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January 30, 2013

Gabelli & Company, Inc.

ANIMAL HEALTH

Animal Medicines and Vaccines

Zoetis (ZTS - $23.50 [a] - NYSE)

(a) Midpoint of $22-25 per share IPO filing range

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-Please Refer To Important Disclosures On The Last Page Of This Report-

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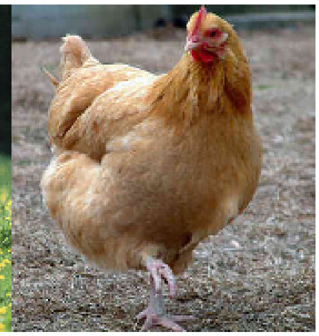
ANIMAL HEALTH

Animal health represents a $100 billion global industry that includes pharmaceuticals, vaccines, medical devices, supplies, and veterinary services for both production and companion animals. The production animal market includes livestock such as cattle (both beef and dairy), swine, and poultry and is being driven by increasing global demand for animal protein on both an absolute and per-capita basis. The companion animal market includes dogs, cats, and horses and is being driven by an aging global population that is increasing both its rate of pet ownership and its spending on pet care and services.




DEMOGRAPHICS

Global consumption of animal protein from cows, pigs, chickens, and sheep is the primary driver of the production animal health market. According to the Organization for Economic Co-operation and Development (OECD), an estimated 292 million metric tons were consumed in 2012. This consumption is expected to grow at a 1.9% CAGR through 2020. The developing world accounts for approximately 60% of this consumption, and the growth rate for developing nations (2.3%) is expected to be more than double the rate for developed nations (1.1%).

Table 1 **Projected Global Consumption of Animal Meat 2008A-2020P**

(in millions of metric tons)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR '12-'20
	Beef (a)	33	33	32	32	32	32	33	33	33	34	34	34	35	1.0 %
Developed Countries	Pork	40	39	39	39	40	40	41	41	41	41	42	42	42	0.7
	Poultry	39	39	39	40	41	41	42	42	43	44	44	45	46	1.5
	Total	**112**	**111**	**111**	**111**	**112**	**114**	**115**	**116**	**117**	**119**	**120**	**121**	**122**	**1.1 %**
	Beef (a)	44	45	45	46	47	48	49	50	51	52	53	54	55	2.0
Developing Countries	Pork	64	67	68	70	71	73	74	76	78	79	81	83	84	2.1
	Poultry	54	56	58	60	62	63	65	67	69	71	73	75	77	2.8
	Total	**162**	**168**	**171**	**176**	**180**	**184**	**188**	**192**	**197**	**202**	**206**	**211**	**216**	**2.3 %**
	Beef (a)	77	78	77	78	79	80	81	83	84	85	87	88	89	1.6
Total Worldwide	Pork	104	106	107	109	111	113	115	116	119	120	123	124	127	1.6
	Poultry	93	95	98	100	102	105	107	109	112	115	117	120	122	2.3
	Total	**274**	**279**	**282**	**287**	**292**	**297**	**303**	**308**	**315**	**320**	**326**	**332**	**338**	**1.9 %**

(a) Beef includes both meat from cattle and sheep

Source: OECD data and Gabelli & Company, Inc. estimates

The US has the highest per-capita consumption of animal meat in the world at approximately 246 pounds per person annually. This is nearly twice as high as both Russia and China. Globally, per-capita consumption has been flat over the past five years, primarily due to declines in both the US and European Union. Excluding those countries, consumption on a per capita basis would have grown 0.8% annually over the last five years. This has been led by Brazil, which has grown at 2.8% and is approaching US levels of per-capita consumption, as well as China growing at 1.7% annually. We expect this trend of increasing per capita consumption in developing nations to remain an important driver for the global animal health industry.

