

Zoetis

(ZTS-NYSE)

Stock Rating: Underperform
Industry Rating: Market Perform

Model Update: Lowering Tax Rate Increases Valuation, but Not Enough

Event

We are updating our model following the release of Zoetis' Form 10-K, which includes previously undisclosed results from 4Q12. Zoetis reported FY2012 revenues of \$4.3B, closely in line with consensus and our forecast. Non-GAAP EPS of \$1.08 was 11% below consensus and 16% below our estimate primarily because of higher-than-expected taxes and somewhat higher operating expenses (SG&A).

Impact

We have updated our model and now estimate that Zoetis can lower its non-GAAP tax rate from 40.8% in 2012 to roughly 29% in 2013 after separation from Pfizer. This change is in line with consensus and raises our price target by \$2/share. However, we continue to expect slower margin expansion compared to the Street, and as a result have a lower valuation for ZTS shares.

Forecasts

2013-2016: 3-year revenue CAGR of 5.2% and EPS CAGR of 11.6%, slightly below consensus at 5.7% and 12.6%, respectively. 2013-2023 EPS CAGR of 10%, operating cash flow CAGR of 11.1%.

Valuation

Now \$30/share using DCF per above, 2.5% terminal growth rate (terminal value ~60% of firm value), 8.5% discount rate. Also \$30/share using an average of 22-24x our non-GAAP EPS estimates for 2013-2016.

Recommendation

We still believe that ZTS shares are over-valued and maintain our Underperform rating. On April 30, 2013, management will provide 2013 guidance, which could temper margin expansion expectations. Finally, we expect a significant increase in supply of shares in 4Q13/1Q14 as Pfizer is likely to do a share exchange for the remaining ~80% of ZTS shares.

April 1, 2013

Pharmaceuticals

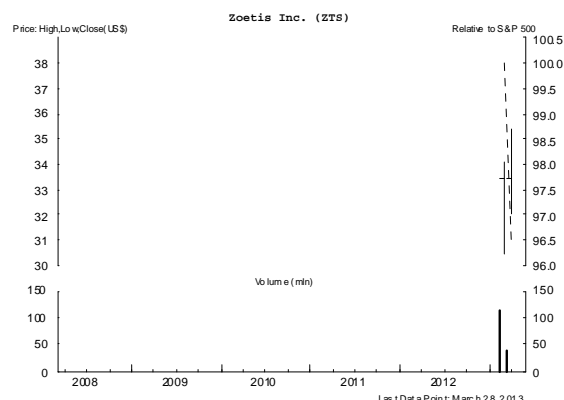
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Securities Info

Price (1-Apr)	\$32.59	Target Price	\$30 ↑
52-Wk High/Low	\$35/\$30	Dividend	\$0.26
Mkt Cap (mm)	\$16,295	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)	1,972

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS Pro Forma	\$1.01	\$1.08	\$1.25↓	\$1.40↑
P/E			26.1x	23.3x
First Call Cons.		\$1.24	\$1.38	\$1.60
EPS GAAP	\$0.49	\$0.87	\$1.02	\$1.25
FCF	\$0.72	\$0.66	\$1.00↓	\$1.21↑
P/FCF			32.6x	26.9x
EBITDA (\$mm)	\$943	\$1,142	\$1,228	\$1,355
EV/EBITDA			16.0x	14.5x
Rev. (\$mm)	\$4,233	\$4,336	\$4,551	\$4,810
EV/Rev			4.3x	4.1x
Quarterly EPS	1Q	2Q	3Q	4Q
2012A	\$0.30	\$0.35	\$0.31	\$0.11
2013E	\$0.30↓	\$0.37↑	\$0.33↑	\$0.24↓
Balance Sheet Data (30-Sep)				
Net Debt (\$mm)	\$3,333		Total Debt/EBITDA	3.0x
Total Debt (\$mm)	\$3,650		EBITDA/IntExp	11.4x
Net Debt/Cap.	71.3%		Price/Book	#DIV/0!

Notes: All values in US\$.

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

Changes

Annual EPS	Annual FCF
2013E \$1.26 to \$1.25	2013E \$1.13 to \$1.00
2014E \$1.38 to \$1.40	2014E \$1.20 to \$1.21

