

Zoetis

(ZTS-NYSE)

Stock Rating: Outperform↑
Industry Rating: Market Perform

A Unique Opportunity to Own a Unique Stock, Upgrading to Outperform

Event

We are upgrading ZTS from Market Perform to Outperform. We believe the completion of the separation from Pfizer, and the exit of event-driven investors during the next few days provides a unique buying opportunity.

Impact

We expect near-term volatility in ZTS stock as 401MM new shares enter the market starting today and the shareholder base stabilizes. However, our thesis for Zoetis remains unchanged: 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). Following a recent meeting with the company, we feel more comfortable with the key revenue risk, i.e., increased restrictions for non-medicinal antibiotics use in livestock.

Forecasts

We forecast 2013 revenues of \$4.5Bn, EPS of \$1.40, both at the top end of \$4.4-\$4.5Bn and \$1.36-\$1.42 guidance. Our 2013-2016 forecasts are in line with bullish consensus. Looking further ahead, we forecast revenue CAGR of 4.6% and EPS and cash flow CAGR of ~10% through 2023.

Valuation

\$36 based on DCF, which assumes 2.5% terminal growth rate, supported by 21-23x our non-GAAP EPS estimates; a small premium to select comparators based on the fact that Zoetis is the largest and best in class.

Recommendation

Investors should take advantage of the probable near-term weakness in ZTS and be opportunistic buyers. We believe there is strong fundamental support for ZTS below \$30. Our downside risk estimate in the post-exchange period is ~\$29/share; thus, we view the risk/reward favorably in the longer term.

June 27, 2013

Pharmaceuticals

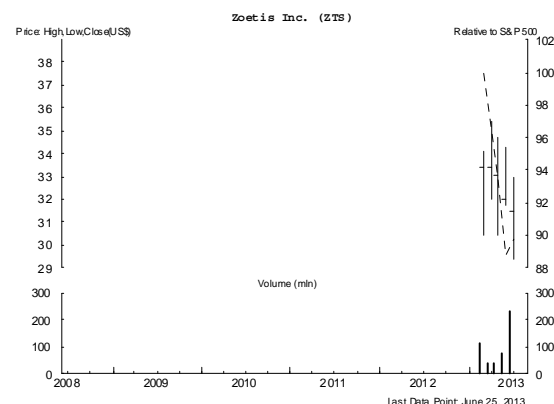
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Securities Info

Price (26-Jun)	\$30.97	Target Price	\$36 ↑
52-Wk High/Low	\$35/\$29	Dividend	\$0.26
Mkt Cap (mm)	\$15,485	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)	9,934

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011 A	2012 A	2013E	2014E
EPS Pro Forma	\$1.01	\$1.08	\$1.40	\$1.60↑
P/E			22.1x	19.4x
First Call Cons.			\$1.40	\$1.62
EPS GAAP	\$0.49	\$0.87	\$1.10	\$1.44
FCF	\$0.72	\$0.66	\$1.06↑	\$1.38
P/FCF			29.2x	22.4x
EBITDA (\$mm)	\$943	\$1,142	\$1,287	\$1,445
EV/EBITDA			14.6x	13.0x
Rev. (\$mm)	\$4,233	\$4,336	\$4,543	\$4,818
EV/Rev			4.1x	3.9x

Quarterly EPS	1Q	2Q	3Q	4Q
2012A	\$0.30	\$0.35	\$0.31	\$0.11
2013E	\$0.36A	\$0.38	\$0.33↓	\$0.33

Balance Sheet Data (31-Mar)

Net Debt (\$mm)	\$3,333	Total Debt/EBITDA	2.8x
Total Debt (\$mm)	\$3,650	EBITDA/IntExp	11.9x
Net Debt/Cap.	76.5%	Price/Book	21.8x

Notes: All values in US\$.

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

Changes

Annual EPS
 2014E \$1.59 to \$1.60

Annual FCF
 2013E \$1.05 to \$1.06

Quarterly EPS
 Q3/13E \$0.34 to \$0.33

Target
 \$34.00 to \$36.00
Rating
 Mkt to OP

Zoetis Is a Unique Asset With Strong Fundamental Growth Drivers

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 publicly traded. 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).

Zoetis's 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 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's revenues should grow by a CAGR of 4.6% through 2023 (please see Exhibits 1 and 2). [Please see our March 7th initiation report for a more in-depth discussion of Zoetis's revenues.](#)

We Are Now More Comfortable With Risk of Additional Restrictions on Antibiotic Use in Livestock

