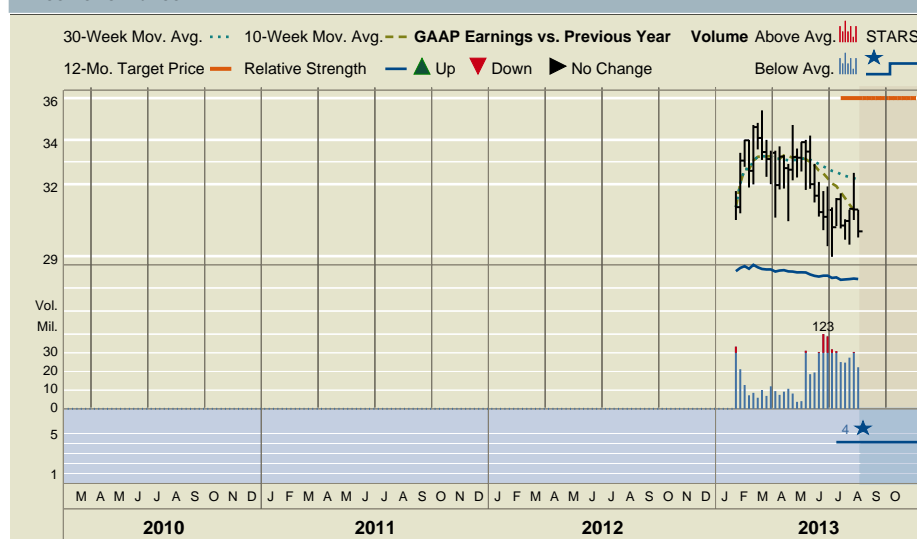
Investment Style
Large-Cap Growth

GICS Sector Health Care
Sub-Industry Pharmaceuticals

Summary This global leader in the animal health products industry emerged as a separate entity following its spin-off from Pfizer in June 2013.

Key Stock Statistics (Source S&P, Vickers, company reports)

| | | | | | | | |
|--------------------------|----------------------|----------------------------|--------------|-----------------------------|-----------------|-----------------------------|-----------|
| 52-Wk Range | \$35.42–28.97 | S&P Oper. EPS 2013E | 1.40 | Market Capitalization(B) | \$15.100 | Beta | NA |
| Trailing 12-Month EPS | \$0.84 | S&P Oper. EPS 2014E | 1.70 | Yield (%) | 0.86 | S&P 3-Yr. Proj. EPS CAGR(%) | NA |
| Trailing 12-Month P/E | 36.0 | P/E on S&P Oper. EPS 2013E | 21.6 | Dividend Rate/Share | \$0.26 | | |
| \$10K Invested 5 Yrs Ago | NA | Common Shares Outstg. (M) | 500.0 | Institutional Ownership (%) | 62 | | |

Price Performance

Qualitative Risk Assessment

| LOW | MEDIUM | HIGH |
|-----|--------|------|
| | | |

Our risk assessment reflects key positives we see such as the company's leading position in the global animal health space, with strong product diversity and geographic reach. Helped by new products, Zoetis has also compiled a record of robust profit growth in recent years. ZTS is also less exposed to the R&D, patent and reimbursement issues faced by big pharma. However, these factors are balanced, in our view, by potential bans and restrictions on the use of antibiotics in food-producing animals in the U.S. and Europe.

Quantitative Evaluations

| S&P Quality Ranking | | | | | | | | NR |
|---------------------|---|----|---|----|----|---|----|----|
| D | C | B- | B | B+ | A- | A | A+ | |

| | |
|-------------------------------|-----------------|
| Relative Strength Rank | MODERATE |
| 36 | |
| LOWEST = 1 | HIGHEST = 99 |

Analysis prepared by Equity Analyst **Herman Saftlas** on Aug 23, 2013, when the stock traded at **\$29.87**.