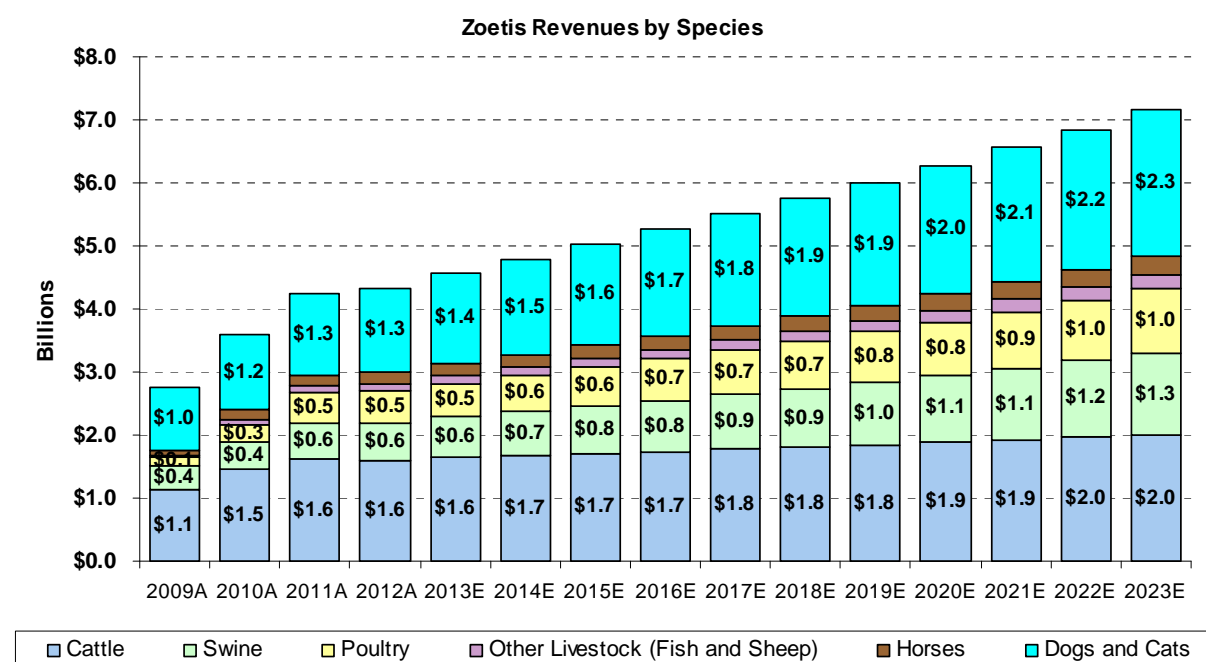
Quarterly EPS	Target
Q1/13E \$0.33 to \$0.30	\$28.00 to \$30.00
Q2/13E \$0.34 to \$0.37	
Q3/13E \$0.30 to \$0.33	
Q4/13E \$0.29 to \$0.24	

Exhibit 1. Zoetis FY 2012 Results: In-Line Revenues; Lower-Than-Expected Net Income and EPS Primarily Because of Higher Taxes

	FY 2012					FY'11	Y/Y Change	Comments:
	Consensus	BMO	Actual	Actual vs. Consensus	Actual vs. BMO			
Revenues	\$4,322	\$4,337	\$4,336	0%	0%	\$4,233	2%	Closely in-line with our forecast and consensus. Base growth was 5%, unfavorable Fx impact -4%.
Gross Profit	\$2,767	\$2,802	\$2,787	1%	-1%	\$2,652	5%	\$38Bn gain from non-recurring items, favorable product mix, increased efficiencies, and favorable Fx.
Gross Margin	64.0%	64.6%	64.3%	0%	0%	62.7%	2%	
SG&A		\$1,436	\$1,452		1%	\$1,443	1%	Inclusion of one month of King, and investments in emerging markets; favorable Fx.
R&D		\$381	\$399		5%	\$407	-2%	Decrease in allocation and depreciation.
Operating Profit	\$949	\$985	\$936	-1%	-5%	\$802	17%	Lower gross margins, and higher SG&A.
Taxes	\$320	\$325	\$372	16%	14%	\$264	41%	Higher rate in 2012 related to changes in uncertain tax positions, non-recurrence of prior settlements and expiration of the R&D tax credit. Going forward rate will be lower based on recent tax planning initiatives.
Effective Tax Rate	34.9%	33.6%	40.8%	6%	7%	34.3%	6%	
Net Income	\$596	\$640	\$539	-10%	-16%	\$503	7%	Bottom line miss is mostly driven by higher than expected tax rate, and lower operating margin.
EPS	\$1.21	\$1.28	\$1.08	-11%	-16%	\$1.01	7%	