Table 2 **Global Per Capita Consumption of Animal Meat 2008-2013**

(in pounds)	2008	2009	2010	2011	2012	2013	CAGR '08-'13
USA	268.5	262.8	259.7	254.2	251.3	246.2	-1.7 %
Brazil	200.0	206.1	222.9	225.8	228.8	230.1	2.8
EU-28	176.5	176.0	175.4	173.8	173.2	171.8	-0.5
Russia	132.1	128.7	130.6	132.0	135.0	136.8	0.7
China	107.8	110.7	114.1	112.4	116.0	117.3	1.7
India	8.4	8.4	8.5	8.6	9.0	9.4	2.3
Rest of World	43.0	42.0	42.8	43.3	43.6	43.5	0.2
Worldwide	**76.5**	**75.8**	**77.0**	**76.2**	**76.7**	**76.5**	**0.0 %**
Worldwide ex. US and EU-27	58.1	57.9	59.6	59.3	60.1	60.4	0.8 %

Source: US Department of Agriculture, Population Reference Bureau, and Gabelli & Company, Inc. estimates

Healthcare for the global companion animal population of dogs, cats, and horses is being driven by improving standards and technology. Both pets and their owners are living longer due to an increased focus on healthcare, and pet ownership remains on the rise. According to the World Society for Protection of Animals (WSPA), there are over 700 million companion animals worldwide, including 430 million dogs and 270 million cats. In the US, 73 million households, or 62% of total households, own pets, while in European Union another 70 million households are pet owners. While the rate of ownership for cats is slightly higher than that of dogs in developed countries like the US and Europe, emerging markets like Brazil and China have significantly higher rates of dog ownership.

Table 3 **Global Pet Ownership for Cats and Dogs**

	Dogs (in millions)	Cats (in millions)
United States	67	85
EU-27	60	65
Brazil	30	15
China	27	11
Russia	13	18
Rest of World	233	76
Total Worldwide	**430**	**270**

Source: World Society for Protection of Animals (WSPA)

COMPANIES

The medicines and vaccines segment of the global animal health industry is dominated by major pharmaceutical companies. The eight-largest companies account for over 75% of the industry with approximately $17 billion in revenue out of a total $22 billion in 2011. The largest company, Zoetis, is in the process of being split out of Pfizer. Virbac, the eighth largest company, is the only other pure-play animal medicines company. For the remaining six of the top-eight companies, animal health accounts for only 2-7% of total company revenue.

Table 4 **Largest Companies in Animal Health Industry with Market Share**

($ in millions)	AH Sales 2011	AH Market Share	Total Sales 2011	AH as % of total
Zoetis (Pfizer)	$4,233	19%	$ 4,233	100%
Merck	3,253	15	48,047	7
Merial (Sanofi)	2,823	13	46,032	6
Elanco (Eli Lilly)	1,679	8	24,286	7
Bayer	1,649	7	50,788	3
Boehringer	1,357	6	18,331	7
Novartis	1,304	6	56,673	2
Virbac	1,867	4	18,867	100
Other	4,835	22		

Source: Company filings and Gabelli & Company, Inc. estimates

Other companies within the animal health industry focus on non-medicine products such as diagnostics, medical devices, safety testing, veterinary services, supplies, and distribution. These industries account for approximately $78 billion of global sales but tend to be highly fragmented. Companies that compete in these industries include:

- *Idexx Laboratories (Nasdaq: IDXX)*: Industry leader in diagnostic tests and instruments for both the production and companion animal markets
- *MWI Veterinary Supply (Nasdaq: MWIV):* A leading veterinary distributor in the US and UK for both the production and companion animal markets
- *Neogen (Nasdaq: NEOG):* Manufacturer of products for food and animal safety testing, as well as pharmaceuticals, rodenticides, vaccines, and veterinary instruments for the animal health market
- *VCA Antech (Nasdaq: WOOF):* Veterinary services and diagnostic testing company for the US and Canada

ANIMAL MEDICINES

Medicines and vaccines for animals make up a $22 billion portion of the $100 billion global animal health market. This segment is expected to grow to $29 billion in 2016, representing a 5-year CAGR of 5.7%. Geographically, emerging markets in Asia and Latin America are expected to outpace more established markets like the United States and Europe.

Table 5 Global Animal Health Market
($ in billions)

Segment	Market Size
Medication/Vaccines	$22
Veterinary Services	19
Other Services/Supplies	25
Other	34
Total	**$100**

Source: Zoetis presentation and Gabelli & Company, Inc. estimates

Table 6 Animal Medicines Market by Geography 2011-2016
($ in billions)

Region	2011 Market	2016 Market	5-year CAGR
Europe/Middle East/Africa	$7.5	$9.3	4.4%
United States	6.5	8.1	4.5
Asia/Pacific	4.4	6.3	7.5
Canada/Latin America	3.7	5.4	
Total Worldwide	**$22.0**	**$29.0**	

Source: Zoetis presentation and Gabelli & Company, Inc. estimates

Products within the animal health medicines market include:

- *Anti-infectives*: Medications to prevent or attack infections from bacteria, fungi, and other microorganisms
- *Vaccines:* Biologics used to prevent disease or induce an immune response
- *Parasiticides*: Medications to get rid of insects and other parasitic organisms like fleas, ticks, and worms
- *Medicated feed additives*: Medicines, supplements, and other nutritional products added to livestock feed
- *Other pharmaceuticals*: Products for pain, sedation, cancer, ophthalmics, or hormonal-based products

Production Animal Medicines


Source: wikipedia.com


Source: utilitarianism.com


Source: southdacola.com


Source: hungrypoodle.com

The global medicines and vaccines market for production animals was $13.1 billion in 2011, representing 60% of the overall market. This market is expected to grow 6% annually to $17.5 billion in 2016. Market growth is being driven by overall population growth, an emerging middle class in developing markets, increased adoption of animal protein-based diets, and the need to maximize production from livestock due to limited resources for feed and land.

Within the production animal market, gross margins tend to reflect the size of the animal, with products for cattle/beef typically carrying the highest margins and products for poultry carrying the lost margins. The primary customers within this segment are farmers and other livestock producers. Many companies sell directly to the larger customers in the industry while going through distributors to reach some of the smaller farm and livestock operations. The top-three companies in the industry (Zoetis, Merck, and Elanco) account for nearly one-half of the market, and the top-eight companies account for nearly three-quarters of the total global market for production animal medicines.

Table 7 Market Share for Production Animal Medicine Companies
($ in millions)

Company	2011 Revenue	Market Share
Zoetis (Pfizer)	$2,778	21%
Merck	2,396	18
Elanco (Eli Lilly)	1,364	10
Merial (Sanofi)	986	8
Boehringer	867	7
Bayer	547	4
Novartis	482	4
Virbac	335	3
Other	3,350	26
Total Industry	**$13,100**	**100%**

Source: Vetnosis, company filings, and Gabelli & Company, Inc. estimates

Companion Animal Medicines


Source: wellanimalinstitute.com


Source: knowyourmeme.com


Source: dogbreedinfo.com


Source: wikipedia.org

The global medicines and vaccines market for companion animals was $8.9 billion in 2011, representing 40% of the overall market. This market is expected to grow 5% annually to $11.5 billion in 2016. Market growth is being driven by an aging global population seeking companionship from pets, an emerging middle class in developing markets, and improved healthcare treatments and standards that are allowing pets to live longer. According to the American Pet Products Association, the percentage of US dog owners who gave their pet medicine increased from 50% in 1998 to 78% in 2010. For cat owners, these percentages increased from 31% in 1998 to 47% in 2010.

Companion animal medicines typically have higher gross margins than those for production animals. Manufacturers will sell their products to veterinarians and veterinary clinics either directly or through distributors. Most pet owners get their medicines directly from their veterinarian. The top three companies in the industry (Merial, Zoetis, and Bayer) account for 47% of total sales, and the top eight companies account for 78% of the global companion animal medicines market.

Table 8 Market Share for Companion Animal Medicine Companies

($ in millions)

Company	2011 Revenue	Market Share
Merial (Sanofi)	$1,785	20%
Zoetis (Pfizer)	1,455	16
Bayer	963	11
Merck	805	9
Novartis	718	8
Virbac	522	6
Boehringer	455	5
Elanco (Eli Lilly)	280	3
Other	1,900	22
Total Industry	**$8,900**	**100%**

Source: Vetnosis, company filings, and Gabelli & Company, Inc. estimates

ANIMAL MEDICINES VS. HUMAN MEDICINES

With the seven largest animal medicines companies all associated with industry-leading human pharmaceutical companies, it might seem like the industries are similar. They are both highly regulated global industries that address some of the same diseases (pain, cancer, infectious diseases) using similar science and technology (such as vaccines and antibiotics). However, there are key differences that distinguish the animal medicine and human medicine markets.

Exhibit 1 Animals vs. Humans

	Animal Medicine	Human Pharmaceuticals
Product Offering	Wide array of small products	Rely on a few blockbusters
	Products for multiple species	Products for just one species
R&D	Small studies in target animal population	Animal studies followed by extensive clinical trials
	Lifecycle management of known molecules	Focus on new drugs with unknown properties
	Lower risk, lower expense	Higher risk, higher expense
Generic Competition	Focus on building brands	Focus on intellectual property
	Generics priced at 30-40% discount	Generics priced at 80-90% discount
	No major global generic player	Several major global generic players
Sales & Customers	Direct selling to farmers and veterinarians	Sell to drug wholesalers, who sell to pharmacies
	Veterinarian prescribes and dispenses	Doctor prescribes, pharmacy dispenses
Payment	Primarily cash payment business	Primarily insurance/government payment business
	Customer makes most payment decisions	Insurance/benefits manager makes most payment decisions

Source: Gabelli & Company, Inc. estimates.