Highlights

- We expect sales for 2013 to advance about 3% from the \$4.3 billion posted in 2012. We forecast higher sales of swine and poultry products in the U.S., which should offset the lingering impact of drought conditions on the cattle business. Although cold weather earlier this year in Europe had delayed the parasiticide season, we expect second-half sales in Europe to benefit from price increases in several key markets. Demand for companion pet products should continue to grow, reflecting positive macro trends and new products.
- We expect gross margins in 2013 to compare favorably with 2012's 64%, benefiting from higher prices and manufacturing efficiencies. Reflecting ongoing cost efficiencies, we expect SG&A and R&D expenses to come in modestly below 2012 levels. However, we look for interest expense to rise, reflecting new financings completed in January 2013.
- Following a projected effective tax rate of about 29.5%, versus 38.6% in 2012, we expect adjusted EPS to rise to \$1.40 in 2013, from \$1.08 in 2012. Helped by better margins, we see EPS advancing to \$1.70 in 2014.

Investment Rationale/Risk

- Created through the spin-off of the former animal health division of Pfizer (PFE 28, Buy), Zoetis ranks as the world's leading producer of drugs, vaccines and related items for farm and companion animals. Boosted by growth in the market, new products and margin enhancements, we expect Zoetis to continue its strong EPS growth trend in the years ahead. Results should also benefit from manufacturing capacity additions, and expansion in emerging markets. We also expect new products to remain a key focus, with some 10% of the work force dedicated to R&D.
- Risks to our recommendation and target price include the possibility of greater regulatory scrutiny of the use of antibiotics in cattle and other farm animals, as well as increased inroads from OTC animal health products.
- Our target price of \$36 implies a premium P/E of 21.2X our \$1.70 EPS estimate for 2014. We believe this premium valuation to the average large capitalization drug group multiple is reasonable given ZTS's lead position in a non-insurance reimbursement business that is not subject to the R&D, patent and reimbursement issues that encumber the drug sector.

Revenue/Earnings Data

| Revenue (Million \$) | 1Q | 2Q | 3Q | 4Q | Year |
|----------------------|-------|-------|-------|-------|-------|
| 2013 | 1,090 | 1,114 | -- | -- | -- |
| 2012 | 1,047 | 1,094 | 1,019 | 1,176 | 4,336 |
| 2011 | 983.0 | 1,074 | 1,049 | 1,127 | 4,233 |
| 2010 | -- | -- | -- | -- | 3,582 |
| 2009 | -- | -- | -- | -- | 2,760 |
| 2008 | -- | -- | -- | -- | -- |

| Earnings Per Share (\$) | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------------|------|------|-------|-------|-------|------|
| | 0.28 | 0.26 | E0.34 | E0.34 | E1.40 | 0.87 |
| | -- | -- | -- | -0.02 | 0.87 | -- |
| | -- | -- | -- | -- | -- | -- |
| | -- | -- | -- | -- | -- | -- |
| | -- | -- | -- | -- | -- | -- |
| | -- | -- | -- | -- | -- | -- |

Fiscal year ended Dec. 31. Next earnings report expected: NA. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Dividend Data (Dates: mm/dd Payment Date: mm/dd/yy)

| Amount (\$) | Date Decl. | Ex-Div. Date | Stk. of Record | Payment Date |
|-------------|------------|--------------|----------------|--------------|
| 0.065 | 03/28 | 03/29 | 05/01 | 06/06/13 |
| 0.065 | 06/20 | 07/30 | 08/01 | 09/02/13 |

Dividends have been paid since 2013. Source: Company reports.

Please read the Required Disclosures and Analyst Certification on the last page of this report.

Zoetis Inc

Business Summary August 23, 2013

CORPORATE OVERVIEW. Zoetis is a global leader in the discovery, development, manufacture and marketing of animal health medicines and vaccines, with a focus on both livestock and companion animals. The company markets a diverse range of products for livestock species of cattle (both beef and dairy), swine, poultry, sheep and fish; and for companion animal species of dogs, cats and horses. Chief product categories are anti-infectives, vaccines, parasiticides, medicated feed additives, and other pharmaceutical products. ZTS also offers diagnostics, devices and other animal health products and services.

