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Zoetis
Company Introduction

ANIMAL HEALTH

~$23 Billion

COMPANION ANIMAL
- Pet Supplies
- Vet Services
- Diagnostics
- OTC Health

LIVESTOCK
- Nutrition
- Genetics
- Food Safety
- Herd Health Management
- Diagnostics

Source: Zoetis IR
Zoetis
Investment Thesis

- Politically Risk Averse
- Recession Resistant
- World Dependency on Animals
- Increasing Population & Production of Livestock

Source: Zoetis IR
• Founded in 1952 as the Animal and Agriculture division of Pfizer Corporation
• Conducted IPO in 2013, raising $2.2 Billion

Zoetis Timeline

1952
Pfizer establishes Animal Agriculture division

1995
Pfizer acquires SmithKline Beecham’s animal health division

2003
Established R&D headquarters

2013
Zoetis IPO

Source: Zoetis IR
### Internal Segments of Zoetis

**Zoetis Companion and Farm Animals**
- Product portfolio includes vaccines, parasiticides, anti-infectives, medicinal feed additives, and other pharmaceuticals
- Services: Consult with livestock farmers to help them make informed decisions to maximize profitability under sustainable conditions

**Zoetis Diagnostics**
- 90 instruments and tests (including ones that veterinarians can use at point of care)

**Zoetis Genetics**
- DNA testing to optimize selection and management of dairy, beef, sheep and other livestock farming

Source: Zoetis IR
Zoetis
Corporate Strategy

- Internal Investment
- Strategic Acquisitions
- Digital Development
- Data Analytics in R&D

Source: Zoetis Investor Information, JP Morgan 2018 Healthcare Conference Transcript
Zoetis
Leadership

**JUAN RAMÓN ALAIX**
Chief Executive Officer
- President of Pfizer 2006-2012
- 20 years experience in pharmaceuticals
- Member of the BOD for Zoetis

**Glenn David**
Chief Financial Officer
- VP of Global Finance for Pfizer
- Led finance and operations for Zoetis since IPO in 2013

**Clinton Lewis, JR.**
Executive Vice President and Group President, International Operations, Commercial Development, Global Genetics, Aquatic Health and Human Medical Diagnostics

**Kristin Peck**
Executive VP and Group President, U.S. Operations, Business Development and Strategy
- Recently elected for CEO/BOD member
- Been with Zoetis since IPO in 2013

Source: Zoetis IR
Zoetis
Competitive Landscape

- HQ: Westbrook, Maine
- 2018 Revenue: $2.4B
- Market Cap: $23.41B
- 8,000 employees
- Monitoring products and instruments for pets
- Disease detection in livestock
- Water testing
- Veterinary software

- HQ: Greenfield, Indiana
- 2018 Revenue: $3.1B
- Market Cap: $10.00B
- Separation anxiety and parasite control treatments
- Diagnostic tools and analytical services for food safety
- Food additives and medicines/vaccines

- HQ: Kenilworth, New Jersey
- 2018 Revenue: $42.3B
- Market Cap: $215.53B
- Broad range of vaccines and medicines
- Fertility management
- Livestock data management tools

Source: Idexx, Elanco, Merck
Zoetis
Geographic Breakdown & Product Segments

Source: Zoetis IR
Key Drivers in the Industry

- Increasing amount of companion animals living in middle class households
- Considerably cheaper R&D
- Less competition -- more attainable brand loyalty
- Ease of entrance in domestic markets

Livestock Growth Rates

<table>
<thead>
<tr>
<th>Animal</th>
<th># of Animals CAGR</th>
<th>Protein Production CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef Cattle</td>
<td>1.4%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Dairy Cattle</td>
<td>1.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Pigs</td>
<td>1.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Poultry</td>
<td>2.1%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