We believe that these five areas show clear differences between the animal medicine and human pharmaceutical business models. The animal medicines industry seems to share more traits with other areas of human health:

- *Consumer health*: Brand-focused, similar generic discounts, lower risk R&D, primarily cash pay
- *Dental*: Direct selling model, brand focus, wide array of small products, some cash pay
- *Surgical equipment*: Direct selling, brand focus with limited generics

COMPANY DESCRIPTIONS

Elanco (Eli Lilly)

Eli Lilly (NYSE: LLY) is a leading global pharmaceutical company focused on treatments for neurologic disorders, diabetes, and cancer. The company's Elanco Animal Health business is one of the industry leaders in medicated feed additives (MFA's) and is the third largest production animal health company in the world with 10% market share. Elanco operates in 72 countries and generates 47% of its revenue from outside the US. Elanco sales of $1.7 billion in 2011 accounted for 6.9% of Eli Lilly's total revenues

Merck

Merck (NYSE: MRK) is a leading global healthcare company competing in the prescription drug, consumer healthcare, vaccine, and animal health markets. Merck's animal health business sells a wide array of products for both the companion and production markets. The company became the second-largest animal health manufacturer when it acquired Intervet as part of its $41 billion acquisition of Schering Plough in 2009. Shortly before completing this acquisition, Merck sold its 50% interest in Merial to its JV partner, Sanofi, for $4 billion. The companies later attempted to combine animal health businesses to create a new industry leader but were unable to clear regulatory hurdles. Merck's animal health business had sales of $3.3 billion in 2011, of which 78% came from outside the US.

Merial (Sanofi)

France-based Sanofi (NYSE: SNY) is a diversified global pharmaceutical company specializing in vaccines, diabetes care, ultra-rare disease treatments, consumer health, and animal health. The company's Merial animal health business is number one in companion animals with 20% market share. The company's products include leading brands like Frontline for treatment of fleas/ticks and Heartgard for the treatment of heartworms. Merial was formerly a JV with Merck prior to Sanofi acquiring Merck's stake for $4 billion in 2009. Approximately 25% of Merial's $2.8 billion of revenue came from emerging markets in 2011. Animal health accounted for 6.1% of Sanofi's revenue.

Zoetis (Pfizer)

Zoetis is the largest animal health manufacturer in the world with 19% market share. The company is currently in the process of separating from Pfizer (NYSE: PFE), the world's largest research-based pharmaceutical company. An IPO for approximately 17.2% of Zoetis is expected in the next week. Zoetis is number one in production animals with 21% market share, led by a portfolio of antibiotics, vaccines, and medicated feed additives. The company is also number two in companion animals with 16% market share. An estimated 61% of the company's $4.2 billion of revenue came from outside the US in 2011, including approximately 27% from emerging markets. Zoetis accounted for 6.3% of Pfizer's total revenue in 2011.

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Zoetis (ZTS - $23.50[(a)] - NYSE) Animal Health Pure-Play - Buy

YEAR	EPS [(b)]	P/E	PMV		
2014P	$1.50	15.7x	$37	Dividend: $0.26 [(c)]	Current Return: 1.1%
2013P	1.30	18.1	31	Shares O/S: 86.1 million Class A [(d)]	
2012E	1.28	18.3	28	413.9 million Class B	
2011A	1.01	23.4	NA	52-Week Range: NA	

(a) Based on midpoint of IPO price range of $22-$25 per share
(b) Adjusted EPS, excludes certain amortization and one-time expenses
(c) Expected quarterly dividend is $0.065
(d) Pro forma for IPO

SUMMARY AND OPINION

Zoetis, based in Madison, NJ, is the world's largest manufacturer of medicines and vaccines for the animal health market. Current owner Pfizer is taking Zoetis public, offering 86.1 million Class A shares (representing a 17.2% economic interest in the company) at a price range of $22-25 per share. The offering is expected to price on January 31, 2013. Pro forma for the offering, we expect Zoetis to generate net sales of $4.35 billion in 2012 and adjusted earnings of $1.28 per share.

