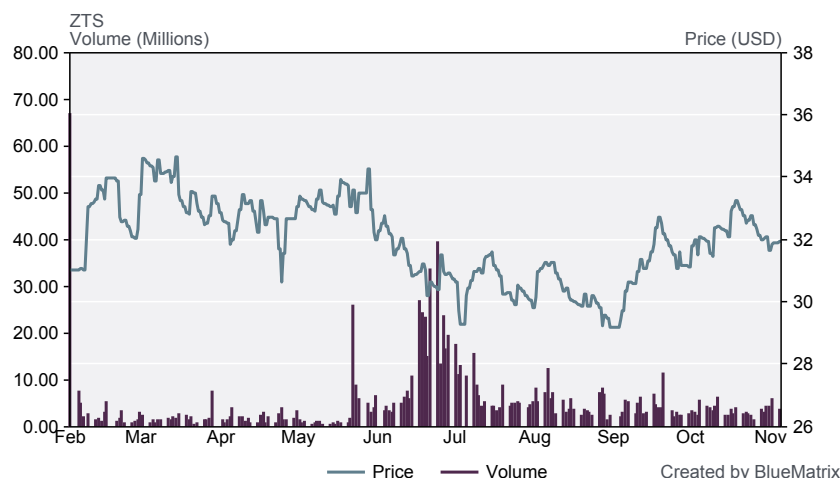


Zoetis Inc.

ZTS - BUY - 3Q13 Underscores ZTS' Earnings Power is Underappreciated

November 5, 2013

- We are reiterating our Buy rating for ZTS shares post 3Q13 earnings results. We believe that ZTS's performance demonstrates that the sustainability of its earnings growth is underappreciated. In 3Q13, ZTS continued to expand product indications across species, and pursue approvals in new geographies. Based on 3Q13 results, we think ZTS is on track to meet or beat expectations for 2013 and beyond.
- Macro trends support the need for ZTS (population, limited resources, Emerging Markets). We expect ZTS's operating leverage to be a driver of EPS growth. In our view, GM improvement will come from price increase and manufacturing savings. SG&A leverage should come from volume increases and moving products in network.
- 3Q13 points from the call that support our thesis include:** 1) Although SG&A expenses were higher than expected, YTD they are in-line/below ZTS's expectations, ZTS is confident that operating leverage will drive EPS growth, and cautioned the Street not to read into quarterly variations; 2) In 1H13 ZTS grew faster than the market; 3) Porcine epidemic virus & FDA guidance on anti-infectives should have no material impact on ZTS' business.
- ZTS reported 3Q13 EPS of \$0.34 which was in-line with consensus and \$0.03 better than our estimate. Our Variance Analysis has the details. Management tightened its 2013 EPS guidance range to \$1.38-\$1.42 from \$1.36-\$1.42. We have increased our 2013 EPS estimate to reflect the beat this quarter and updated financial guidance. We have made no changes to our 2014 EPS estimate.
- Potential Catalysts.** 1) Operating margin expansion; 2) new product launches; 3) business development; 4) expansion into adjacent categories; 5) U.S. drought subsidies.



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ZTS BUY

COMPANY UPDATE

Investment Thesis: Growth

SHARE PRICE	\$31.93
PRICE TARGET	\$40.00

Revenue (\$M) (FY Dec)	1Q	2Q	3Q	4Q	FY
2012	1,047.0	1,094.0	1,019.0	1,176.0	4,336.0
2013	1,090.0	1,114.0	1,103.0	1,169.3E	4,476.3E
Prior	—	—	1,068.8	1,218.1E	4,490.9E
2014	—	—	—	—	4,743.5E
Prior	—	—	—	—	4,760.0E

Adjusted EPS (\$)	1Q	2Q	3Q	4Q	FY
2012	0.29	0.37	0.31	0.11	1.08
P/E					29.6x
2013	0.36	0.36	0.34	0.32E	1.38E
Prior	—	—	0.31	0.34E	1.36E
P/E					23.1x
2014	—	—	—	—	1.57E
P/E					20.3x

Market Data & Valuation Multiples

52-Week Range	\$26.00 - \$35.42
Shares Out (M)	500.0
Market Cap (M)	\$15,965
ADV (3 mo; 000)	4,280