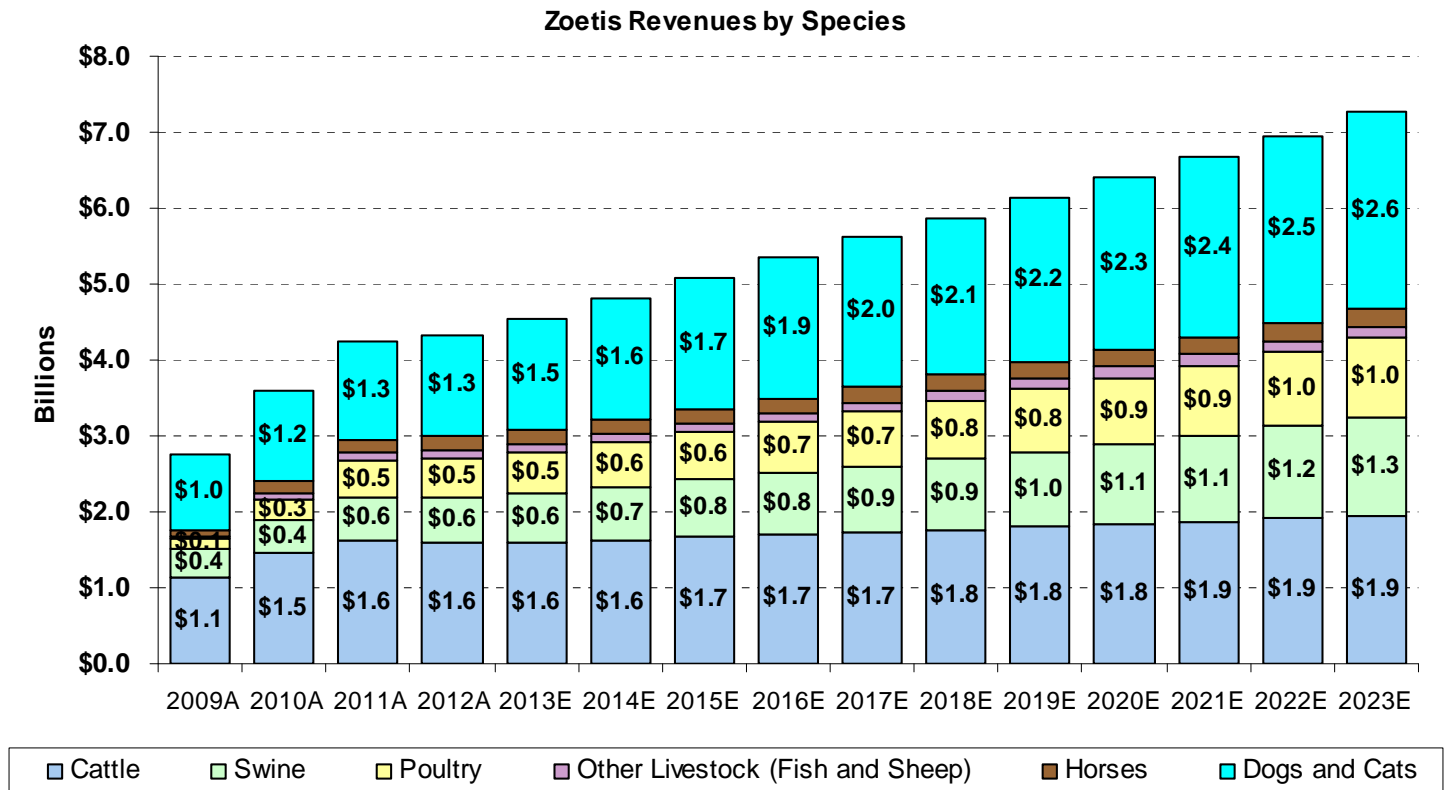
Following a recent meeting with the company, we feel more comfortable with the key revenue risk for Zoetis, i.e., increased restrictions for non-medicinal antibiotics use in livestock. In April 2012, the FDA announced guidance calling for the voluntary elimination over a period of time of the use of medically important antibacterials that are also used in humans in animal feed for growth promotion. The FDA's objective was to help preserve the efficacy of these antibacterials to treat infections in humans. There are similar restrictions in place in Western Europe.

Antibiotics for livestock account for nearly 27% of Zoetis's revenues, or roughly \$1.2Bn in 2012. Zoetis's top selling product line, the Ceftiofur line, is an anti-infective for livestock and accounted for 7% of total revenues. We estimate that the next top selling anti-infective for livestock is Draxxin, and we estimate it accounts for roughly 6.5% of revenues. Therefore, we estimate that roughly half of the revenues from livestock anti-infectives come from Zoetis's premium antibiotic products. Zoetis asserts that the majority of the use for these premium priced products is for disease control. Therefore, at most, 14% of Zoetis's revenues are at risk of increased regulations restricting antibiotic use in livestock feed. Moreover, the antibiotics that tend to be added to livestock feed are the cheaper, lower margin products; thus, the bottom line impact of restricting their use should be lower than the top-line impact.

In case of additional restrictions, we doubt this entire revenue segment would simply disappear. The impact will likely occur in phases, vary by geographic region, and perhaps be restricted to certain product lines. Moreover, Zoetis views additional regulation in the livestock business as an opportunity to leverage the company's protocol consulting services through their large sales force. Recall that these services provide Zoetis with pricing leverage despite the fact that more than 80% of the company's revenues come from products without patent exclusivity.

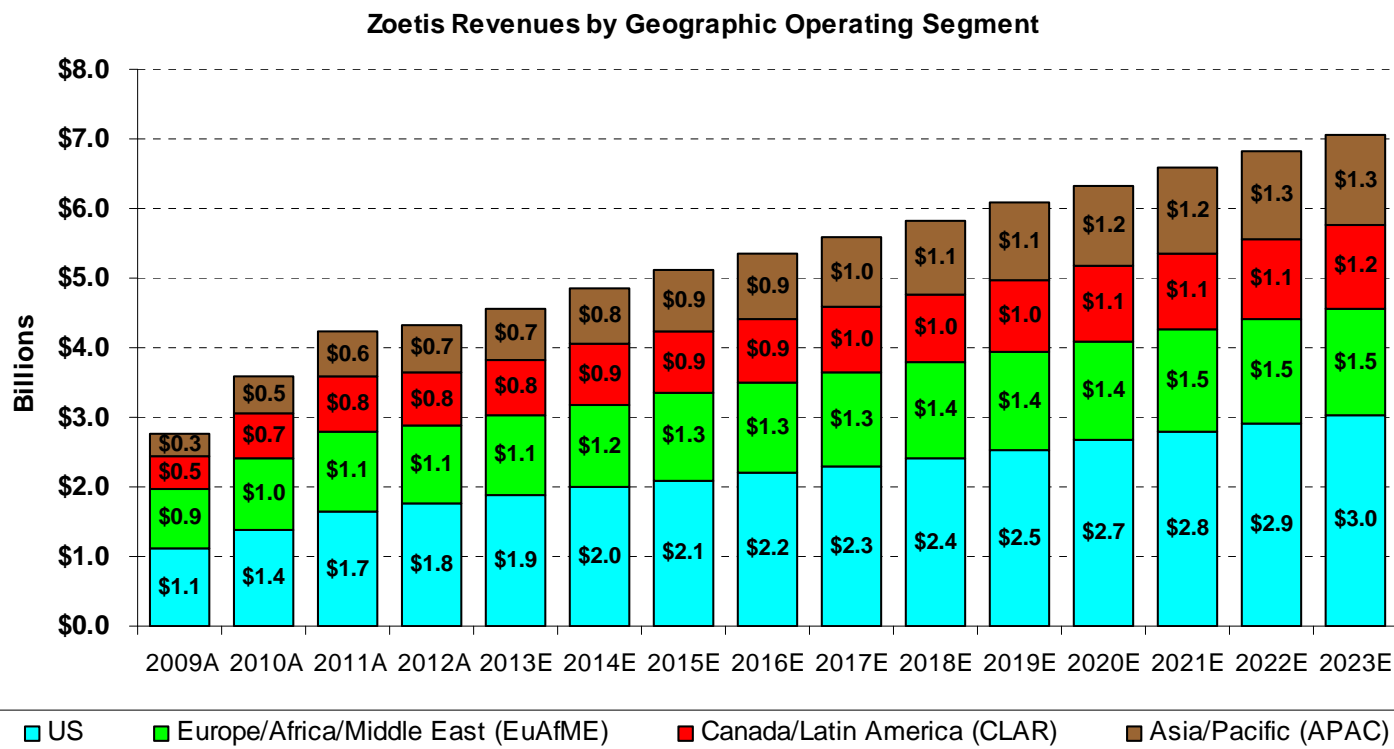
The FDA is unlikely to follow up on its action until at least April 2015. When the FDA issued its voluntary restriction in April 2012, it also stated that, after three years, it intends to evaluate the rate of voluntary adoption of the proposed changes across affected products. The agency would then consider further action as warranted. Therefore, at least in the US, we do not expect new major regulations until at least April 2015. However, we recognize that if there is an unexpected disease outbreak that can be linked to excessive antibiotic use in livestock feed, then there will likely be a strong negative headline reaction that will pressure ZTS stock, probably in a disproportionate manner.