We recommend purchase of Zoetis shares:

- As the only pure-play animal medicines company among the top-seven players in the industry, Zoetis offers a unique opportunity to gain exposure to the $22 billion animal medicines market. The company is the largest player in production animals with 21% share and second-largest in companion animals with 16% share. We expect Zoetis to grow sales at a 5.2% CAGR from 2012-2016 while growing earnings per share at a 13.6% CAGR.
- Zoetis has exposure to the high-growth emerging markets in Asia and Latin America, which account for a combined 27% of total sales. These markets are growing at close to 8%, nearly twice the rate of more established markets.
- The animal health business is a strong cash flow generator. We expect Zoetis to have EBITDA of $1.2 billion in 2013, representing 27% margins. With approximately $125 million of capital expenditures, the company will have sufficient cash for its $0.26 annual dividend while also paying down debt. We estimate that the company could potentially reduce its leverage to below 1.0x EBITDA by the end of 2015.
- At the midpoint of the IPO range, Zoetis would be valued at 10.9x 2014 EBITDA. Given acquisition multiples of 15-21x trailing EBITDA for similar assets divested by major pharmaceutical companies, we view this as an attractive valuation. Using a 15x multiple on our estimate 2014 EBITDA of $1.4 billion, Zoetis would be going public at a 37% discount to our 2014 Private Market Value of $37 per share.

Table 9 **Zoetis Earnings Model 2009A - 2016P**

($ in millions, except per share data)

	2009A	2010A	2011A (a)	2012E (a)	2013P	2014P	2015P	2016P	'12 - '16 CAGR
Net Sales	$ 2,760	$ 3,582	$ 4,233	$ 4,351	$ 4,554	$ 4,856	$ 5,141	$ 5,443	5.2%
% Growth	*-2.3%*	*29.8%*	*18.2%*	*2.8%*	*4.7%*	*6.6%*	*5.9%*	*5.9%*	
EBITDA	423	593	924	1,146	1,230	1,384	1,523	1,651	12.3%
% Margin	*15.3%*	*16.6%*	*21.8%*	*26.3%*	*27.0%*	*28.5%*	*29.6%*	*30.3%*	
EPS Continuing ops (b)	$0.38	$0.55	$1.01	$1.28	$1.30	$1.50	$1.70	$1.90	13.6%
% Growth		*45.5%*	*82.9%*	*27.7%*	*1.2%*	*15.4%*	*13.3%*	*11.8%*	
CapEx	$ 135	$ 124	$ 135	$ 120	$ 125	$ 135	$ 144	$ 152	2.4%
EBITDA - CapEx	288	469	789	1,026	1,105	1,249	1,378	1,500	13.7%

(a) Pro forma for IPO
(b) Adjusted EPS, excludes certain non-cash items, restructuring, and certain one-time items, assume 500 million shares outstanding
Source: Company filings and Gabellil & Company, Inc. estimates

Company Overview

Zoetis was founded in 1952 as the Agricultural Division of Pfizer to promote Terramycin, a broad spectrum antibacterial. In 1988 the division was renamed Pfizer Animal Health. Over the past twenty years, the business has grown revenues from approximately $560 million in 1992 to $4.3 billion in 2011 through a combination of acquisitions and organic growth from new products like Rimadyl, the first non-steroid anti-inflammatory for dogs.

Zoetis has been the largest animal health company in the world since 2009 when Pfizer acquired Fort Dodge Animal Health as part of its $68 billion acquisition of Wyeth. The company is number one in production animals with 2011 revenues of $2.8 billion (66% of total sales) and number two in companion animals with revenues of $1.5 billion (34% of sales). The company generates approximately 61% of its sales from outside the US, including 27% from higher growth emerging markets like China, India, and Brazil.