Formerly the animal health division of Pfizer, Zoetis became a separate entity with its own stock through the completion of the initial public offering by Pfizer of some 99 million Zoetis Class A shares (a 19.8% interest) in early February 2013. Subsequently, in late June 2013, Pfizer divested its remaining 80.2% interest in Zoetis to PFE holders through an exchange of about 401 million Class B ZTS shares for some 405 million PFE common shares.

The company directly markets products in about 70 countries, with products sold in another 50 nations through non-direct channels. Sales in the U.S. accounted for about 41% of total revenues in 2012; Europe, Africa and the Middle East for 25%; Canada and Latin America for 18%; and Asia/Pacific for 16%. Emerging markets such as Brazil, China, India and other developing regions represented 26% of revenues in 2012.

Livestock or farm animal products (mainly cattle and swine) accounted for 65% of total sales in 2012, comprising items for cattle (37%), swine (14%), poultry (12%), and fish and sheep (2%). Selected livestock products include Ceftiofur and Draxxin antibiotics for cattle, swine and sheep; Bovishield, Improvac, RespiSure and Rispoval vaccines for cattle and swine; and Cydectin and Dectomax parasiticides for cattle and sheep. Key long-term macro drivers for livestock products include growth in global population, rising standards of living, and rising demand for improved nutrition, particularly animal protein.

Products for companion pets, primarily dogs and cats, represented 35% of 2012 sales. Principal brands include Clavamox, Covinia and Terramycin anti-infectives; Vanguard vaccines; and Revolution/Stronghold parasiticide. Growth in this business is driven by economic development and related increases in disposable income, increasing pet ownership, companion animals living longer, increasing medical treatment of companion animals, and advances in animal health medicines and vaccines.

CORPORATE STRATEGY. The company may pursue acquisitions, technology licensing arrangements, and strategic alliances or divestitures of some of its businesses as part of an overall strategy to drive growth. Leveraging its broad global footprint, Zoetis strives to provide customers with innovative products and services. ZTS also places great emphasis on R&D, which has spawned an extensive and diversified product portfolio. In line with the latter strategy, the company is pursuing the development of new vaccines for emerging infectious diseases in animals.

COMPETITIVE LANDSCAPE. Zoetis was the largest player in an estimated \$22 billion global animal health market in 2011 (latest available), with about an 18% market share. Other key competitors include Merck Animal Health; Merial, the animal health division of Sanofi S.A.; Elanco, the animal health division of Eli Lilly; Bayer Animal Health; and Novartis Animal Health.

FINANCIAL TRENDS. On January 28, 2013, the company issued \$3.65 billion aggregate principal amount of senior notes in a private placement. As of June 30, 2013, Zoetis had total current assets of \$3.1 billion (including \$369 million in cash and cash equivalents), long-term debt of \$3.64 billion, and stockholders equity of \$800 million. In early August 2013, management projected revenues of between \$4.425 billion and \$4.525 billion for 2013. Other parts of 2013 guidance included adjusted cost of sales of 35%-36% of sales; adjusted SG&A of between \$1.385 billion and \$1.435 billion; adjusted R&D in the \$385 million to \$415 million area; a tax rate of about 29.5%; and adjusted EPS of \$1.36-\$1.42. Results exclude projected acquisition-related and other nonrecurring costs of between \$200 million and \$240 million.

Corporate Information

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973-822-7000.