Exhibit 1. Our Zoetis Revenue Forecast by Species: 10-Year CAGR of 4.8%



Source: Zoetis, BMO Capital Markets.

Exhibit 2. Our Zoetis Revenue Forecast by Geographic Segment: 10-Year CAGR of 4.5%
 (NOTE: Our model uses the average of our revenue forecast by species and geographic segment.)

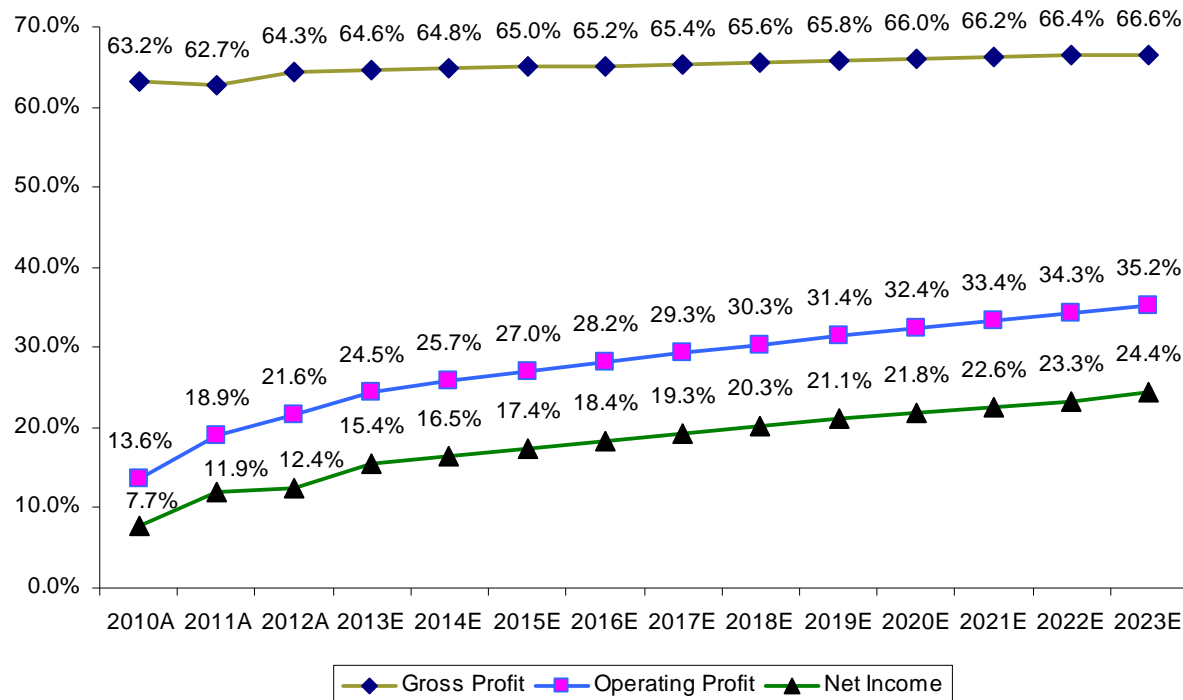


Source: Zoetis, BMO Capital Markets.

We Expect Gradual Margin Expansion for Zoetis as it Optimizes its Operations Following Separation From Pfizer

Changes include a smaller real estate footprint, a compensation structure that is more suitable for the company's new size, and incremental improvements in manufacturing. Zoetis believes that operating expenses should grow at a slower rate than revenues, thus improving margins gradually. Overall, we forecast non-GAAP EPS and operating cash flow grow by a CAGR of 10% through 2023.

Exhibit 3. We Expect Zoetis's Margins to Improve Over Time, Driven Primarily by Improved Operational Efficiency as SG&A and R&D Should Grow at a Slower Rate Than Revenues



Source: Zoetis, BMO Capital Markets.