SCENARIO	VALUATION	INVESTMENT THESIS
Bull Case	2014E EPS: \$1.75 12-Month Bull Case Scenario: \$45 Upside/Downside Potential: 41%	<ul style="list-style-type: none"> • 5-year sales and EPS CAGRs of 10% and 20%, respectively • Over 400 bps of margin expansion from 2012 to 2014 • Business development • Dividend yield increase above 1% in 2014
Base Case	2014E EPS: \$1.57 12-Month Base Case Scenario: \$40 Upside/Downside Potential: 25%	<ul style="list-style-type: none"> • 5-year sales and EPS CAGRs of 7% and 14%, respectively • 390 bps of margin expansion from 2012 to 2014 • No additional business development • 1% dividend yield in 2014
Bear Case	2014E EPS: \$1.50 12-Month Bear Case Scenario: \$30 Upside/Downside Potential: -6%	<ul style="list-style-type: none"> • 5-year sales and EPS CAGRs of 5% and 10%, respectively • Below 300 bps of margin expansion from 2012 to 2014 • No additional business development • 1% dividend yield in 2014

Source: Guggenheim Securities, LLC

VALUATION METHODOLOGY AND RISKS

We use a blend of Price to Earnings (P/E), Discounted Cash Flow (DCF), and Sum-of-the-Parts analysis to get to our 12-month price target of \$40. Using a P/E analysis, we arrive at a 12-month value of \$35. We apply a 20x multiple to our 2015E EPS of \$1.77. Our DCF analysis arrives at a 12-month value of \$41. We use a WACC of 9.6% and an exit multiple of 12.2 times EBIT. Using a Sum-of-the-Parts analysis, we arrive at a 12-month value of \$44. We have excluded any redundant overhead to determine what each division would be worth if the company were broken up and/or acquired.

Risks to our valuation include: 1) separation from Pfizer is more expensive or takes longer than anticipated; 2) operating margin expansion is below the Street expectation of 400bps between 2012 and 2014; and 3) increasing generic competition for key drugs that do not have patent protection.

ZOETIS VARIANCE ANALYSIS

(in millions of \$US, except per share amounts)

	Actual 3Q13		Guggenheim Estimate 3Q13		Variance	Comments
	Amount	% Change YOY	Amount	% Change YOY		
U.S.	495.0	10.5%	441.7	-1.4%	53.3	Driven by livestock sales, easier YOY comps due to drought last year
EuAfME	270.0	12.0%	263.5	9.3%	6.5	
CLAR	171.0	3.6%	186.7	13.1%	(15.7)	Increased local competition in Brazil
APAC	167.0	1.2%	177.0	7.3%	(10.0)	Drought in Australia
Total Revenue	1,103.0	8.2%	1,068.8	4.9%	34.2	
COGS	383.0	8.8%	374.1	6.3%	8.9	
Gross Profit	720.0	7.9%	694.7	4.2%	25.3	
SG&A	359.0	8.8%	340.0	3.0%	19.0	Promotional spend moved to 3Q13 from 2Q13
R&D	91.0	-3.2%	104.0	10.6%	(13.0)	
Other Operating Expenses	(3.0)	-72.7%	3.0	-127.3%	(6.0)	
Operating Income	273.0	9.6%	247.7	-0.5%	25.3	
Non Operating Items	(29.0)	314.3%	(27.6)	295.0%	(1.4)	
Pre-Tax Income	244.0	0.8%	220.1	-9.1%	23.9	
Taxes	72.0	-19.1%	63.8	-28.4%	8.2	
Tax Rate	29.5%	-19.8%	29.0%	-21.2%	0.5	
Net income attributable to noncontrolling interest	-	-100.0%	-	-100.0%	-	
Net Income	172.0	11.7%	156.3	1.5%	15.7	
Averages Shares	500.4	NM	500.3	NM	0.1	
Cash EPS	\$0.34	11.6%	\$0.31	1.5%	\$0.03	
Margin Analysis						
Revenues	100.0%		100.0%			
COGS	34.7%		35.0%			
Gross Margin	65.3%		65.0%			
SG&A	32.5%		31.8%			
R&D	8.3%		9.7%			
Net Income	15.6%		14.6%			

Source: Guggenheim Securities, LLC and Company reports

CATALYST CALENDAR

Date	Driver	Upcoming Event
2013		
2013	U.S. Drought	Expected to be over and U.S. business to return to normal
2013	Global ERP	Deployment initiated with 2+ year anticipated build out period
2014		
1Q14	Engain	U.S. launch (for swine)
2Q14	Infrastructure support	Expires
2H14	Actogain	U.S. launch (for cattle)
2014	Revolution	Compound patent on selamectin expires in U.S., Canada, and Europe
2014	Directors Class I	Term expiration
December 2014	Transactional Finance support	Phases out as Zoetis shared services is established
2015		
2H15+	Global ERP	Build out completed
2015	2015 ASEAN Free Trade Zone	Triggers additional growth
2015	Directors Class II	Term expiration
2015	Global Supply	Full transition to Zoetis
2015	Ceftiofur	U.S. patents start to expire in 2015
2016+		
2016	Transitional service agreements with Pfizer	Expires
2016	Dectomax (antiparasitic)	Injectable formulation patent expires in U.S.
2016	Directors Class III	Term expiration
2020	R&D Collaboration and License Agreement w/Pfizer	Expires (7 years from IPO date)
2020	Dectomax (antiparasitic)	Process patent expires in U.S.
2021	Draxxin	U.S. patent set to expire
2023	Convenia	U.S. patent set to expire