Exhibit 2 **Breakdown of Zoetis' 2011 Revenue by Percent of Total**

Segment	Percent	Geography	Percent	Species	Percent
Anti-infectives	31%	United States	39%	Cattle	38%
Vaccines	26	Europe/Africa/MidEast	27	Dogs & Cats	30
Parasiticides	15	Canada/Latin America	19	Pigs	13
Other pharmaceutical	17	Asia Pacific	15	Poultry	12
Medicinal Feed Additive	8			Horses	4
Other	3			Other	3

Source: Company filings and Gabelli & Company, Inc. estimates

Initial Public Offering

Pfizer is planning to take Zoetis public by offering 86.1 million Class A shares (99.0 million including underwriter over-allotment), representing an 17.2% economic interest in the company (19.8% including over-allotment). After the IPO, Pfizer will continue to own 413.9 million Class B shares (401.0 million if over-allotment). The Class B shares carry ten votes per share for the election of directors as compared to one vote per share for Class A. Pfizer has indicated that it may make a tax-free distribution to its stockholders of all or a portion of its remaining ownership in Zoetis in the future, although the company will be subject to a 180-day lock-up period.

Zoetis does not expect to receive any proceeds from this offering. Pfizer will be executing the offering under a debt-for-equity exchange, whereby the company will exchange its shares in Zoetis for an equal value of corporate debt that is held by the exchange party. Zoetis has also agreed to issue $3.65 billion of senior notes prior to the offering, the proceeds of which will be paid to Pfizer as part of the separation. These include:

- $400 million of 1.15% Senior Notes due 2016
- $750 million of 1.875% Senior Notes due 2018
- $1.35 billion of 3.25% Senior Notes due 2023
- $1.15 billion of 4.7% Senior Notes due 2043

Table 10 **Zoetis Initial Public Offering Capitalization Table**

(in millions except per share)

Class A Shares	86.1
" B Shares	413.9
Shares Outstanding	500.0
Market Price	$23.50
Market Capitalization	**$ 11,750**
Debt	3,650
Less: Cash	(300)
Total Enterprise Value	**$ 15,100**

Source: Company filings and Gabelli & Company, Inc. estimates

Emerging Market Exposure

Over the past three years, Zoetis has been growing organic revenue in-line with the total animal medicines market. Over the next five years, emerging markets are expected to be the primary growth driver for the industry. Although these markets in Asia and Latin America account for approximately one-third of the total industry, they will account for over half of the industry's total revenue growth through 2016. Zoetis' exposure to these markets should allow the company to continue growing in-line with or slightly ahead of the industry. In 2011, the company grew its base revenue by 12% in Asia Pacific and 9% in Canada/Latin America.

Operating Leverage

Zoetis' 3,400-person sales force gives the company an advantage over competitors by allowing the company to sell directly to its veterinarian customers on the companion animal side and to most large and mid-sized customers on the production side. This means that the company has less reliance on distributors, which it uses only to reach small customers on the production side. As the company continues to grow revenue, we expect this stable sales force to provide operating leverage for the company's SG&A. We estimate that Zoetis will be able to grow EBITDA margins by an average of 100 basis points annually from 2013-2016.

Earnings Model

We expect Zoetis to grow slightly ahead of the market through 2016 due to its exposure to emerging markets and the introduction of new products. Growth in the first half of 2013 will be negatively impacted by last year's drought, but we expect the company to recover in the second half of the year and return to a normalized growth rate around 6% annually. After taking on public company costs and the interest expense from its $3.65 billion senior notes in 2013, we expect Zoetis to grow adjusted earnings per share from $1.30 in 2013 to $1.90 in 2016.

Table 11 **Zoetis Earnings Model**
2009A – 2016P

($ in millions, except per share data)

	2009A	2010A	2011A *(a)*	2012E *(a)*	2013P	2014P	2015P	2016P	'12 - '16 CAGR
Production	$1,686	$2,233	$2,778	$2,801	$2,911	$3,099	$3,279	$3,469	
Companion	1,074	1,349	1,455	1,550	1,643	1,756	1,862	1,973	
Total Revenue	**$2,760**	**$3,582**	**$4,233**	**$4,351**	**$4,554**	**$4,856**	**$5,141**	**$5,443**	**5.2%**
% Growth	*-2.3%*	*29.8%*	*18.2%*	*2.8%*	*4.7%*	*6.6%*	*5.9%*	*5.9%*	
Gross Profit	1,757	2,264	2,652	2,815	2,946	3,146	3,341	3,543	
% Margin	*63.7%*	*63.2%*	*62.7%*	*64.7%*	*64.7%*	*64.8%*	*65.0%*	*65.1%*	
SG&A	(1,055)	(1,365)	(1,447)	(1,436)	(1,489)	(1,530)	(1,578)	(1,638)	
R&D	(365)	(411)	(407)	(379)	(387)	(398)	(411)	(430)	
EBIT	**$ 321**	**$ 471**	**$ 778**	**$ 986**	**$1,055**	**$1,204**	**$1,337**	**$1,460**	**13.4%**
% Margin	*11.6%*	*13.1%*	*18.4%*	*22.7%*	*23.2%*	*24.8%*	*26.0%*	*26.8%*	
Interest/Other	$ (25)	$ (12)	$ (8)	$ (2)	$ (104)	$ (84)	$ (60)	$ (33)	
Income Taxes	(108)	(183)	(264)	(339)	(338)	(397)	(449)	(501)	
Net Income	$ 189	$ 275	$ 503	$ 642	$ 642	$ 753	$ 853	$ 951	
Shares Outstanding	500	500	500	500	500	500	500	500	
Adjusted EPS (b)	**$0.38**	**$0.55**	**$1.01**	**$1.28**	**$1.30**	**$1.50**	**$1.70**	**$1.90**	**13.6%**
% Growth		*45.5%*	*82.9%*	*27.7%*	*1.2%*	*15.4%*	*13.3%*	*11.8%*	