Exhibit 4. Should Meet Top End of 2013 Guidance; Given How Diversified the Business Is, We See Limited Risk of Lowering and/or Missing Guidance

2013 Guidance & Date Provided	Apr. 30, 2013 (after 1Q 2013)	BMO	Street	Comments
Revenue	\$4,425 mn to \$4,525 mn	\$4,543 mn	\$4,521 mn	We're on the top end and in-line with consensus.
Cost of Sales as % of Revenues	35.0% to 36.0%	35.4%	35.5%	We're in-line; company is actively looking for manufacturing efficiencies.
SG&A Expenses	\$1,385 mn to \$1,435 mn	\$1,422 mn		Will increase throughout 2013, but at a slower rate than revenues.
R&D Expenses	\$385 mn to \$415 mn	\$396 mn		We're in-line. Will increase slightly but at a slower rate than revenues.
Interest Expense	~\$115 mn	\$109 mn		We're in-line
Other (Income)/ Deductions	~(\$20 mn)	(\$16 mn)		We're in-line
Effective Tax Rate	~29.5%	29.0%	29.7%	We're in-line
Adjusted Net Income	\$680 mn to \$710 mn	\$699 mn	\$700 mn	We're in-line
Adjusted Diluted EPS	\$1.36 to \$1.42	\$1.40	\$1.40	We're on the top end, in-line with consensus.

Source: Zoetis Reports, Thomson One, BMO Capital Markets Pharmaceuticals Research

Exhibit 5. Our Forecasts Are In-Line With Consensus

Non-GAAP Measures	FY2013E		FY2014E		FY2015E		FY2016E	
	Street	BMO	Street	BMO	Street	BMO	Street	BMO
Revenue	\$4,521	\$4,543	\$4,792	\$4,818	\$5,066	\$5,092	\$5,352	\$5,340
Gross Margin	64.5%	64.6%	65.3%	64.8%	65.6%	65.0%	65.7%	65.2%
Operating Profit (EBIT)	\$1,104	\$1,115	\$1,261	\$1,248	\$1,403	\$1,383	\$1,532	\$1,514
Operating Margin	24%	25%	26%	26%	28%	27%	29%	28%
Pre-tax Profit	996	988	1,150	1,129	1,293	1,265	1,431	1,399
Effective Tax Rate	30%	29%	30%	29%	29%	29%	29%	29%
Net Income	\$700	\$699	\$810	\$798	\$916	\$894	\$1,016	\$989
Net Margin	15%	15%	17%	17%	18%	18%	19%	19%
EPS	\$1.40	\$1.40	\$1.62	\$1.60	\$1.81	\$1.79	\$2.02	\$1.98
Free Cash Flow per Share	\$1.43	\$1.06	\$1.64	\$1.38	\$1.78	\$1.57	\$1.97	\$1.79
Dividend per share	\$0.26	\$0.26	\$0.32	\$0.33	\$0.37	\$0.39	\$0.54	\$0.47
Dividend Payout Ratio	19%	19%	20%	20%	20%	22%	27%	24%

Source: Zoetis, Thomson One, BMO Capital Markets Pharmaceuticals Research

Our Zoetis Valuation

We value ZTS shares using a DCF model and support it by using P/E multiple. In our DCF, we assume a 2.5% terminal growth rate because of the sustainability of the business, and as such our terminal value accounts for nearly 60% of the firm value. On a relative basis, applying a 21x-23x multiple, which is in the top range of that seen with other roughly similar companies, to our new 2013-2016E non-GAAP EPS estimates produces an average valuation of \$36, in line with our DCF valuation.

Exhibit 6. Our Valuation of ZTS Shares Is Based on DCF and P/E Multiple

FCFF Valuation, \$MM		2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	>2023E
Cash flow from operations		637	821	913	1,021	1,128	1,238	1,366	1,508	1,662	1,801	1,970	2,019
Y/Y Growth			24%	11%	12%	10%	10%	10%	10%	10%	8%	9%	2.5%
CAPEX		(101)	(132)	(130)	(126)	(132)	(135)	(137)	(135)	(136)	(142)	(136)	(139)
Interest Expense (1-t)		62	83	83	80	80	70	70	70	70	70	41	41
Free Cash Flow to the Firm (FCFF)		598	771	866	975	1,075	1,174	1,298	1,443	1,595	1,729	1,874	1,921
Y/Y Growth			29%	12%	13%	10%	9%	11%	11%	11%	8%	8%	2%
Discount Period		0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
Discount Rate	8.5%												
Discounted FCFF		598	711	735	763	776	781	796	815	831	830	829	
PV of FCFE (2013-2023)	Total, \$MM	8,464											
Terminal Value at 2023		32,016											
PV of Terminal Value		13,051											
Cash & Equivalents		279											
Total Debt		3,650											
Total Equity Value		18,144											
Minority Interest		(15)											
Total Zoetis Stockholders' Equity Value		18,129											
Diluted shares, MM		500											
Equity value per current PFE share		\$36											

PE Multiple Valuation Using Non-GAAP EPS							2013-16 EPS CAGR 12.3%
		2012A	2013E	2014E	2015E	2016E	
EPS		\$1.08	\$1.40	\$1.60	\$1.79	\$1.98	
PEx	20	\$22	\$28	\$32	\$33	\$34	
	21	\$23	\$29	\$34	\$35	\$35	
	22	\$24	\$31	\$35	\$36	\$37	
	23	\$25	\$32	\$37	\$38	\$39	
	24	\$26	\$34	\$38	\$40	\$40	
Discount Period			0	1	2		
Discount rate		8.5%					
Average		\$36					