Website
<http://www.zoetis.com>

Officers

| | |
|------------------------------------|--|
| Chrmn M.B. McCallister | EVP, CFO & Chief Acctg Officer R.A. Passov |
| CEO J.R. Alaix | EVP, Secy & General Counsel H.C. Chen |
| Pres & EVP K.C. Peck | |

Board Members

| | |
|-------------------|-------------------|
| J. R. Alaix | F. A. D'Amelio |
| M. B. McCallister | G. Norden |
| L. M. Parent | W. C. Steere, Jr. |

Domicile
Delaware

Founded
1952

Employees
9,300

Stockholders
32,145

Zoetis Inc

Quantitative Evaluations

| | | | | | | |
|---|----|---|---|---|---|---|
| S&P Fair Value Rank | NR | 1 | 2 | 3 | 4 | 5 |
| LOWEST HIGHEST Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5). | | | | | | |

Fair Value Calculation NA

| | |
|---|----|
| Investability Quotient Percentile | 38 |
| LOWEST = 1 HIGHEST = 100 ZTS scored lower than 62% of all companies for which an S&P Report is available. | |

Volatility NA

Technical Evaluation NA

| | | | | |
|-------------------------|----|-------------|---------|-----------|
| Insider Activity | NA | UNFAVORABLE | NEUTRAL | FAVORABLE |
|-------------------------|----|-------------|---------|-----------|

Expanded Ratio Analysis

| | 2012 | 2011 | 2010 | 2009 |
|--------------------------------|-------|-------|-------|------|
| Price/Sales | Nil | Nil | Nil | NA |
| Price/EBITDA | Nil | Nil | Nil | NA |
| Price/Pretax Income | Nil | Nil | Nil | NA |
| P/E Ratio | Nil | Nil | Nil | NA |
| Avg. Diluted Shares Outstg (M) | 500.0 | 500.0 | 500.0 | NA |

Figures based on calendar year-end price

Key Growth Rates and Averages

| Past Growth Rate (%) | 1 Year | 3 Years | 5 Years | 9 Years |
|----------------------|--------|---------|---------|---------|
| Sales | 2.43 | 16.44 | NA | NA |
| Net Income | 77.96 | NM | NA | NA |

Ratio Analysis (Annual Avg.)

| | | | | |
|-----------------------------|-------|-------|------|----|
| Net Margin (%) | 10.06 | 6.30 | 3.82 | NA |
| % LT Debt to Capitalization | 11.01 | 13.65 | NA | NA |
| Return on Equity (%) | 11.26 | NA | NA | NA |

Company Financials Fiscal Year Ended Dec. 31

| Per Share Data (\$) | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---------------------|------|------|------|------|------|------|------|------|------|------|
| Tangible Book Value | 4.35 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Cash Flow | 1.27 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Earnings | 0.87 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| S&P Core Earnings | 0.85 | 0.49 | 0.08 | NA | NA | NA | NA | NA | NA | NA |
| Dividends | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Payout Ratio | Nil | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Prices:High | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Prices:Low | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| P/E Ratio:High | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| P/E Ratio:Low | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |

Income Statement Analysis (Million \$)

| | | | | | | | | | | |
|--------------------|-------|-------|-------|-------|----|----|----|----|----|----|
| Revenue | 4,336 | 4,233 | 3,582 | 2,760 | NA | NA | NA | NA | NA | NA |
| Operating Income | 1,063 | 905 | 587 | 424 | NA | NA | NA | NA | NA | NA |
| Depreciation | 200 | 205 | 185 | 124 | NA | NA | NA | NA | NA | NA |
| Interest Expense | 31.0 | 36.0 | 37.0 | 26.0 | NA | NA | NA | NA | NA | NA |
| Pretax Income | 710 | 394 | 178 | -148 | NA | NA | NA | NA | NA | NA |
| Effective Tax Rate | 38.6% | 37.1% | 37.6% | NM | NA | NA | NA | NA | NA | NA |
| Net Income | 436 | 245 | 110 | -100 | NA | NA | NA | NA | NA | NA |
| S&P Core Earnings | 428 | 245 | 42.4 | NA | NA | NA | NA | NA | NA | NA |

