



COMPANY UPDATE (May 22, 2013)

Key Metrics

ZTS - NYSE (Price as of 5/21/13)	\$33.04
Price Target	NA
52-Week Range	\$35.42 - \$30.42
Shares Outstanding (mm)	512.9
Market Cap. (\$mm)	\$16,946
3-Mo. Average Daily Volume	1,611,720
Institutional Ownership	NA
Tot. Debt/Tot. Debt+Equity (9/12 pro-forma)	77.7%
ROE (2012E)	51.0%
Book Value/Share	\$8.18
Price/Book Value (5/21/13)	4.04x
Indicated Dividend / Yield	\$0.26 0.8%
LTM EBITDA Margin	24.4%

EPS FY 12/31

	Pro-forma		Prior	Curr.
	2011	2012E	2013E	2013E
1Q	--	--	--	\$0.36A
2Q	--	--	--	--
3Q	--	--	--	--
4Q	--	--	--	--
Year	\$0.90	\$1.06	\$1.40	\$1.40
P/E	36.7x	31.2x	23.6x	23.6x

Note: Figures exclude non-recurring items

Revenue (\$mm)

			Prior	Curr.
	2011	2012	2013E	2013E
1Q	--	--	--	\$1,090A
2Q	--	--	--	--
3Q	--	--	--	--
4Q	--	--	--	--
Year	\$4,233	\$4,336	\$4,500	\$4,500

Company Description: Zoetis operates the world's largest animal health business. Zoetis is involved in the development, production, and marketing of vaccines, medicines, and diagnostic tests to prevent and treat disease in livestock and companion animals. The company sells products worldwide with strong market positions in the U.S., Europe, Africa and the Middle East, Canada, Latin America, and Asia/Pacific.

Zoetis, Inc.

ZTS – NYSE – Neutral – 2

Pfizer Plans Split-Off of Zoetis Ownership

- **Pfizer plans to distribute its holdings in Zoetis in an exchange termed a split-off.** PFE conducted an IPO of a portion of its Zoetis holdings in February. PFE currently owns 400,985,000 shares, or about 80% of Zoetis, formerly PFE's animal health business.
- **In a split-off, shares of Pfizer would be exchanged for stock in Zoetis.** PFE shareholders would have the option of voluntarily exchanging some or all of their PFE shares for ZTS stock. In this way, PFE can accomplish a large share repurchase using ZTS stock as the transaction currency. At this time, it appears the exchange would be a tax free distribution to PFE shareholders.
- **Pfizer is offering to exchange shares for Zoetis stock at a discount.** PFE plans to offer shareholders of ZTS stock at a 7% discount, subject to an upper limit of 0.9898 shares of ZTS per share of PFE common stock. The exchange is subject to a minimum number of ZTS shares distributed, or at least 160,394,000 ZTS shares.
- **The exchange ratio will be based on the prices of Pfizer and Zoetis stock.** The final exchange ratio will be determined by an arithmetic average of the daily volume-weighted average price of PFE and ZTS stock on the NYSE for the three trading days up to and including the planned expiration date of the exchange offer on June 19, 2013. This assumes the exchange offer is not extended or terminated. If the exchange offer is oversubscribed, the number of PFE shares exchanged will be prorated.
- **We have no recommendation on the exchange at this time.** At current prices, the discounted ZTS price appears attractive. We will continue to monitor the pricing of PFE and ZTS stock and provide additional information as it becomes available.
- **We are maintaining our Neutral rating.** ZTS is the first major participant in the global animal health business available to those interested in investing in the sector. ZTS is trading at nearly 24 times our 2013 EPS estimate, an appropriate valuation, in our view.

Note Important Disclosures on Page 2.
Note Analyst Certification on Page 2.

Prices of stocks mentioned: Pfizer (PFE - \$28.78).

Additional information is available upon request.

Analyst Certification

I, Stephen A. O'Neil, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

The author of this report or members of his household have a long position in the common stock of Pfizer, but may not engage in buying or selling contrary to the recommendation.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	48	35%	13%	88%
Hold/Neutral	84	60%	13%	87%
Sell	6	4%	0%	100%
Restricted	1	1%	100%	0%

As of 8 May 2013

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.