Source: Guggenheim Securities, LLC and Company reports

FINANCIAL MODEL

(\$ in MM, except per share amounts)	Zoetis 2013		Guggenheim 2013
	Guidance	Midpoint	Estimate
Total Revenue	\$4,475 to \$4,525	\$4,500	\$4,476
Adjusted COGS as % of Revenues	~35.5%		35.5%
Adjusted SG&A Expenses	\$1,405 to \$1,425	\$1,415	\$1,420
Adjusted R&D Expenses	\$380 to \$390	\$385	\$375
Adjusted Interest Expense	~\$115		\$115
Adjusted Other (income)/deductions	~\$15		\$15
Effective Tax Rate on Adjusted Net Income	~29.5%		29.5%
Adjusted diluted EPS	\$1.38 to \$1.42	\$1.40	\$1.38
Adjusted net income/diluted EPS guidance	\$690 to \$710	\$700	\$691

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Quarterly Income Statement Analysis 2009-2019E

(\$ in Millions)																						CAGR
(Year Ended December 31)	2009	2010 ¹	2011 ²	2012 ³	1Q13A ⁴	2Q13A ⁵	3Q13A ⁷	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	14E-19E		
Total Revenue	2,760.0	3,582.0	4,233.0	4,336.0	1,090.0	1,114.0	1,103.0	1,169.3	4,476.3	1,121.8	1,182.8	1,145.8	1,293.3	4,743.5	5,093.1	5,456.6	5,837.3	6,241.7	6,676.1	7.1		
COGS	1,001.0	1,318.0	1,581.0	1,549.0	398.0	400.0	383.0	409.3	1,590.3	388.1	409.2	396.4	447.5	1,641.3	1,752.0	1,855.2	1,961.3	2,072.2	2,189.8			
Gross Profit	1,759.0	2,264.0	2,652.0	2,787.0	692.0	714.0	720.0	760.1	2,886.1	733.6	773.5	749.3	845.8	3,102.3	3,341.1	3,601.3	3,875.9	4,169.4	4,486.3			
R&D	365.0	411.0	407.0	399.0	90.0	91.0	91.0	103.0	375.0	94.4	99.2	95.2	116.2	405.0	432.9	463.8	496.2	530.5	567.5			
SG&A	1,057.0	1,365.0	1,447.0	1,452.0	322.0	339.0	359.0	400.0	1,420.0	342.5	360.2	345.5	421.9	1,470.0	1,543.5	1,620.7	1,669.3	1,719.4	1,753.8			
Amortization of Intangibles	16.0	17.0	20.0	15.0	4.0	3.0	4.0	4.0	15.0	3.5	3.5	3.5	3.5	14.0	13.0	12.0	11.0	10.0	9.0			
Other (Income)/Expense	(1.0)	(25.0)	(28.0)	(21.0)	2.0	0.0	(7.0)	(10.0)	(15.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Total Operating Expense	1,437.0	1,768.0	1,846.0	1,845.0	418.0	433.0	447.0	497.0	1,795.0	440.4	462.9	444.1	541.6	1,889.0	1,989.4	2,096.5	2,176.5	2,259.9	2,330.2			
Operating Income	322.0	496.0	806.0	942.0	274.0	281.0	273.0	263.1	1,091.1	293.3	310.7	305.2	304.2	1,213.3	1,351.7	1,504.8	1,699.5	1,909.5	2,156.1	12.2		
Interest Income	0.0	0.0	0.0	0.0	0.0	3.0	0.0	1.0	4.0	1.8	1.9	1.9	1.9	7.6	12.9	20.3	25.1	35.3	39.7			
Interest Expense	(26.0)	(37.0)	(36.0)	(31.0)	(22.0)	(32.0)	(29.0)	(32.0)	(115.0)	(29.1)	(29.1)	(29.1)	(29.1)	(116.6)	(116.6)	(112.0)	(112.0)	(97.9)	(97.9)			
Non-Operating Items	(26.0)	(37.0)	(36.0)	(31.0)	(22.0)	(29.0)	(29.0)	(31.0)	(111.0)	(27.3)	(27.3)	(27.2)	(27.2)	(109.0)	(103.7)	(91.6)	(86.9)	(62.6)	(58.3)			
Pre-tax Income	296.0	459.0	770.0	911.0	252.0	252.0	244.0	232.1	980.1	265.9	283.4	278.0	277.0	1,104.3	1,247.9	1,413.2	1,612.6	1,846.9	2,097.8			