Sources: ZTS, Bloomberg Finance LP, BMO Capital Markets Estimates

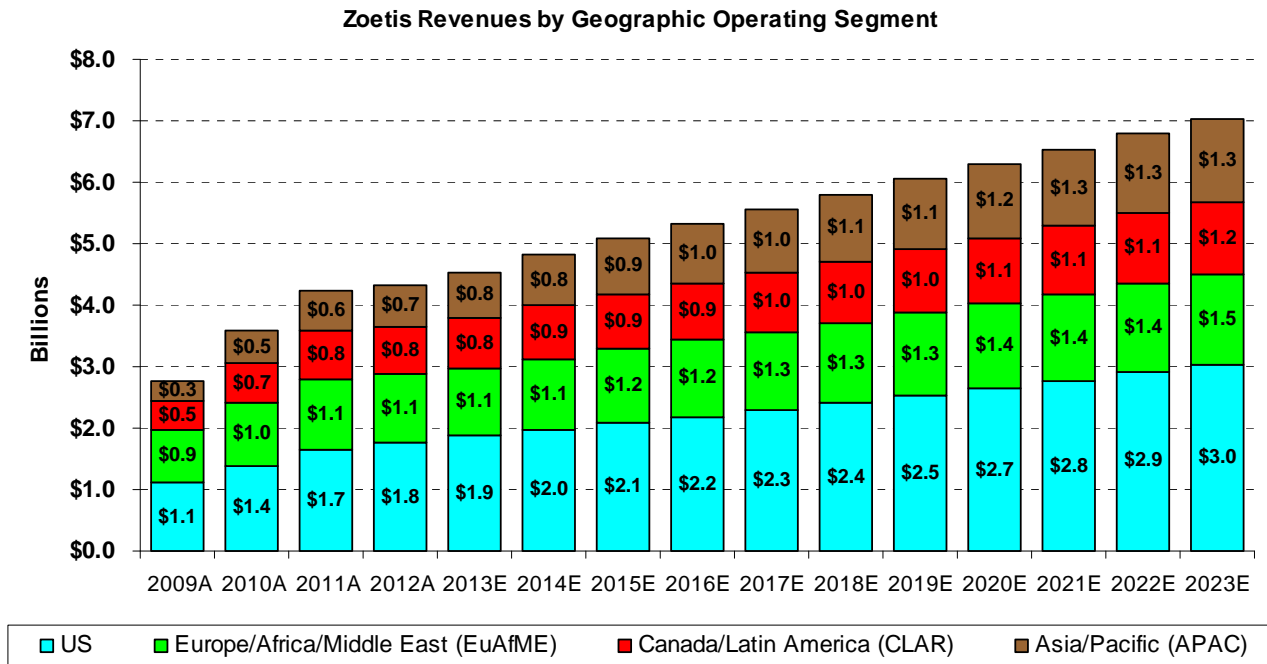
Exhibit 2. Our Zoetis Revenue Forecast by Species: 10-Year CAGR of 4.6%



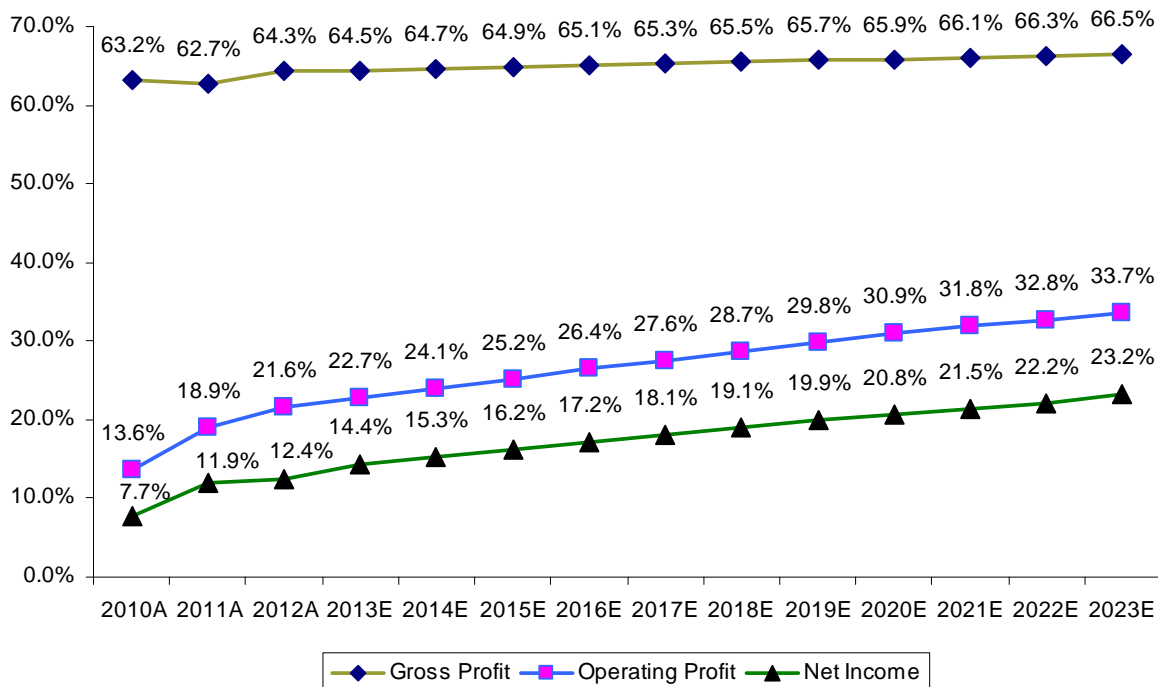
Source: Zoetis, BMO Capital Markets.

Exhibit 3. 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.

Exhibit 4. We Expect Zoetis' Margins to Improve Overtime, Driven Primarily by Improved Operational Efficiency

Source: Zoetis, BMO Capital Markets.

Zoetis' effective tax rate will improve in 2013. Zoetis' higher effective tax rate in 2012 was primarily related to the tax costs associated with uncertain tax positions related to operations in different geographies. As of December 31, 2012, Zoetis had approximately \$112 million in net liabilities associated with uncertain tax positions, and, according to the Form 10-K, substantially all of the uncertain tax positions will remain with Pfizer. As a result of a number of tax planning initiatives, which will change the jurisdictional mix of Zoetis' earnings, Zoetis expects that its future effective tax rate on adjusted pretax income will be lower than historical levels. Although the company has not provided specific guidance, current consensus is around 29-30%, and we have adjusted our model accordingly.