TOTAL RANGE: 1-2% for # of Animals CAGR and 2-3% for Protein Production CAGR

Source: IBISWorld
6th Consecutive Year of Operational Revenue Growth

Achieved 10% Operational Revenue Growth

Increased Dividends by 30%, EPS increased by 30%

$700M in Share Repurchases, $2B acquisition

<table>
<thead>
<tr>
<th>Full-Year Guidance</th>
<th>MD&amp;A Takeaways</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue between $6.175 billion - $6.275 billion</td>
<td>Invest in data analytics and digital capabilities</td>
</tr>
<tr>
<td>Reported Diluted EPS ~$2.93 - $3.04</td>
<td>Begin direct-to-consumer campaign for companion animals</td>
</tr>
<tr>
<td>Adjusted Diluted EPS ~$3.53 - $3.60</td>
<td>Continue annual share repurchases</td>
</tr>
<tr>
<td>Strengths</td>
<td>Weaknesses</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Large, established market share</td>
<td>• Historically less R&amp;D emphasis than other major pharmaceutical companies</td>
</tr>
<tr>
<td>• Identification of optimal areas for innovation</td>
<td>• Late to expansion into digital platforms and data analytics products</td>
</tr>
<tr>
<td>• Consistent demand for their products and services</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Further strategic acquisition</td>
<td>• Cyclical and often severe viruses/diseases can have long-term impact on livestock population</td>
</tr>
<tr>
<td>• Development of data and digital product lines with existing customers</td>
<td>• Weakening public perception of meat industry paired with rise of alternative proteins</td>
</tr>
<tr>
<td>• R&amp;D</td>
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# Valuation Overview

## Assumptions

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales (% growth)</strong></td>
<td>NA</td>
<td>2.6%</td>
<td>6.6%</td>
<td>6.6%</td>
<td>6.9%</td>
<td>6.9%</td>
<td>6.3%</td>
<td>5.7%</td>
<td></td>
</tr>
<tr>
<td><strong>COGS (% sales)</strong></td>
<td>35.0%</td>
<td>33.2%</td>
<td>33.2%</td>
<td>32.2%</td>
<td>30.5%</td>
<td>30.1%</td>
<td>28.7%</td>
<td>29.3%</td>
<td>29.2%</td>
</tr>
<tr>
<td><strong>SG&amp;A (% sales)</strong></td>
<td>37.2%</td>
<td>34.6%</td>
<td>34.4%</td>
<td>32.5%</td>
<td>32.0%</td>
<td>31.3%</td>
<td>36.5%</td>
<td>29.5%</td>
<td>26.7%</td>
</tr>
<tr>
<td><strong>Depreciation &amp; Amortization (% sales)</strong></td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Capital Expenditures (% sales)</strong></td>
<td>-%</td>
<td>-%</td>
<td>-%</td>
<td>-%</td>
<td>-%</td>
<td>-%</td>
<td>-%</td>
<td>-%</td>
<td>-%</td>
</tr>
<tr>
<td><strong>Tax Rate</strong></td>
<td>41.3%</td>
<td>52.1%</td>
<td>63.8%</td>
<td>34.3%</td>
<td>26.0%</td>
<td>26.0%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>25.0%</td>
</tr>
<tr>
<td><strong>Working Capital (% sales)</strong></td>
<td>31.6%</td>
<td>31.6%</td>
<td>25.4%</td>
<td>25.3%</td>
<td>26.6%</td>
<td>25.2%</td>
<td>26.2%</td>
<td>25.7%</td>
<td>26.3%</td>
</tr>
</tbody>
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## Enterprise Value

- **Cumulative Present Value of FCF**: $6,759.4
- **Terminal Value**: $90,458.8
- **Discount Factor**: 0.69
- **Present Value of Terminal Value**: $62,631.0
- **% of Enterprise Value**: 90.3%
- **Enterprise Value**: $69,390.4

## Implied Equity Value and Share Price

- **Enterprise Value**: $69,390.4
- **Less: Total Debt**: (6,651.0)
- **Less: Preferred Securities**: 1,701.0
- **Less: Noncontrolling Interest**: 1,701.0
- **Plus: Cash and Cash Equivalents**: 486.9
- **Implied Equity Value**: $64,440.4
- **Diluted Shares Outstanding**: 486.9
- **Implied Share Price**: $132.35

*Source: Proprietary Model*
We Recommend 20 Shares at ~$125
Thank You!