Tax Rate	36.5%	39.9%	34.3%	40.8%	29.0%	29.4%	29.5%	30.4%	29.5%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%			
Taxes	108.0	183.0	264.0	372.0	73.0	74.0	72.0	70.5	289.5	77.1	82.2	80.6	80.3	320.2	361.9	409.8	467.6	535.6	608.4			
Net Income (before non-controlling interest)	188.0	276.0	506.0	539.0	179.0	178.0	172.0	161.5	690.5	188.8	201.2	197.4	196.6	784.0	886.0	1,003.4	1,144.9	1,311.3	1,489.5			
Net Income attributable to noncontrolling interest	(1.0)	1.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0			
Adjusted Net Income	189.0	275.0	503.0	539.0	179.0	178.0	172.0	161.5	690.5	188.8	201.2	197.4	196.6	784.0	885.0	1,002.4	1,143.9	1,310.3	1,488.5			
Average Shares	500.0	500.0	500.0	500.0	500.1	500.2	500.4	500.4	500.3	500.5	500.5	500.6	500.6	500.5	500.6	500.7	500.8	500.9	501.0			
Adjusted Diluted EPS	\$0.55	\$1.01	\$1.08	\$1.08	\$0.36	\$0.36	\$0.34	\$0.32	\$1.38	\$0.38	\$0.40	\$0.39	\$0.39	\$1.57	\$1.77	\$2.00	\$2.28	\$2.62	\$2.97	13.7		
%Change																						
Total Revenue	29.8%	18.2%	2.4%		4.1%	1.8%	8.2%	-0.6%	3.2%	2.9%	6.2%	3.9%	10.6%	6.0%	7.4%	7.1%	7.0%	6.9%	7.0%			
COGS	31.7%	20.0%	-2.0%		2.6%	4.7%	8.8%	-4.2%	2.7%	-2.5%	2.3%	3.5%	9.3%	3.2%	6.7%	5.9%	5.7%	5.7%	5.7%			
Gross Profit	28.7%	17.1%	5.1%		5.0%	0.3%	7.9%	1.5%	3.6%	6.0%	8.3%	4.1%	11.3%	7.5%	7.7%	7.8%	7.6%	7.6%	7.6%			
R&D	12.6%	-1.0%	-2.0%		-3.2%	0.0%	-3.2%	-14.9%	-6.0%	4.9%	9.0%	4.6%	12.8%	8.0%	6.9%	7.1%	7.0%	6.9%	7.0%			
SG&A	29.1%	6.0%	0.3%		-2.7%	-3.4%	8.8%	-9.1%	-2.2%	6.4%	6.2%	-3.8%	5.5%	3.5%	5.0%	5.0%	3.0%	3.0%	2.0%			
Amortization of Intangibles	6.3%	17.6%	-25.0%		0.0%	0.0%	0.0%	0.0%	0.0%	-12.5%	16.7%	-12.5%	-12.5%	-6.7%	-7.1%	-7.7%	-8.3%	-9.1%	-10.0%			
Operating Income	54.0%	62.5%	16.9%		19.1%	0.0%	9.6%	44.5%	15.6%	7.0%	10.6%	11.8%	15.6%	11.2%	11.4%	11.3%	12.9%	12.4%	12.9%			
Non-Operating Items	42.3%	-2.7%	-13.9%		175.0%	262.5%	314.3%	287.5%	258.1%	24.2%	-6.0%	-6.1%	-12.2%	-1.8%	-4.8%	-11.7%	-5.2%	-27.9%	-7.0%			
Pre-tax Income	55.1%	67.8%	18.3%		13.5%	-7.7%	0.8%	33.4%	7.6%	5.5%	12.5%	13.9%	19.3%	12.7%	13.0%	13.2%	14.1%	14.5%	13.6%			
Tax Rate	9.3%	-14.0%	19.1%		-15.4%	-10.9%	-19.8%	-54.8%	-27.6%	0.1%	-1.2%	-1.7%	-4.6%	-1.8%	0.0%	0.0%	0.0%	0.0%	0.0%			
Taxes	69.4%	44.3%	40.9%		-3.9%	-17.8%	-19.1%	-39.7%	-22.2%	5.6%	11.1%	12.0%	13.8%	10.6%	13.0%	13.2%	14.1%	14.5%	13.6%			
Net Income attributable to noncontrolling interest			-100.0%		-100.0%	NM	-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM		
Net Income	45.5%	82.9%	7.2%		23.4%	-2.7%	11.7%	183.4%	28.1%	5.5%	13.0%	14.7%	21.7%	13.5%	12.9%	13.3%	14.1%	14.5%	13.6%			
Adjusted Diluted EPS	NM	NM	NM		23.4%	-2.8%	11.6%	183.1%	28.0%	5.4%	13.0%	14.7%	21.7%	13.5%	12.9%	13.2%	14.1%	14.5%	13.6%			