Balance Sheet & Other Financial Data (Million \$)

| | | | | | | | | | | |
|------------------------------------|-------|-------|-------|------|----|----|----|----|----|----|
| Cash | 317 | 79.0 | 63.0 | NA | NA | NA | NA | NA | NA | NA |
| Current Assets | 2,864 | 2,311 | 2,116 | NA | NA | NA | NA | NA | NA | NA |
| Total Assets | 6,262 | 5,711 | 5,284 | NA | NA | NA | NA | NA | NA | NA |
| Current Liabilities | 1,123 | 843 | 808 | NA | NA | NA | NA | NA | NA | NA |
| Long Term Debt | 509 | 575 | 673 | NA | NA | NA | NA | NA | NA | NA |
| Common Equity | 4,026 | 3,720 | 3,344 | NA | NA | NA | NA | NA | NA | NA |
| Total Capital | 4,623 | 4,311 | 4,055 | NA | NA | NA | NA | NA | NA | NA |
| Capital Expenditures | 126 | 135 | 124 | 135 | NA | NA | NA | NA | NA | NA |
| Cash Flow | 636 | 450 | 295 | 24.0 | NA | NA | NA | NA | NA | NA |
| Current Ratio | 2.6 | 2.7 | 2.6 | NA | NA | NA | NA | NA | NA | NA |
| % Long Term Debt of Capitalization | 11.0 | 13.3 | 16.6 | Nil | NA | NA | NA | NA | NA | NA |
| % Net Income of Revenue | 10.1 | 5.8 | 3.1 | NM | NA | NA | NA | NA | NA | NA |
| % Return on Assets | 7.3 | 4.5 | NA | NA | NA | NA | NA | NA | NA | NA |
| % Return on Equity | 11.3 | 6.9 | NA | NA | NA | NA | NA | NA | NA | NA |

Data as orig repled.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Zoetis Inc

Sub-Industry Outlook

Our fundamental outlook for the pharmaceuticals sub-industry for the next 12 months is neutral. Although the sector continues to face top-line pressure from patent expirations on many top-selling drugs, as well as from foreign exchange fluctuations, we believe overall industry profits should hold up relatively well, helped by expanding sales of new innovative drug therapies and margin improvements accruing from cost restructurings and merger synergies. EPS comparisons should also benefit from common share buybacks.

While we see new health care reform legislation continuing to negatively affect industry profitability, we see benefits accruing from significant expansion of the market stemming from new coverage provided to up to 32 million currently uninsured Americans starting in 2014. We favor the shares of firms with well defined growth prospects and generous dividend yields, as we believe they should perform relatively well over the coming quarters.

Despite near-term effects from patent expirations and regulatory pressures on drug pricing, we still think long-term prospects for the sector remain favorable. Pharmaceuticals remains one of the widest-margin U.S. industries, with prospects enhanced by demographic growth in the elderly (which account for about 33% of industry sales) and new drugs stemming from discoveries in genomics and biotechnology. We expect FDA approvals of new molecular entities in 2013 to approach or possibly match the near record 39 approvals the agency cleared in 2012.

Year to date through July 19, the S&P Pharmaceuticals Index was up 22.3%, versus a 19.0% rise in the S&P 1500 Composite Index. We expect prospects for the generic/specialty drug sector to remain favorable. We see a large number

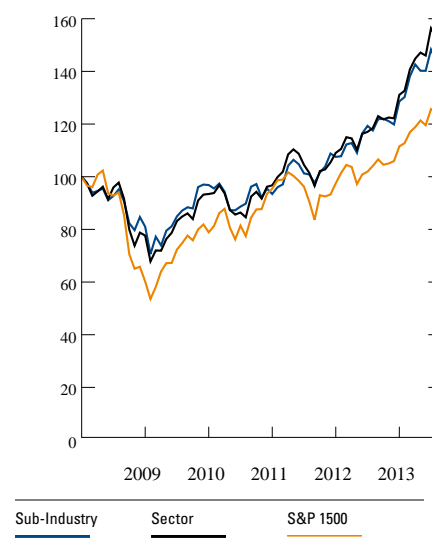
of major drugs losing patent protection over the next few years, providing significant opportunities for this group. We favor companies with rich generic pipelines, especially those with first-to-file generics with the potential for 180 days of marketing exclusivity, and competence in litigating complex patent issues.