Exhibit 5. Changes to Our Forecasts: Lower Expected Tax Rate, and Slightly Lower Gross Margin Based on FY2012 Results

Non-GAAP Measures	FY2013E		FY2014E		FY2015E		FY2016E	
	Prior	New	Prior	New	Prior	New	Prior	New
Revenue	\$4,563	\$4,551	\$4,822	\$4,810	\$5,071	\$5,057	\$5,310	\$5,295
Gross Margin	64.9%	64.5%	65.1%	64.7%	65.2%	64.9%	65.4%	65.1%
Operating Profit (EBIT)	\$1,103	\$1,034	\$1,215	\$1,157	\$1,325	\$1,275	\$1,440	\$1,400
Operating Margin	24%	23%	25%	24%	26%	25%	27%	26%
Pre-tax Profit	997	928	1,096	1,039	1,206	1,157	1,326	1,285
Effective Tax Rate	33%	29%	34%	29%	34%	29%	34%	29%
Net Income	\$661	\$655	\$725	\$734	\$797	\$817	\$876	\$909
Net Margin	14%	14%	15%	15%	16%	16%	16%	17%
EPS	\$1.26	\$1.25	\$1.38	\$1.40	\$1.52	\$1.56	\$1.67	\$1.73
Free Cash Flow per Share	\$1.13	\$1.00	\$1.20	\$1.21	\$1.32	\$1.36	\$1.49	\$1.56
Dividend per share	\$0.26	\$0.26	\$0.33	\$0.33	\$0.39	\$0.39	\$0.47	\$0.47
Dividend Payout Ratio	21%	21%	24%	23%	26%	25%	28%	27%

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

Exhibit 6. BMO Estimates vs. Consensus: Top Line Expectations Are In Line; However, We Expect Gradual Margin Expansion for Zoetis and as Such Have Lower EPS Forecasts

Non-GAAP Measures	FY2013E		FY2014E		FY2015E		FY2016E	
	Street	BMO	Street	BMO	Street	BMO	Street	BMO
Revenue	\$4,535	\$4,551	\$4,809	\$4,810	\$5,083	\$5,057	\$5,362	\$5,295
Gross Margin	64.6%	64.5%	65.3%	64.7%	65.6%	64.9%	65.8%	65.1%
Operating Profit (EBIT)	\$1,112	\$1,034	\$1,267	\$1,157	\$1,401	\$1,275	\$1,525	\$1,400
Operating Margin	25%	23%	26%	24%	28%	25%	28%	26%
Pre-tax Profit	996	928	1,151	1,039	1,285	1,157	1,420	1,285
Effective Tax Rate	30%	29%	30%	29%	29%	29%	29%	29%
Net Income	\$694	\$655	\$807	\$734	\$912	\$817	\$1,002	\$909
Net Margin	15%	14%	17%	15%	18%	16%	19%	17%
EPS	\$1.38	\$1.25	\$1.60	\$1.40	\$1.79	\$1.56	\$1.97	\$1.73
Free Cash Flow per Share	\$1.29	\$1.00	\$1.44	\$1.21	NA	\$1.36	NA	\$1.56
Dividend per share	\$0.27	\$0.26	\$0.32	\$0.33	\$0.37	\$0.39	\$0.54	\$0.47
Dividend Payout Ratio	20%	21%	20%	23%	21%	25%	27%	27%

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

Zoetis Investment Thesis

Zoetis, a former business unit of Pfizer, is the largest global animal medicines and vaccines company, and the only pure-play large-cap animal health company that is publicly 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.

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 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 4.5% through 2023. Moreover, we forecast non-GAAP EPS CAGR of roughly 10% and operating cash flow CAGR of 11% through 2023.

Valuation

We value ZTS shares at \$30 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, applying a 22-24x multiple, which is on the top range of that seen with other roughly similar companies, to our 2013E to 2016E non-GAAP EPS estimates produces an average valuation of \$30, in line with our DCF valuation. (See Exhibit 7.)

Exhibit 7. Our Valuation of ZTS Shares Has Increased by \$2/Share, Primarily Because of Lower Tax Expectations

FCFF Valuation, \$MM		2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	>2023E
Cash flow from operations		654	769	846	945	1,048	1,154	1,278	1,420	1,568	1,703	1,867	1,914
Y/Y Growth			18%	10%	12%	11%	10%	11%	11%	10%	9%	10%	2.5%
CAPEX		(131)	(132)	(130)	(126)	(132)	(135)	(137)	(135)	(136)	(142)	(136)	(139)
Interest Expense (1-t)		76	83	83	80	80	70	70	70	70	70	41	41
Free Cash Flow to the Firm (FCFF)		600	720	799	899	996	1,090	1,210	1,354	1,502	1,631	1,772	1,816
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		8.5%											
Discounted FCFF		564	624	638	662	676	682	698	720	736	736	737	
PV of FCFE (2013-2023) Terminal Value at 2023 PV of Terminal Value Cash & Equivalents Total Debt Total Equity Value Minority Interest Total Zoetis Stockholders' Equity Value Diluted shares, MM Equity value per current PFE share	Total, \$MM	7,473 30,266 11,605 317 3,650 15,745 (15) 15,730 525 \$30											
	Terminal growth rate: 2.5%												
	Accounts for nearly 60% of firm value given sustainability of business.												
	Source: Zoetis Form 10-K												
	Current outstanding debt												
	Source: Zoetis Form 10-K												
	BMO estimate as of 1Q13.												