Source: Guggenheim Securities, LLC and Company Reports

(1) 2010 revenues include \$640MM of revenues from full year impact of FDAH acquisition. "Adjusted Net Income" excludes purchase accounting adjustments, acquisition related costs and certain significant items. Organic sales growth was 7%.

(2) 2011 revenues include \$329MM of revenues from KAH acquisition. "Adjusted Net Income" excludes purchase accounting adjustments, acquisition related costs and certain significant items. Organic sales growth was 7%.

(3) 2012 revenues include extra month of revenues of \$37MM from KAH acquisition. "Adjusted Net Income" excludes purchase accounting adjustments, acquisition related costs and certain significant items. Organic sales growth was 6%.

The higher effective tax rate in 2012 is due to the non-recurrence of \$9.5MM of tax benefit in 2011.

(4) 1Q13 excludes purchase accounting adjustments, acquisition-related costs, and certain significant items.

(5) 2Q13 excludes purchase accounting adjustments, restructuring charges and certain acquisition-related costs, and certain significant items.

(6) 3Q13 excludes purchase accounting adjustments, acquisition related costs, amortization of intangibles and certain significant items

Zoetis - Quarterly Margin Analysis 2009-2019E

	2009	2010	2011	2012	1Q13A	2Q13A	3Q13A	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	36.3%	36.8%	37.3%	35.7%	36.5%	35.9%	34.7%	35.0%	35.5%	34.6%	34.6%	34.6%	34.6%	34.6%	34.4%	34.0%	33.6%	33.2%	32.8%
Gross Margin	63.7%	63.2%	62.7%	64.3%	63.5%	64.1%	65.3%	65.0%	64.5%	65.4%	65.4%	65.4%	65.4%	65.4%	65.6%	66.0%	66.4%	66.8%	67.2%
R&D	13.2%	11.5%	9.6%	9.2%	8.3%	8.2%	8.3%	8.8%	8.4%	8.4%	8.4%	8.3%	9.0%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
SG&A	38.3%	38.1%	34.2%	33.5%	29.5%	30.4%	32.5%	34.2%	31.7%	30.5%	30.4%	30.2%	32.6%	31.0%	30.3%	29.7%	28.6%	27.5%	26.3%
Oper. Inc.	11.7%	13.8%	19.0%	21.7%	25.1%	25.2%	24.8%	22.5%	24.4%	26.1%	26.3%	26.6%	23.5%	25.6%	26.5%	27.6%	29.1%	30.6%	32.3%
Operating Expenses	52.1%	49.4%	43.6%	42.6%	38.3%	38.9%	40.5%	42.5%	40.1%	39.3%	39.1%	38.8%	41.9%	39.8%	39.1%	38.4%	37.3%	36.2%	34.9%
Non-Oper. Items	-0.9%	-1.0%	-0.9%	-0.7%	-2.0%	-2.6%	-2.6%	-2.7%	-2.5%	-2.4%	-2.3%	-2.4%	-2.1%	-2.3%	-2.0%	-1.7%	-1.5%	-1.0%	-0.9%
Pretax Income	10.7%	12.8%	18.2%	21.0%	23.1%	22.6%	22.1%	19.8%	21.9%	23.7%	24.0%	24.3%	21.4%	23.3%	24.5%	25.9%	27.6%	29.6%	31.4%
Net Income	6.8%	7.7%	11.9%	12.4%	16.4%	16.0%	15.6%	13.8%	15.4%	16.8%	17.0%	17.2%	15.2%	16.5%	17.4%	18.4%	19.6%	21.0%	22.3%

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Quarterly Revenue Model 2009-2019E