Sources: Pfizer Reports, Zoetis, BMO Capital Markets Pharmaceuticals Research

Zoetis Non-GAAP Income Statement: Our Quarterly Estimates

	2012A				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	1,176	1,090	1,152	1,072	1,229	1,148	1,221	1,140	1,308
Cost of Sales	388	382	352	427	398	400	368	444	416	422	389	470
Gross Profit	659	712	667	749	692	752	704	785	732	800	751	839
Selling, Informational and Administrative Expenses	331	351	330	440	322	357	343	400	331	369	355	410
R&D Expenses	93	91	94	121	90	98	91	118	93	101	94	122
Operating Profit	235	270	243	188	280	297	270	268	309	330	302	307
Amortization of Intangible Assets	4	3	4	4	4	8	11	12	7	7	7	7
EBIT	231	267	239	184	276	290	260	257	302	323	296	301
Other (Income) / Deductions -- Net	2	2	(4)	10	24	23	23	23	23	23	23	23
Income From Cont. Operations Before Provision for Taxes	229	265	243	174	252	267	236	233	279	300	273	277
(Benefit) / Provision for Taxes on Income	76	90	89	117	73	77	69	68	81	87	79	80
Net income/(loss) before allocation to non-controlling interests	153	175	154	57	179	189	168	166	198	213	194	197
Less: Income / (Loss) Attributable to Non-Controlling Interests	1	(1)		0	0	1	1	1	1	1	1	1
Net Income/ (loss) Attributable to Zoetis	152	176	154	57	179	188	167	165	197	212	193	196
Earnings Per Share - Basic	\$0.30	\$0.35	\$0.31	\$0.11	\$0.36	\$0.38	\$0.33	\$0.33	\$0.39	\$0.42	\$0.39	\$0.39
Earnings Per Share - Diluted	\$0.30	\$0.35	\$0.31	\$0.11	\$0.36	\$0.38	\$0.33	\$0.33	\$0.39	\$0.42	\$0.39	\$0.39
Weighted-Average Shares - Basic	500	500	500	500	500	500	500	500	500	500	500	500
Weighted-Average Shares - Diluted	500	500	500	500	500	500	500	500	500	500	500	500
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%	4%	5%	5%	5%	5%	6%	6%	6%
Gross Profit	7%	10%	1%	2%	5%	6%	6%	5%	6%	6%	7%	7%
Operating Income (EBIT)	31%	46%	5%	-6%	19%	8%	9%	39%	9%	12%	14%	17%
Net Income	26%	54%	5%	-54%	18%	7%	8%	189%	10%	13%	15%	19%
EPS- Diluted	26%	54%	5%	-63%	2%	22%	8%	189%	10%	13%	15%	19%
Dividend									25%	25%	25%	25%
Margins												
Gross Profit	63%	65%	65%	64%	63%	65%	66%	64%	64%	65%	66%	64%
Operating Profit	22%	25%	24%	16%	26%	26%	25%	22%	27%	27%	27%	23%
Net Income	15%	16%	15%	5%	16%	16%	16%	13%	17%	17%	17%	15%
Return Analysis												
Payout Ratio					18%	17%	19%	20%	21%	19%	21%	21%

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

Zoetis Non-GAAP Income Statement: Our Annual Estimates

Non-GAAP Income Statement, \$MM	2010A	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	\$3,582	\$4,233	\$4,336	\$4,543	\$4,818	\$5,092	\$5,340	\$5,587	\$5,834	\$6,085	\$6,345	\$6,605	\$6,874	\$7,145
Cost of Sales	1,318	1,581	1,549	1,610	1,696	1,783	1,859	1,934	2,008	2,082	2,158	2,233	2,310	2,387
Gross Profit	2,264	2,652	2,787	2,933	3,121	3,310	3,481	3,654	3,827	4,003	4,187	4,372	4,564	4,758
SG&A	1,365	1,443	1,452	1,422	1,464	1,504	1,533	1,562	1,587	1,611	1,637	1,661	1,686	1,709
R&D	411	407	399	396	410	422	435	447	459	470	482	494	506	518
Operating Profit	488	802	936	1,115	1,248	1,383	1,514	1,645	1,781	1,922	2,068	2,217	2,372	2,531
Amortization of Intangible Assets	17	20	15	34	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	10	93	93	93	88	88	75	74	74	74	74	34
Income From Cont. Operations Before Provision for Taxes	459	770	911	988	1,129	1,265	1,399	1,531	1,680	1,822	1,968	2,117	2,272	2,471
(Benefit) / Provision for Taxes on Income	183	264	372	287	327	367	406	444	487	528	571	614	659	717
Effective Tax Rate	39.9%	34.3%	40.8%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Net income/(loss) before allocation to non-controlling interests	276	506	539	702	802	898	993	1,087	1,193	1,294	1,397	1,503	1,613	1,754
Gain / (Loss) Attributable to Non-Controlling Interests	1	3	0	3	4	4	4	4	4	4	4	4	4	4
Net Income (Loss) Attributable to Zoetis	\$275	\$503	\$539	\$699	\$798	\$894	\$989	\$1,083	\$1,189	\$1,290	\$1,393	\$1,499	\$1,609	\$1,750
Earnings Per Share - Basic	\$0.55	\$1.01	\$1.08	\$1.40	\$1.60	\$1.79	\$1.99	\$2.18	\$2.40	\$2.61	\$2.84	\$3.07	\$3.31	\$3.62
Earnings Per Share - Diluted	\$0.55	\$1.01	\$1.08	\$1.40	\$1.60	\$1.79	\$1.98	\$2.17	\$2.39	\$2.60	\$2.82	\$3.05	\$3.29	\$3.61
Weighted-Average Shares - Basic	500	500	500	500	500	499	498	497	495	493	491	488	486	483
Weighted-Average Shares - Diluted	500	500	500	500	500	500	499	499	497	496	494	491	489	485
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	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Growth Rates														
Revenue	30%	18%	2%	5%	6%	6%	5%	5%	4%	4%	4%	4%	4%	4%
Gross Profit	29%	17%	5%	5%	6%	6%	5%	5%	5%	5%	5%	4%	4%	4%
Operating Profit	49%	64%	17%	19%	12%	11%	9%	9%	8%	8%	8%	7%	7%	7%
Net Income	54%	83%	7%	30%	14%	12%	11%	9%	10%	8%	8%	8%	7%	9%
EPS		83%	7%	30%	14%	12%	11%	10%	10%	9%	8%	8%	8%	9%
Dividend per share				25%	20%	20%	20%	15%	15%	10%	0%	5%	5%	0%
Margins														
Gross Profit	63.2%	62.7%	64.3%	64.6%	64.8%	65.0%	65.2%	65.4%	65.6%	65.8%	66.0%	66.2%	66.4%	66.6%
Operating Profit	14%	19%	22%	25%	26%	27%	28%	29%	31%	32%	33%	34%	35%	35%
Net Income	7.7%	11.9%	12.4%	15.4%	16.6%	17.6%	18.5%	19.4%	20.4%	21.2%	22.0%	22.7%	23.4%	24.5%
Return Analysis														
Payout Ratio				19%	20%	22%	24%	25%	26%	26%	24%	23%	23%	21%