PE Multiple Valuation Using Non-GAAP EPS

		2012A	2013E	2014E	2015E	2016E	2013-16 EPS CAGR
EPS		\$1.08	\$1.25	\$1.40	\$1.56	\$1.73	
PE _x	20	\$22	\$25	\$26	\$26	\$27	11.6%
	21	\$23	\$26	\$27	\$28	\$28	
	22	\$24	\$27	\$28	\$29	\$30	
	23	\$25	\$29	\$30	\$30	\$31	
	24	\$26	\$30	\$31	\$32	\$33	
Discount Period		0 1 2 3					
Discount rate		8.5%					
Average		\$30					

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

Zoetis Income Statement: Our Non-GAAP Quarterly Forecasts

Non-GAAP Income Statement, \$MM	2012A				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
Revenues	1,047	1,094	1,019	1,176	1,093	1,151	1,073	1,234	1,151	1,215	1,136	1,307
Cost of Sales	388	382	352	427	403	399	369	446	422	419	388	469
Gross Profit	659	712	667	749	690	751	705	789	729	796	748	838
Selling, Informational and Administrative Expenses	331	351	330	440	341	348	338	459	350	357	347	471
R&D Expenses	93	91	94	121	108	98	91	118	111	101	94	123
Operating Profit	235	270	243	188	241	306	275	211	269	338	307	244
Amortization of Intangible Assets	4	3	4	4	6	6	6	6	7	7	7	7
EBIT	231	267	239	184	236	300	270	206	262	332	300	237
Other (Income) / Deductions -- Net	2	2	(4)	10	14	23	23	23	23	23	23	23
Income From Cont. Operations Before Provision for Taxes	229	265	243	174	222	277	247	182	239	309	277	214
(Benefit) / Provision for Taxes on Income	76	90	89	117	64	80	72	53	69	90	80	62
Net income/(loss) before allocation to non-controlling interests	153	175	154	57	158	197	175	129	170	219	197	152
Less: Income / (Loss) Attributable to Non-Controlling Interests	1	(1)		0	1	1	1	1	1	1	1	1
Net Income/ (loss) Attributable to Zoetis	152	176	154	57	157	196	174	128	169	218	196	151
Earnings Per Share - Basic	\$0.30	\$0.35	\$0.31	\$0.11	\$0.31	\$0.39	\$0.35	\$0.26	\$0.34	\$0.44	\$0.39	\$0.30
Earnings Per Share - Diluted	\$0.30	\$0.35	\$0.31	\$0.11	\$0.30	\$0.37	\$0.33	\$0.24	\$0.32	\$0.42	\$0.37	\$0.29
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%	4%	5%	5%	5%	5%	6%	6%	6%
Gross Profit	7%	10%	1%	2%	5%	6%	6%	5%	6%	6%	6%	6%
Operating Income (EBIT)	31%	46%	5%	-6%	2%	13%	13%	12%	11%	11%	11%	16%
Net Income	26%	54%	5%	-54%	3%	11%	13%	125%	8%	11%	12%	18%
EPS- Diluted	26%	54%	5%	-63%	-15%	21%	8%	115%	8%	11%	12%	18%
Dividend									25%	25%	25%	25%
Margins												
Gross Profit	63%	65%	65%	64%	63%	65%	66%	64%	63%	65%	66%	64%
Operating Profit	22%	25%	24%	16%	22%	27%	26%	17%	23%	28%	27%	19%
Net Income	15%	16%	15%	5%	14%	17%	16%	10%	15%	18%	17%	12%
Return Analysis												
Payout Ratio					22%	17%	20%	27%	25%	20%	22%	28%