(\$ in Millions)																			
(Year Ended December 31)	2009	2010	2011	2012	1Q13A	2Q13A	3Q13A	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E
US	1,105.0	1,384.0	1,659.0	1,776.0	454.0	437.0	495.0	514.3	1,900.3	474.6	500.4	474.6	536.2	1,985.8	2,075.2	2,168.6	2,266.2	2,368.1	2,474.7
EuAIME	880.0	1,020.0	1,144.0	1,096.0	290.0	278.0	270.0	290.9	1,128.9	280.6	295.9	280.6	317.0	1,174.0	1,226.9	1,282.1	1,339.8	1,400.1	1,463.1
CLAR	451.0	664.0	788.0	769.0	171.0	213.0	171.0	183.2	738.2	185.3	195.3	185.3	209.3	775.2	829.4	887.5	949.6	1,016.1	1,087.2
APAC	324.0	514.0	642.0	695.0	175.0	186.0	167.0	180.9	708.9	181.3	191.1	181.3	204.8	758.5	811.6	868.4	929.2	994.3	1,063.9
Pipeline	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.0	26.0	50.0	100.0	150.0	202.5	253.1	303.8
Other New Products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	100.0	150.0	210.0	283.5
Total Revenues	2,760.0	3,582.0	4,233.0	4,336.0	1,090.0	1,114.0	1,103.0	1,169.3	4,476.3	1,121.8	1,182.8	1,145.8	1,293.3	4,743.5	5,093.1	5,456.6	5,837.3	6,241.7	6,676.1
%Change																			
US		25.2%	19.9%	7.1%	6.8%	3.8%	10.5%	6.7%	7.0%	4.5%	14.5%	-4.1%	4.2%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
EuAIME		15.9%	12.2%	-4.2%	5.5%	-1.8%	12.0%	-2.1%	3.0%	-3.2%	6.4%	3.9%	9.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
CLAR		47.2%	18.7%	-2.4%	-1.2%	0.9%	3.6%	-16.7%	-4.0%	8.3%	-8.3%	8.3%	14.2%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%
APAC		58.6%	24.9%	8.3%	0.6%	3.9%	1.2%	2.2%	2.0%	3.6%	2.8%	8.6%	13.2%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Total Revenues		29.8%	18.2%	2.4%	4.1%	1.8%	8.2%	-0.6%	3.2%	2.9%	6.2%	3.9%	10.6%	6.0%	7.4%	7.1%	7.0%	6.9%	7.0%

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Annual Revenue Model 2009-2019E

(\$ in Millions)	Year Ended December 31st,											2010/	2011/	2012/	2013E/	2014E/	2015E/	2016E/	2017E/	2018E/	2019E/	CAGR
	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	14E-19E
Base Business																						
Livestock	607.8	761.2	912.5	959.0	1,026.2	1,072.4	1,120.6	1,171.0	1,223.7	1,278.8	1,336.3	25.2%	19.9%	5.1%	7.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Companion	497.3	622.8	746.6	817.0	874.1	913.5	954.6	997.5	1,042.4	1,089.3	1,138.4	25.2%	19.9%	9.4%	7.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
US	1,105.0	1,384.0	1,659.0	1,776.0	1,900.3	1,985.8	2,075.2	2,168.6	2,266.2	2,368.1	2,474.7	25.2%	19.9%	7.1%	7.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Livestock	624.8	724.2	812.2	767.2	790.2	821.8	858.8	897.5	937.8	980.0	1,024.1	15.9%	12.2%	-5.5%	3.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Companion	255.2	295.8	331.8	328.8	338.7	352.2	368.1	384.6	401.9	420.0	438.9	15.9%	12.2%	-0.9%	3.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
EuAIME	880.0	1,020.0	1,144.0	1,096.0	1,128.9	1,174.0	1,226.9	1,282.1	1,339.8	1,400.1	1,463.1	15.9%	12.2%	-4.2%	3.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Livestock	360.8	531.2	630.4	607.5	590.6	620.1	663.5	710.0	759.7	812.9	869.8	47.2%	18.7%	-3.6%	-2.8%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Companion	90.2	132.8	157.6	161.5	147.6	155.0	165.9	177.5	189.9	203.2	217.4	47.2%	18.7%	2.5%	-8.6%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
CLAR	451.0	664.0	788.0	769.0	738.2	775.2	829.4	887.5	949.6	1,016.1	1,087.2	47.2%	18.7%	-2.4%	-4.0%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Livestock	236.5	375.2	468.7	500.4	517.5	553.7	592.5	634.0	678.3	725.8	776.6	58.6%	24.9%	6.8%	3.4%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Companion	87.5	138.8	173.3	194.6	191.4	204.8	219.1	234.5	250.9	268.5	287.2	58.6%	24.9%	12.3%	-1.6%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
APAC	324.0	514.0	642.0	695.0	708.9	758.5	811.6	868.4	929.2	994.3	1,063.9	58.6%	24.9%	8.3%	2.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Pipeline	0.0	0.0	0.0	0.0	0.0	50.0	100.0	150.0	202.5	253.1	303.8	NM	NM	NM	NM	NM	100.0%	50.0%	35.0%	25.0%	20.0%	43.5%
Other New Products	0.0	0.0	0.0	0.0	0.0	0.0	50.0	100.0	150.0	210.0	283.5	NM	NM	NM	NM	NM	NM	100.0%	50.0%	40.0%	35.0%	NM
Total Revenues	2,760.0	3,582.0	4,233.0	4,336.0	4,476.3	4,743.5	5,093.1	5,456.6	5,837.3	6,241.7	6,676.1	29.8%	18.2%	2.4%	3.2%	6.0%	7.4%	7.1%	7.0%	6.9%	7.0%	7.1%