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

Zoetis Income Statement: GAAP or Fully Reported Estimates

GAAP Income Statement, \$MM	2010A	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	\$3,582	\$4,233	\$4,336	\$4,543	\$4,818	\$5,092	\$5,340	\$5,587	\$5,834	\$6,085	\$6,345	\$6,605	\$6,874	\$7,145
Cost of Sales	1,444	1,652	1,563	1,617	1,700	1,787	1,863	1,938	2,012	2,086	2,162	2,237	2,314	2,391
Gross Profit	2,138	2,581	2,773	2,926	3,117	3,306	3,477	3,650	3,823	3,999	4,183	4,368	4,560	4,754
SG&A	1,382	1,453	1,470	1,512	1,480	1,516	1,545	1,574	1,599	1,623	1,649	1,673	1,698	1,721
R&D Expenses	411	427	409	411	426	434	447	459	471	482	494	506	518	530
Amortization of Intangible Assets	58	69	64	65	66	66	66	66	66	66	66	66	66	66
Restructuring Charges & Certain Acquisition-Related Costs	202	154	135	70	32	24	24	24	24	24	24	24	24	24
Other (Income) / Deductions -- Net	(93)	84	(15)	96	93	93	88	88	75	74	74	74	74	34
Income Before Provision for Taxes	178	394	710	772	1,021	1,173	1,307	1,439	1,588	1,730	1,876	2,025	2,180	2,379
(Benefit) / Provision for Taxes on Income	67	146	274	220	296	340	379	417	461	502	544	587	632	690
Net income/(loss) before allocation to non-controlling interests	111	248	436	552	725	833	928	1,022	1,127	1,228	1,332	1,438	1,548	1,689
Gain / (Loss) Attributable to Non-Controlling Interests	1	3	0	3	4	4	4	4	4	4	4	4	4	4
Net Income (Loss) Attributable to Zoetis	\$110	\$245	\$436	\$549	\$721	\$829	\$924	\$1,018	\$1,123	\$1,224	\$1,328	\$1,434	\$1,544	\$1,685
Earnings Per Share - Basic	\$0.22	\$0.49	\$0.87	\$1.10	\$1.44	\$1.66	\$1.86	\$2.05	\$2.27	\$2.48	\$2.70	\$2.94	\$3.18	\$3.49
Earnings Per Share - Diluted	\$0.22	\$0.49	\$0.87	\$1.10	\$1.44	\$1.66	\$1.85	\$2.04	\$2.26	\$2.47	\$2.69	\$2.92	\$3.16	\$3.47
Weighted-Average Shares - Basic	500	500	500	500	500	499	498	497	495	493	491	488	486	483
Weighted-Average Shares - Diluted	500	500	500	500	500	500	499	499	497	496	494	491	489	485
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	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Assets														
Cash and cash equivalents	63	79	317	717	1,232	1,789	1,985	2,573	2,437	3,060	3,735	4,488	5,247	4,736
Accounts receivable, less allowance for doubtful accounts	773	871	900	909	996	1,106	1,206	1,277	1,367	1,443	1,485	1,488	1,467	1,462
Inventories	995	1,063	1,345	1,257	1,279	1,311	1,337	1,402	1,454	1,495	1,549	1,603	1,658	1,677
Current deferred tax assets	97	96	101	91	90	89	89	89	89	89	89	89	89	89
Other current assets	188	202	201	215	217	218	218	218	218	218	218	218	218	218
Total current assets	2,116	2,311	2,864	3,190	3,814	4,513	4,835	5,559	5,565	6,305	7,077	7,885	8,679	8,181
Property, plant and equipment, less accumulated depreciation	1,148	1,243	1,241	1,246	1,244	1,233	1,219	1,205	1,187	1,164	1,131	1,093	1,053	1,001
Identifiable intangible assets, less accumulated amortization	924	928	868	804	738	672	606	540	474	408	342	276	210	144
Goodwill	934	989	985	985	985	985	985	985	985	985	985	985	985	985
Non-current deferred tax assets	70	143	216	201	200	200	200	200	200	200	200	200	200	200
Other noncurrent assets	92	97	88	83	83	82	82	82	82	82	82	82	82	82
Total Assets	5,284	5,711	6,262	6,508	7,062	7,685	7,927	8,571	8,493	9,143	9,817	10,521	11,209	10,593
Liabilities and Equity														
Current portion of allocated long-term debt	0	0	73	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	319	242	230	214	195	191	192	187	194	200	207	214
Income taxes payable	24	18	30	31	32	32	32	32	32	32	32	32	32	32
Accrued compensation and related items	144	150	194	161	162	165	168	171	174	176	179	182	184	187
Other current liabilities	396	461	507	444	433	432	431	431	431	431	431	431	431	431
Total current liabilities	808	843	1,123	878	857	1,243	827	1,576	830	827	836	846	2,205	864
Allocated long-term debt	673	575	509	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	323	317	316	316	316	316	316	316	316	316	316	316
Other taxes payable	100	122	159	134	129	129	129	129	129	129	129	129	129	129
Other noncurrent liabilities	141	124	107	104	103	103	103	103	103	103	103	103	103	103
Total Liabilities	1,940	1,975	2,221	5,083	5,056	5,040	4,624	4,623	3,877	3,874	3,883	3,893	3,902	2,562
Commitments and Contingencies														
Total Equity	3,344	3,736	4,041	1,425	2,007	2,644	3,303	3,948	4,616	5,269	5,933	6,628	7,306	8,031
Total liabilities and equity	5,284	5,711	6,262	6,508	7,062	7,685	7,927	8,571	8,493	9,143	9,817	10,521	11,209	10,593