(a) Pro forma for IPO

(b) Adjusted EPS excludes certain non-cash items, restructuring, certain one-time items, and assumes 500 million shares outstanding

Source: Company filings and Gabellil & Company, Inc. estimates

Valuation and Conclusion

Zoetis is the world's largest animal health company and is positioned for growth due to its industry-leading sales force and exposure to emerging markets. Following the IPO, the company will also be uniquely positioned as one of the few pure-play companies in the animal health industry and one of only two in the animal medicines industry (along with Virbac). While most competitors in the animal health market are major pharmaceutical companies, we believe that the dynamics of the animal health market which we highlighted earlier – including limited generic competition, direct selling, cash pay, and extensive product portfolios – are closer to those of the consumer health and dental industries. Recent sales of these assets after being split off from parent pharmaceutical companies have sold for 15-21x EBITDA.

A *Wall Street Journal* article on March 7, 2012 noted that Pfizer reportedly turned down a $16 billion offer for Zoetis from Novartis. On December 13, 2012, the WSJ mentioned that talks to sell the business to either Novartis or Bayer had cooled as the valuation approached $20 billion. These valuations would have been 17x and 21x trailing EBITDA, respectively. We believe that Zoetis would be worth 15x EBITDA in a private market transaction, which we note could be a conservative estimate based on both recent split-off acquisitions and WSJ reports. Thus, we view the upcoming IPO as an attractive opportunity for investors to own Zoetis, with a 2014 PMV of $37 per share.

Table 12 **Zoetis Private Market Value Analysis**
2012E – 2016P

($ in millions, except per share data)

	2012E	2013P	2014P	2015P	2016P
Production	$ 2,801	$ 2,911	$ 3,099	$ 3,279	$ 3,469
Companion	1,550	1,643	1,756	1,862	1,973
Total Revenue	**$ 4,351**	**$ 4,554**	**$ 4,856**	**$ 5,141**	**$ 5,443**
EBITDA	1,146	1,230	1,384	1,523	1,651
Valuation Multiple	15 x	15 x	15 x	15 x	15 x
Total Private Market Value	$ 17,185	$ 18,452	$ 20,760	$ 22,839	$ 24,768
Less: Net Debt	(3,350)	(2,758)	(2,059)	(1,260)	(364)
Equity Private Market Value	$ 13,835	$ 15,695	$ 18,701	$ 21,580	$ 24,404
Shares Outstanding	500	500	500	500	500
PMV Per Share	**$28**	**$31**	**$37**	**$43**	**$49**
IPO Price - Discount to PMV	*15.1%*	*25.1%*	*37.2%*	*45.6%*	*51.9%*

Source: Company filings and Gabellil & Company, Inc. estimates

Other Companies Mentioned:

Bayer AG	(BAYN - Xetra)	Novartis AG	(NVS - NYSE)
Eli Lilly & Co.	(LLY - NYSE)	Pfizer	(PFE - ")
IDEXX Laboratories, Inc.	(IDXX - NASDAQ)	Sanofi	(SNY - ")
Merck & Co, Inc.	(MRK - NYSE)	VCA Antech Inc	(WOOF - NASDAQ)
MWI Veterinary Supply, Inc.	(MWIV - NASDAQ)	Virbac SA	(VIRB - EN Paris)
Neogen Corp.	(NEOG - ")		

I, ***Kevin Kedra***, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Ratings
Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.
A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.
A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.
A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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