--Herman B. Saftlas

Stock Performance

GICS Sector: Health Care
Sub-Industry: Pharmaceuticals

Based on S&P 1500 Indexes
 Month-end Price Performance as of 7/31/13



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

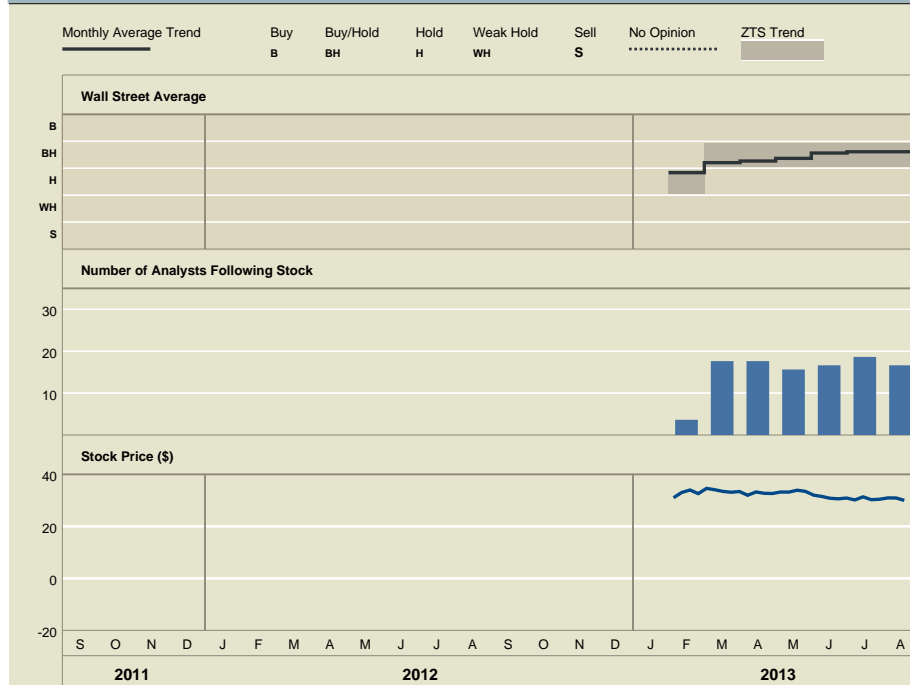
Sub-Industry : Pharmaceuticals Peer Group*: Based on market capitalizations within GICS Sub-Industry