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	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	\$3,582	\$4,233	\$4,336	\$4,551	\$4,810	\$5,057	\$5,295	\$5,533	\$5,775	\$6,026	\$6,287	\$6,549	\$6,819	\$7,092
Cost of Sales	1,318	1,581	1,549	1,617	1,699	1,776	1,849	1,921	1,994	2,068	2,145	2,221	2,299	2,377
Gross Profit	2,264	2,652	2,787	2,935	3,111	3,281	3,446	3,612	3,782	3,958	4,142	4,327	4,520	4,715
SG&A	1,365	1,443	1,452	1,487	1,525	1,561	1,590	1,619	1,647	1,676	1,706	1,734	1,763	1,791
R&D	411	407	399	414	428	445	456	466	475	485	493	508	523	537
Operating Profit	488	802	936	1,034	1,157	1,275	1,400	1,527	1,659	1,797	1,943	2,085	2,234	2,387
Amortization of Intangible Assets	17	20	15	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	10	84	93	93	88	88	75	74	74	74	74	34
Income From Cont. Operations Before Provision for Taxes	459	770	911	928	1,039	1,157	1,285	1,413	1,558	1,697	1,843	1,985	2,135	2,327
(Benefit) / Provision for Taxes on Income	183	264	372	269	301	335	373	410	452	492	534	576	619	675
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	659	738	821	913	1,003	1,106	1,205	1,309	1,410	1,516	1,652
Gain / (Loss) Attributable to Non-Controlling Interests	1	3	0	4	4	4	4	4	4	4	4	4	4	4
Net Income (Loss) Attributable to Zoetis	\$275	\$503	\$539	\$655	\$734	\$817	\$909	\$999	\$1,102	\$1,201	\$1,305	\$1,406	\$1,512	\$1,648
Earnings Per Share - Basic	\$0.55	\$1.01	\$1.08	\$1.31	\$1.47	\$1.64	\$1.82	\$2.00	\$2.22	\$2.42	\$2.64	\$2.86	\$3.09	\$3.40
Earnings Per Share - Diluted	\$0.55	\$1.01	\$1.08	\$1.25	\$1.40	\$1.56	\$1.73	\$1.91	\$2.11	\$2.31	\$2.51	\$2.72	\$2.94	\$3.23
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	2012A	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%	5%	5%	6%	5%	5%	5%	5%	5%	5%	4%	4%	4%
Operating Profit	49%	64%	17%	10%	12%	10%	10%	9%	9%	8%	8%	7%	7%	7%
Net Income	54%	83%	7%	22%	12%	11%	11%	10%	10%	9%	9%	8%	8%	9%
EPS		83%	7%	16%	12%	11%	11%	10%	11%	9%	9%	8%	8%	10%
Dividend per share					25%	20%	20%	15%	15%	10%	0%	5%	5%	0%
Margins														
Gross Profit	63.2%	62.7%	64.3%	64.5%	64.7%	64.9%	65.1%	65.3%	65.5%	65.7%	65.9%	66.1%	66.3%	66.5%
Operating Profit	14%	19%	22%	23%	24%	25%	26%	28%	29%	30%	31%	32%	33%	34%
Net Income	7.7%	11.9%	12.4%	14.4%	15.3%	16.2%	17.2%	18.1%	19.1%	19.9%	20.8%	21.5%	22.2%	23.2%
Return Analysis														
Payout Ratio				21%	23%	25%	27%	28%	29%	30%	27%	26%	26%	23%

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	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	\$3,582	\$4,233	\$4,336	\$4,551	\$4,810	\$5,057	\$5,295	\$5,533	\$5,775	\$6,026	\$6,287	\$6,549	\$6,819	\$7,092
Cost of Sales	1,444	1,652	1,563	1,621	1,703	1,780	1,853	1,925	1,998	2,072	2,149	2,225	2,303	2,381
Gross Profit	2,138	2,581	2,773	2,931	3,107	3,277	3,442	3,608	3,778	3,954	4,138	4,323	4,516	4,711
SG&A	1,382	1,453	1,470	1,507	1,541	1,573	1,602	1,631	1,659	1,688	1,718	1,746	1,775	1,803
R&D Expenses	411	427	409	434	444	457	468	478	487	497	505	520	535	549
Amortization of Intangible Assets	58	69	64	66	66	66	66	66	66	66	66	66	66	66
Restructuring Charges & Certain Acquisition-Related Costs	202	154	135	84	32	24	24	24	24	24	24	24	24	24
Other (Income) / Deductions -- Net	(93)	84	(15)	84	93	93	88	88	75	74	74	74	74	34
Income Before Provision for Taxes	178	394	710	756	931	1,065	1,193	1,321	1,466	1,605	1,751	1,893	2,043	2,235
(Benefit) / Provision for Taxes on Income	67	146	274	219	270	309	346	383	425	466	508	549	592	648
Net income/(loss) before allocation to non-controlling interests	111	248	436	537	661	756	847	938	1,041	1,140	1,243	1,344	1,450	1,587
Gain / (Loss) Attributable to Non-Controlling Interests	1	3	0	4	4	4	4	4	4	4	4	4	4	4
Net Income (Loss) Attributable to Zoetis	\$110	\$245	\$436	\$533	\$657	\$752	\$843	\$934	\$1,037	\$1,136	\$1,239	\$1,340	\$1,446	\$1,583
Earnings Per Share - Basic	\$0.22	\$0.49	\$0.87	\$1.07	\$1.31	\$1.50	\$1.69	\$1.87	\$2.08	\$2.29	\$2.51	\$2.73	\$2.96	\$3.26
Earnings Per Share - Diluted	\$0.22	\$0.49	\$0.87	\$1.02	\$1.25	\$1.43	\$1.61	\$1.78	\$1.98	\$2.18	\$2.39	\$2.60	\$2.82	\$3.10
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	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Assets														
Cash and cash equivalents	63	79	317	710	1,174	1,665	1,783	2,291	2,070	2,603	3,188	3,845	4,504	3,889
Accounts receivable, less allowance for doubtful accounts	773	871	900	912	995	1,101	1,198	1,268	1,356	1,432	1,475	1,478	1,459	1,454
Inventories	995	1,063	1,345	1,262	1,278	1,304	1,329	1,391	1,443	1,484	1,538	1,593	1,648	1,668
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	3,192	3,754	4,376	4,617	5,257	5,176	5,826	6,508	7,222	7,918	7,318
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	802	736	670	604	538	472	406	340	274	208	142
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	6,509	7,002	7,546	7,708	8,268	8,102	8,663	9,247	9,857	10,446	9,728
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	243	230	213	194	190	191	185	192	199	206	213
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	176	181	184	188	191	195	198	202	206	209	213
Other current liabilities	396	461	507	444	433	432	431	431	431	431	431	431	431	431
Total current liabilities	808	843	1,123	894	876	1,261	845	1,595	849	847	858	868	2,229	890
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	5,099	5,074	5,058	4,642	4,642	3,896	3,894	3,905	3,915	3,926	2,587
Commitments and Contingencies														
Total Equity	3,344	3,736	4,041	1,410	1,927	2,488	3,065	3,626	4,205	4,769	5,342	5,941	6,520	7,141
Total liabilities and equity	5,284	5,711	6,262	6,509	7,002	7,546	7,708	8,268	8,102	8,663	9,247	9,857	10,446	9,728