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Cash Flow Analysis 2009-2019E

(\$ in Millions)											
(Year ended December 31)	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Cash flows provided by Operating Activities:											
Net Income	(101.0)	111.0	248.0	436.0	690.5	784.0	886.0	1,003.4	1,144.9	1,311.3	1,489.5
Depreciation and Amortization	124.0	185.0	205.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Other (includes cash separation and internal costs in 2013 and 2014)	(282.0)	(142.0)	161.0	(33.0)	(193.0)	(122.0)	-	-	-	-	-
Net Changes in Working Capital	357.0	100.0	(117.0)	(149.0)	(21.8)	(93.9)	(104.2)	(101.2)	(104.4)	(110.0)	(117.6)
Net cash provided by Operating Activities	98.0	254.0	497.0	454.0	675.8	768.1	981.8	1,102.1	1,240.5	1,401.3	1,571.8
Cash flows from Investing Activities											
Purchases of PP&E	(135.0)	(124.0)	(135.0)	(126.0)	(170.0)	(170.0)	(160.0)	(150.0)	(140.0)	(130.0)	(120.0)
Net proceeds from sale of assets	572.0	203.0	34.0	3.0	-	-	-	-	-	-	-
Acquisitions, net of cash acquired	(2,254.0)	(81.0)	(345.0)	-	-	-	-	-	-	-	-
Other	(4.0)	(7.0)	(3.0)	(12.0)	-	-	-	-	-	-	-
Net cash used in Investing Activities	(1,821.0)	(9.0)	(449.0)	(135.0)	(170.0)	(170.0)	(160.0)	(150.0)	(140.0)	(130.0)	(120.0)
Cash flows from Financing Activities											
(Repayment) or Issuance of long term debt	719.0	-	(143.0)	-	3,141.0	-	-	(400.0)	-	(750.0)	-
Cash dividends paid	(101.0)	(207.0)	(416.0)	(63.0)	(66.2)	(69.5)	(72.9)	(76.6)	(80.4)	(84.4)	(88.6)
Other	1,205.0	(70.0)	529.0	(15.0)	(3,141.0)	-	-	-	-	-	-
Net cash (used in) provided by Financing Activities	1,823.0	(277.0)	(30.0)	(78.0)	(66.2)	(69.5)	(72.9)	(476.6)	(80.4)	(834.4)	(88.6)
Effect of exchange-rate on cash	(7.0)	(4.0)	(2.0)	(3.0)	-	-	-	-	-	-	-
Net (decrease) increase in cash and equivalents	93.0	(36.0)	16.0	238.0	439.6	528.7	748.9	475.5	1,020.1	436.9	1,363.2
Cash and equivalents at beginning of year	6.0	99.0	63.0	79.0	317.0	756.6	1,285.3	2,034.2	2,509.7	3,529.8	3,966.7
Cash and equivalents at end of year	99.0	63.0	79.0	317.0	756.6	1,285.3	2,034.2	2,509.7	3,529.8	3,966.7	5,329.9