| Peer Group | Stock Symbol | Stk.Mkt. Cap. (Mil. \$) | Recent Stock Price(\$) | 52 Week High/Low(\$) | Beta | Yield (%) | P/E Ratio | Fair Value Calc.(\$) | Quality Ranking | S&P IQ %ile | Return on Revenue (%) | LTD to Cap (%) |
|--------------------------|--------------|-------------------------|------------------------|----------------------|-----------|------------|-----------|----------------------|-----------------|-------------|-----------------------|----------------|
| Zoetis Inc'A' | ZTS | 15,100 | 30.20 | 35.42/28.97 | NA | 0.9 | 36 | NA | NR | 38 | 10.1 | 11.0 |
| AVANIR Pharmaceuticals | AVNR | 661 | 4.98 | 5.27/2.07 | 1.95 | Nil | NM | NA | C | 6 | NM | 40.6 |
| Auxilium Pharmaceuticals | AUXL | 890 | 18.06 | 25.54/13.87 | 0.78 | Nil | 7 | NA | C | 61 | 21.7 | NA |
| Hospira Inc | HSP | 6,658 | 40.30 | 42.60/28.62 | 0.87 | Nil | NM | 32.70 | B- | 86 | 1.1 | 35.9 |
| Impax Laboratories | IPXL | 1,358 | 20.95 | 27.25/14.41 | 0.74 | Nil | 11 | 18.40 | C | 81 | 9.6 | NA |
| Jazz Pharmaceuticals Plc | JAZZ | 4,958 | 85.25 | 85.40/43.38 | 2.08 | Nil | 16 | 78.50 | NR | 91 | 44.6 | 27.1 |
| Mylan Inc | MYL | 13,639 | 35.79 | 37.47/23.24 | 0.79 | Nil | 22 | 43.50 | A- | 67 | 9.4 | 60.7 |
| Nektar Therapeutics | NKTR | 1,399 | 12.15 | 12.95/5.65 | 0.76 | Nil | NM | NA | C | 7 | NM | 74.4 |
| Pacira Pharmaceuticals | PCRX | 930 | 36.58 | 37.86/15.07 | 1.44 | Nil | NM | NA | NR | 46 | NM | 28.1 |
| Redhill Biopharma ADS | RDHL | 643 | 10.40 | 14.50/7.59 | NA | Nil | NM | NA | NR | 90 | NA | NA |
| Sagent Pharmaceuticals | SGNT | 642 | 22.99 | 24.27/13.39 | 1.49 | Nil | 33 | NA | NR | 56 | NM | NA |
| Santarus Inc | SNTS | 1,546 | 24.70 | 28.10/6.01 | 1.33 | Nil | 17 | 22.00 | B- | 81 | 8.5 | 10.6 |
| ViroPharma Inc | VPHM | 1,986 | 30.41 | 35.19/22.12 | 1.54 | Nil | NM | 21.90 | B- | 73 | 1.3 | 17.6 |
| Vivus Inc | VVUS | 1,246 | 12.42 | 24.86/9.86 | 1.22 | Nil | NM | NA | C | 77 | NM | NA |
| Warner Chilcott'A' | WCRX | 5,329 | 21.22 | 22.08/10.85 | 1.06 | 2.4 | 12 | 31.90 | NR | 19 | 15.9 | 112.5 |

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Zoetis Inc

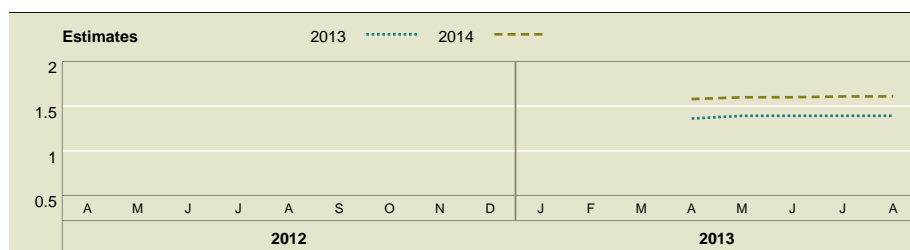
Analysts' Recommendations



Of the total 17 companies following ZTS, 16 analysts currently publish recommendations.

| | No. of Ratings | % of Total | 1 Mo. Prior | 3 Mos. Prior |
|--------------|----------------|------------|-------------|--------------|
| Buy | 9 | 56 | 9 | 6 |
| Buy/Hold | 3 | 19 | 4 | 3 |
| Hold | 3 | 19 | 4 | 5 |
| Weak Hold | 1 | 6 | 0 | 0 |
| Sell | 0 | 0 | 1 | 1 |
| No Opinion | 0 | 0 | 0 | 0 |
| Total | 16 | 100 | 18 | 15 |

Wall Street Consensus Estimates



| Fiscal Years | Avg Est. | High Est. | Low Est. | # of Est. | Est. P/E |
|------------------------|--------------|--------------|--------------|---------------|---------------|
| 2014 | 1.62 | 1.70 | 1.54 | 16 | 18.6 |
| 2013 | 1.40 | 1.42 | 1.36 | 16 | 21.6 |
| 2014 vs. 2013 | ▲ 16% | ▲ 20% | ▲ 13% | 0% | ▼ -14% |
| Q3'14 | 0.40 | 0.44 | 0.37 | 6 | 75.5 |
| Q3'13 | 0.34 | 0.36 | 0.31 | 12 | 88.8 |
| Q3'14 vs. Q3'13 | ▲ 18% | ▲ 22% | ▲ 19% | ▼ -50% | ▼ -15% |