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

Zoetis Statement of Cash Flow

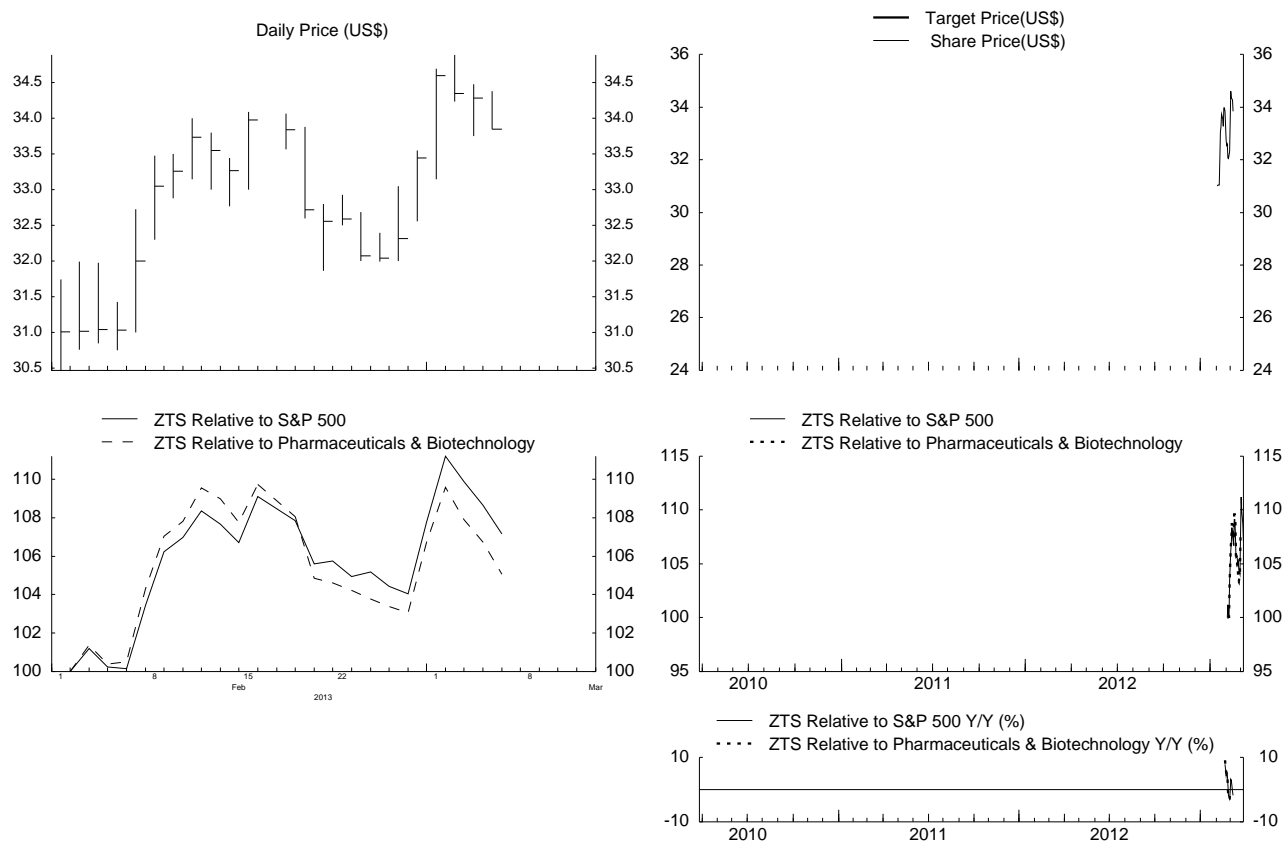
Zoetis Statement of Cash Flows, \$MM	2010A	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Operating activities														
GAAP Net income/(loss) before allocation to non-controlling interests	111	248	436	537	661	756	847	938	1,041	1,140	1,243	1,344	1,450	1,587
Adjustments:														
Depreciation and amortization expense	185	205	200	192	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)	(123)	(123)	(147)	(138)	(132)	(136)	(119)	(87)	(47)	(25)	(5)
Net cash provided by operating activities	254	497	454	654	769	846	945	1,048	1,154	1,278	1,420	1,568	1,703	1,867
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)	(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	(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)	(226)	(700)	(408)	(1,241)	(607)	(700)	(776)	(902)	(2,346)
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	393	463	491	119	508	(222)	534	585	657	659	(615)
Cash and cash equivalents, as of beginning of year	99	63	79	317	710	1,174	1,665	1,783	2,291	2,070	2,603	3,188	3,845	4,504
Cash and cash equivalents, as of end of year	63	79	317	710	1,174	1,665	1,783	2,291	2,070	2,603	3,188	3,845	4,504	3,889