Source: Guggenheim Securities, LLC and Company Reports

Zoetis - Balance Sheet Analysis 2010-2019E

(\$ in Millions)										
(Year ended December 31)	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Assets										
Cash and Cash Equivalent	63.0	79.0	317.0	756.6	1,285.3	2,034.2	2,509.7	3,529.8	3,966.7	5,329.9
Accounts Receivable, less allowance for doubtful accounts	773.0	871.0	900.0	921.7	976.7	1,007.2	1,038.0	1,069.7	1,103.4	1,139.9
Inventories	995.0	1,063.0	1,345.0	1,275.7	1,316.7	1,405.5	1,488.3	1,573.4	1,662.4	1,756.7
Current deferred tax assets	97.0	96.0	101.0	101.0	101.0	101.0	101.0	101.0	101.0	101.0
Other current assets	188.0	202.0	201.0	207.5	219.9	236.1	252.9	270.6	289.3	309.5
Total Current Assets	2,116.0	2,311.0	2,864.0	3,262.6	3,899.6	4,784.0	5,390.0	6,544.6	7,122.8	8,636.9
Plant, Property & Equipment	1,148.0	1,243.0	1,241.0	1,211.0	1,181.0	1,141.0	1,091.0	1,031.0	961.0	881.0
Identifiable intangibles	924.0	928.0	868.0	868.0	868.0	868.0	868.0	868.0	868.0	868.0
Goodwill	934.0	989.0	985.0	985.0	985.0	985.0	985.0	985.0	985.0	985.0
Other assets	162.0	240.0	304.0	304.0	304.0	304.0	304.0	304.0	304.0	304.0
Total Other Assets	3,168.0	3,400.0	3,398.0	3,368.0	3,338.0	3,298.0	3,248.0	3,188.0	3,118.0	3,038.0
TOTAL ASSETS	5,284.0	5,711.0	6,262.0	6,630.6	7,237.6	8,082.0	8,638.0	9,732.6	10,240.8	11,674.9
Liabilities & Shareholder's Equity										
Accounts Payable and Accrued Expenses	350.0	364.0	513.0	450.2	464.6	496.0	525.2	555.2	586.6	619.9
Other	458.0	479.0	610.0	610.0	610.0	610.0	610.0	610.0	610.0	610.0
Total Current Liabilities	808.0	843.0	1,123.0	1,060.2	1,074.6	1,106.0	1,135.2	1,165.2	1,196.6	1,229.9
Long term debt	673.0	575.0	509.0	3,650.0	3,650.0	3,650.0	3,250.0	3,250.0	2,500.0	2,500.0
Other liabilities	459.0	557.0	589.0	589.0	589.0	589.0	589.0	589.0	589.0	589.0
Total Liabilities	1,940.0	1,975.0	2,221.0	5,299.2	5,313.6	5,345.0	4,974.2	5,004.2	4,285.6	4,318.9
Shareholders Equity	3,344.0	3,720.0	4,026.0	1,316.4	1,908.9	2,722.0	3,648.8	4,713.4	5,940.2	7,341.0
Total Stockholder's Equity	3,344.0	3,720.0	4,026.0	1,316.4	1,908.9	2,722.0	3,648.8	4,713.4	5,940.2	7,341.0
Noncontrolling Interest	-	16.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	5,284.0	5,711.0	6,262.0	6,630.6	7,237.6	8,082.0	8,638.0	9,732.6	10,240.8	11,674.9

Source: Guggenheim Securities, LLC and Company Reports

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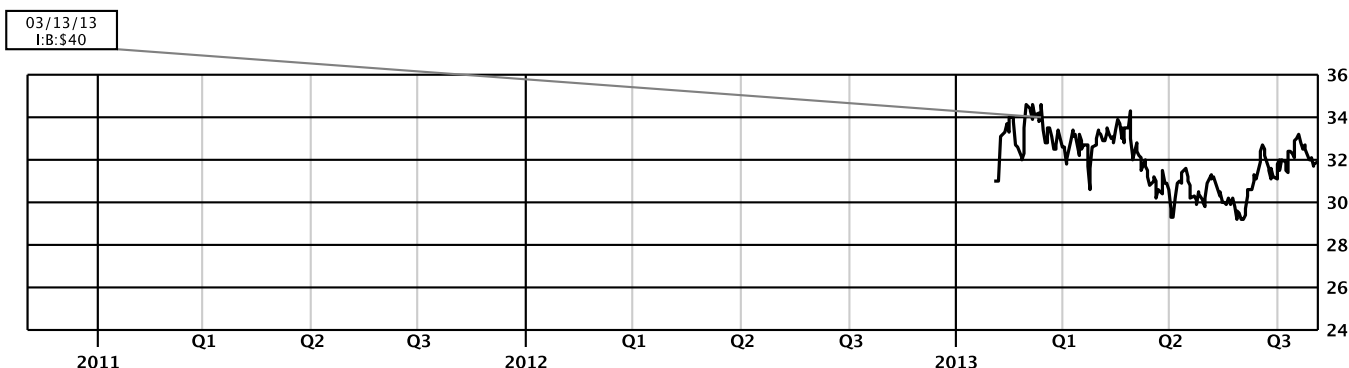
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