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

Argus Research Company
BMO Capital Markets, U.S. Equity Research
Barclays
BofA Merrill Lynch
Citigroup Inc
Deutsche Bank
Gabelli & Company, Inc.
Goldman Sachs
Guggenheim Securities, LLC
Hilliard Lyons
ISI Group Inc.
JP Morgan
Jefferies LLC
Morgan Stanley
Morningstar Inc.
Piper Jaffray Companies
S&P Capital IQ Equity Research

Wall Street Consensus vs. Performance

For fiscal year 2013, analysts estimate that ZTS will earn \$1.40. For the 2nd quarter of fiscal year 2013, ZTS announced earnings per share of \$0.26, representing 19% of the total annual estimate. For fiscal year 2014, analysts estimate that ZTS's earnings per share will grow by 16% to \$1.62.

Glossary

S&P STARS

Since January 1, 1987, S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, S&P Capital IQ Equity Research has used STARS® methodology to rank Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), S&P equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P 12 Month Target Price

The S&P Capital IQ equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

S&P Capital IQ EPS Estimates

S&P Capital IQ earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P Capital IQ EPS estimates reflect either forecasts of S&P Capital IQ equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

S&P Core Earnings

S&P Capital IQ Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the S&P Capital IQ definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

Qualitative Risk Assessment

The S&P Capital IQ equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P Capital IQ U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P Capital IQ analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P Capital IQ analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking (also known as S&P Earnings & Dividend Rankings)

Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's Earnings and Dividend Rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

| | |
|------------------|----------------------|
| A+ Highest | B- Below Average |
| A High | C Lower |
| A- Above Average | D Lowest |
| B+ Average | NR In Reorganization |
| B Below Average | |

S&P Fair Value Rank

Using S&P Capital IQ's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P Capital IQ's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P Capital IQ proprietary measures.

S&P's IQ Rationale

Zoetis Inc'A'

| | Raw Score | Max Value |
|-------------------------------|-----------|------------|
| Proprietary S&P Measures | 18 | 115 |
| Technical Indicators | 38 | 40 |
| Liquidity/Volatility Measures | 1 | 20 |
| Quantitative Measures | 23 | 75 |
| IQ Total | 80 | 250 |

Volatility

Rates the volatility of the stock's price over the past year.

Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P Capital IQ's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank

Zoetis Inc

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P Capital IQ's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)

An industry classification standard, developed by S&P Capital IQ in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

S&P Issuer Credit Rating

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Abbreviations Used in S&P Capital IQ Equity Research Reports

CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value
PEG Ratio - P/E-to-Growth Ratio
PV - Present Value
R&D - Research & Development
ROCE - Return on Capital Employed
ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

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S&P Capital IQ Global STARS Distribution as of June 30, 2013

| Ranking | North America | Europe | Asia | Global |
|---------|---------------|--------|-------|--------|
| Buy | 34.6% | 31.8% | 36.5% | 34.3% |
| Hold | 57.6% | 44.1% | 59.6% | 55.7% |
| Sell | 7.8% | 24.1% | 3.9% | 10.0% |
| Total | 100% | 100% | 100% | 100% |

5-STARS (Strong Buy): Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

4-STARS (Buy): Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

3-STARS (Hold): Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

2-STARS (Sell): Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

1-STARS (Strong Sell): Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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S&P Capital IQ Global Quantitative Model Recommendations Distribution as of June 30, 2013

| Ranking | North America | Europe | Asia | Global |
|---------|---------------|--------|-------|--------|
| Buy | 40.0% | 38.0% | 56.8% | 47.0% |
| Hold | 20.0% | 20.9% | 18.8% | 19.7% |
| Sell | 40.0% | 41.1% | 24.4% | 33.3% |
| Total | 100% | 100% | 100% | 100% |

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