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

Zoetis Statement of Cash Flows

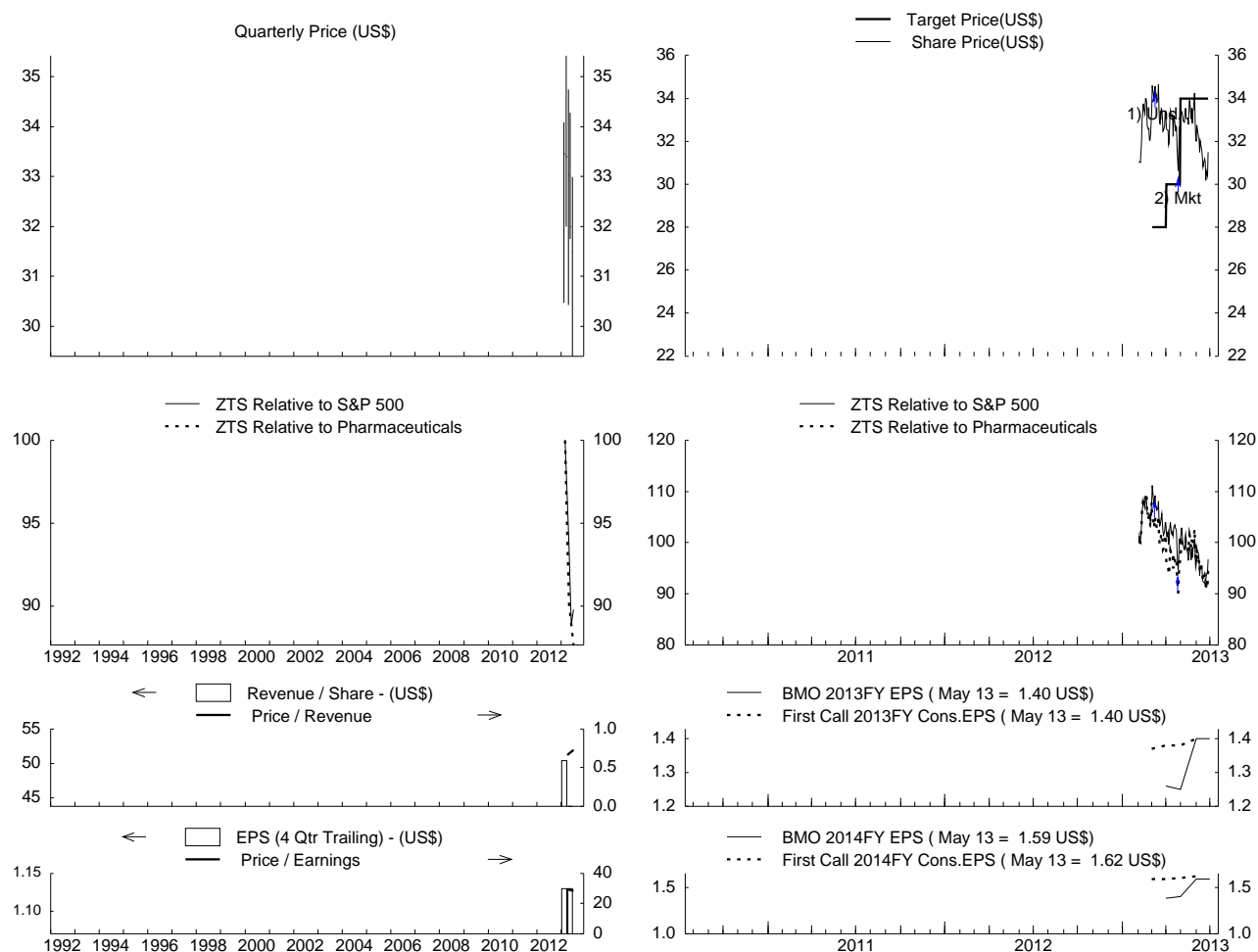
Zoetis Statement of Cash Flows, \$MM	2010A	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Operating activities														
GAAP Net income/(loss) before allocation to non-controlling interests	111	248	436	552	725	833	928	1,022	1,127	1,228	1,332	1,438	1,548	1,689
Adjustments:														
Depreciation and amortization expense	185	205	200	191	200	207	206	212	219	226	233	240	248	255
Share-based compensation expense	16	19	28	30	30	30	30	30	30	30	30	30	30	30
Asset write-offs and impairments	16	78	10	0	0	0	0	0	0	0	0	0	0	0
Net gains on sales of assets	(101)	(1)	0	0	0	0	0	0	0	0	0	0	0	0
Deferred taxes	(68)	65	(74)	19	2	0	(0)	(0)	(0)	(0)	(0)	(0)	0	0
Other non-cash adjustments	(5)	0	3	0	0	0	0	0	0	0	0	0	0	0
Other changes in assets and liabilities, net of acquisitions and divestitures:	100	(117)	(149)	(131)	(136)	(157)	(143)	(136)	(139)	(119)	(87)	(46)	(25)	(4)
Net cash provided by operating activities	254	497	454	661	821	913	1,021	1,128	1,238	1,366	1,508	1,662	1,801	1,970
Investing Activities														
Purchases of property, plant and equipment	(124)	(135)	(126)	(131)	(132)	(130)	(126)	(132)	(135)	(137)	(135)	(136)	(142)	(136)
Net proceeds from sales of assets	203	34	3	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)	(12)	0	0	0	0	0	0	0	0	0	0	0
Net cash used in investing activities	(9)	(449)	(135)	(131)	(132)	(130)	(126)	(132)	(135)	(137)	(135)	(136)	(142)	(136)
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)	(63)	(130)	(162)	(195)	(233)	(267)	(307)	(336)	(335)	(349)	(365)	(362)
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	(15)	(2,650)	0	0	0	0	0	0	0	0	0	0
Net cash provided by/(used in) financing activities	(277)	(30)	(78)	(130)	(174)	(225)	(700)	(407)	(1,240)	(605)	(698)	(774)	(900)	(2,344)
Effect of exchange-rate changes on cash and cash equivalents	(4)	(2)	(3)	0	0	0	0	0	0	0	0	0	0	0
Net increase/(decrease) in cash and cash equivalents	(36)	16	238	400	515	558	195	589	(136)	623	675	752	759	(511)
Cash and cash equivalents, as of beginning of year	99	63	79	317	717	1,232	1,789	1,985	2,573	2,437	3,060	3,735	4,488	5,247
Cash and cash equivalents, as of end of year	63	79	317	717	1,232	1,789	1,985	2,573	2,437	3,060	3,735	4,488	5,247	4,736