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

Other companies mentioned (priced as of the close on April 1, 2013):

Pfizer (PFE, \$28.84, Outperform)

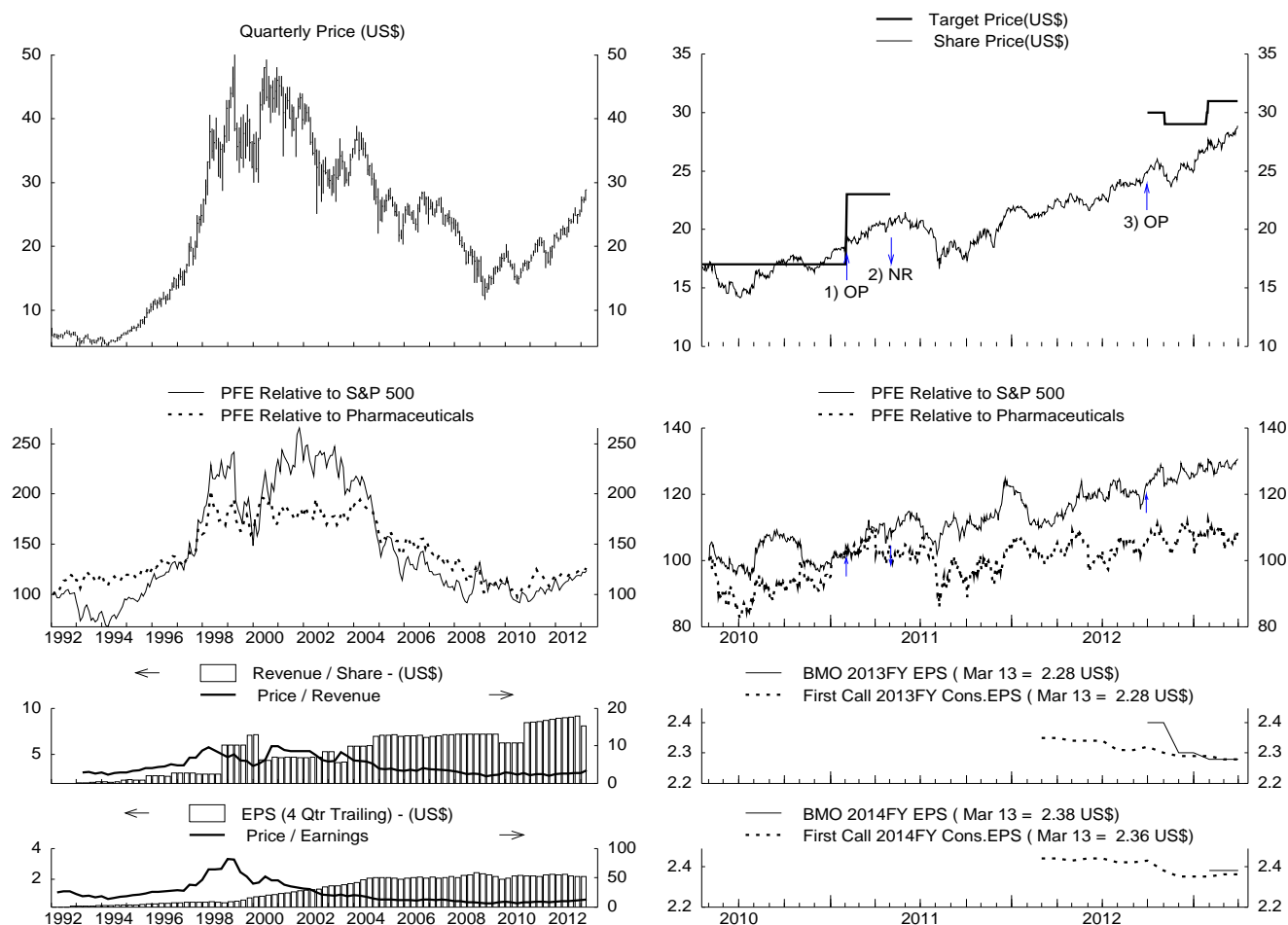
ZOETIS INC (ZTS)



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

Last Daily Data Point: March 6, 2013

Pfizer Inc. (PFE)



FYE (Dec.)	EPS US\$	P/E		DPS US\$	Yield%		Payout %	BV US\$	P/B		ROE %
		Hi	Lo		Hi	Lo			Hi	Lo	
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(%):
 5 Year: 0.0
 10 Year: 3.8
 20 Year: 11.1

* 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 19-Apr-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 28, 2013): \$28.86

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

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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 (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.

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Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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