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

Other companies mentioned (priced as of the close on June 12, 2013):

Pfizer (PFE, \$28.10, Outperform)

Zoetis Inc. (ZTS)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %	ZTS - Rating as of 1-Feb-13 = NR		
Range*:		na na		NC			>15 >15		Date	Rating Change	Share Price
Current*	1.13	28.3	0.26	0.8	23	0.0	NC	na	1 7-Mar-13	NR to Und.	\$34.56
									2 24-Apr-13	Und.to Mkt	\$30.62

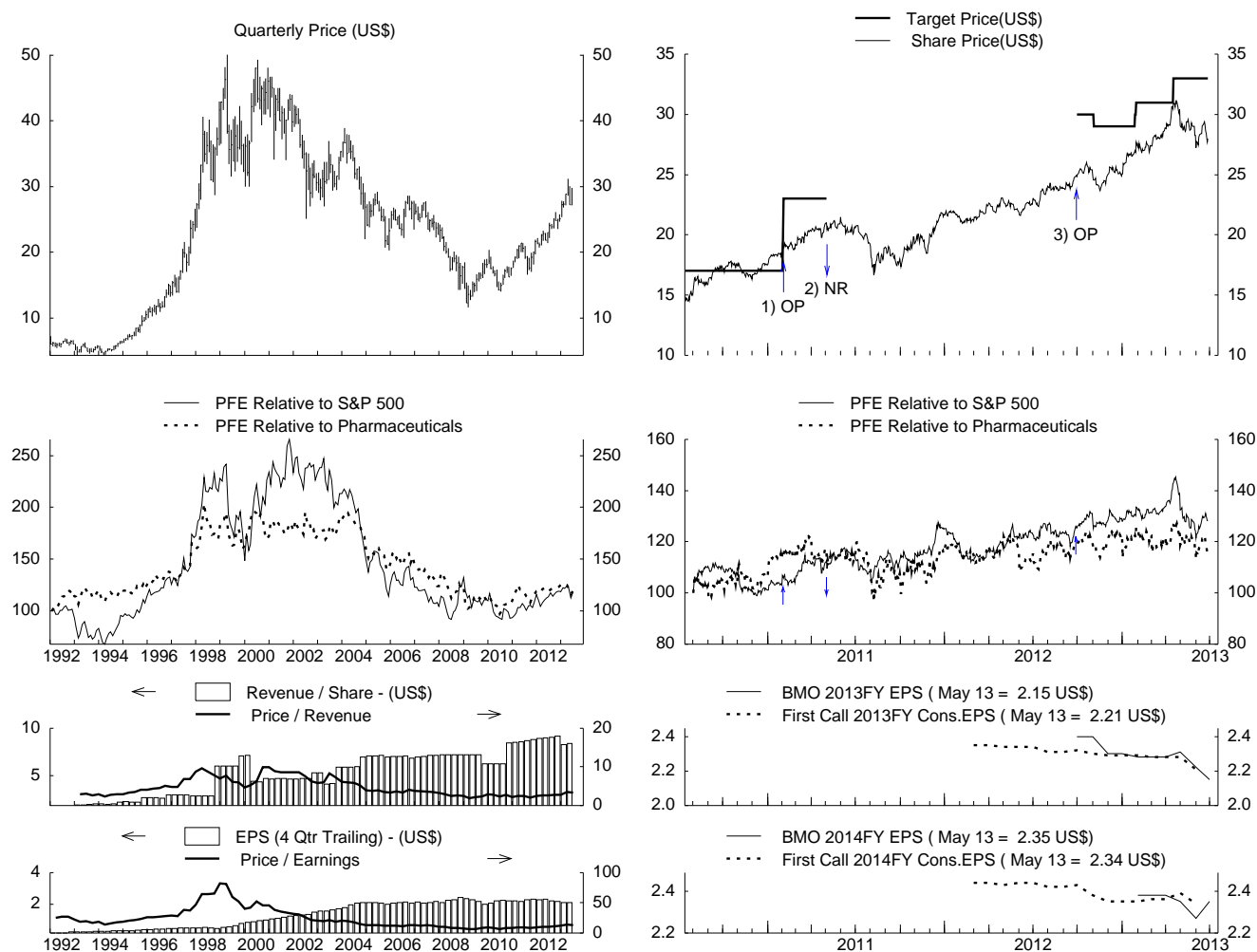
* Current EPS is the 4 Quarter Trailing to Q1/2013.

* Valuation metrics are based on high and low for the fiscal year.

* Range indicates the valuation range for the period presented above.

Last Price (June 25, 2013): \$31.49
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Pfizer Inc. (PFE)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - 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*	2.12	12.8	0.96	3.5	45	11.2	2.4	19
Growth(%):								
5 Year:	-0.1		-5.6			3.1		
10 Year:	2.9		4.8			13.2		
20 Year:	10.7		10.1			12.0		

PFE - Rating as of 15-Jul-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

* Current EPS is the 4 Quarter Trailing to Q1/2013.

* Valuation metrics are based on high and low for the fiscal year.

* Range indicates the valuation range for the period presented above.

Last Price (June 25, 2013): \$27.99

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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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 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 (March 31, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(S) = Speculative investment;

NR = No rating at this time; and

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