



# Zoetis Equity Research Report

UTMCM Healthcare Industry Group - April 15<sup>th</sup>, 2020



# The Team

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# Company Overview

Zoetis is the largest player in the animal health pharmaceutical industry

## Highlights

**Investment Recommendation:** BUY    **Current Price:** \$122.95  
**Target Price:** \$140.48            **Upside Potential:** 14.3%

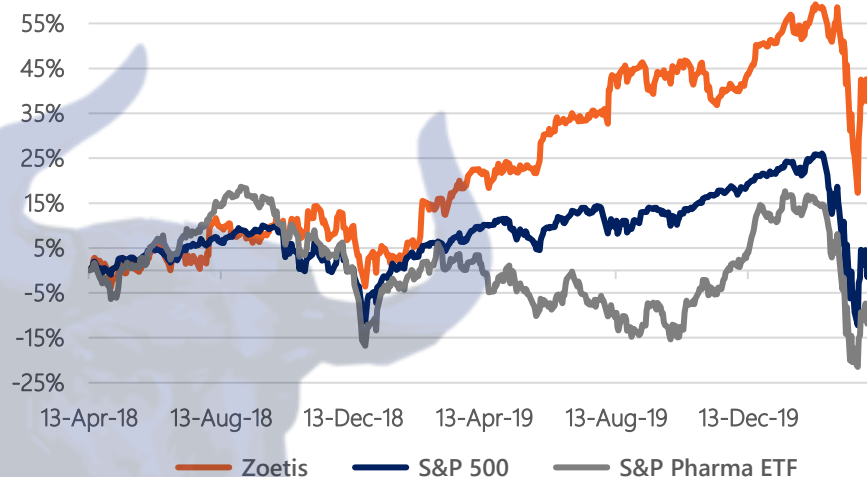
**History:** The world's largest producer of pharmaceuticals for animal health. The company was a subsidiary of Pfizer until its spinoff in 2012.

**Vision:** Our products, services and people will be the most valued by animal health customers around the world.

**Revenue Initiatives:** Expand operations in key products and regions such as developing veterinary services for the companion animal segment.

**Cost Initiatives:** Major restructuring in 2015 which streamlined operations and brought operating margins from 23% to 32%.

## Relative Stock Price Performance



## Key Management

*Management brings experience, creativity, and vision to the company.*



Kristin Peck  
Chief Executive Officer



Glenn David  
Chief Financial Officer



Michael McCallister  
Chairman of the Board

## Key Statistics

Healthcare Sector, Animal Health Industry, NYSE

Price (April 13 <sup>th</sup> , 2020):	\$122.95
52 Week Range (\$):	\$90.14 – \$146.26
Enterprise Value (In MM):	\$65, 528
Market Cap. (In MM):	\$58, 000
Dividend Yield:	0.65%
3-Year Equity Beta:	1.03

LTM EV/Sales: 10.8x	FY19 Revenues (In MM): \$6,260
LTM EV/EBITDA : 26.8x	EBITDA (In MM) : \$2, 430
LTM P/E: 36.4x	EBITDA Margin: 39.8%

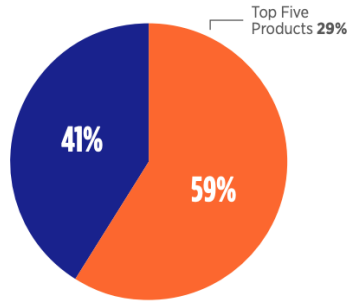


# Product Portfolio

Well diversified product portfolio treating a range of animal species across various international markets

## Top Five Products

REVENUE BY PRODUCT CONCENTRATION



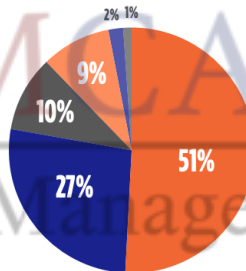
■ All Other Product Lines 59%  
 ■ Top Ten Product Lines 41%

Product	Description	Species
<b>Apoque®</b>	Controls itching associated with allergic dermatitis and the control of atopic dermatiti	Dogs
<b>Draxxin®</b>	Single-dose low-volume antibiotic for the treatment and prevention of bovine and swine respiratory disease, infectious bovine keratoconjunctivitis and bovine foot rot	Cattle, sheep, swine
<b>Revolution® / Stronghold®</b>	An antiparasitic for protection against fleas, heartworm disease and ear mites in cats and dogs; sarcoptic mites and American dog tick in dogs and roundworms and hookworms for cats	Dogs, cats
<b>Ceftiofur Injectable Line</b>	Broad-spectrum cephalosporin antibiotic active against gram-positive and gram-negative bacteria, including β-lactamase-producing strains, with some formulations producing a single course of therapy in one injection	Cattle, sheep, swine
<b>Simparica®</b>	A monthly chewable tablet for dogs to control fleas and ticks	Dogs

## Revenue Breakdown

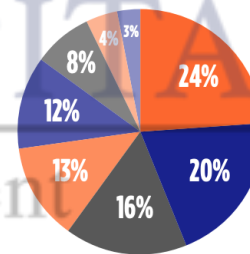
- Expected strong growth in poultry and aquaculture
- Flat to slightly down U.S. cattle market from reduced beef and dairy farm expansion
- Weak swine market from prolonged effects of African swine particularly impacting in China, however the market it showing signs of improvement from herd rebuilding
- Strong growth of 17% in the dermatology sector of companion animals led by the introduction of Simparica®
- Remainder of companion animal portfolio is expected to grow at 3%

REVENUE BY SPECIES¹



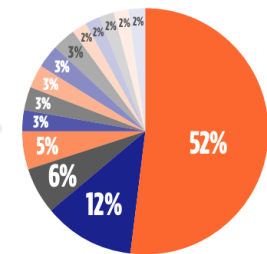
■ Companion Animal 51%  
 ■ Cattle 27%  
 ■ Swine 10%  
 ■ Poultry 9%  
 ■ Fish 2%  
 ■ Other Livestock 1%

REVENUE BY PRODUCT CATEGORY¹



■ Vaccines 24%  
 ■ Anti-Infectives 20%  
 ■ Parasiticides 16%  
 ■ Dermatology 12%  
 ■ Medicated Feed Additives 8%  
 ■ Animal Health Diagnostics 4%  
 ■ Other Pharmaceuticals 13%  
 ■ Other Non-Pharmaceuticals 3%

REVENUE BY TOP MARKETS¹



■ United States 52%  
 ■ Brazil 5%  
 ■ Canada 3%  
 ■ China 3%  
 ■ United Kingdom 3%  
 ■ Australia 3%  
 ■ Japan 3%  
 ■ Germany 2%  
 ■ France 2%  
 ■ Mexico 2%  
 ■ Spain 2%  
 ■ Italy 2%  
 ■ Other emerging markets 12%  
 ■ Other developed markets 6%

# Product Brands

Zoetis offers a diverse portfolio comprised of approximately 300 product lines that serve eight core species

## Livestock Health Brands

Zoetis supports those who raise and care for farm animals with a range of products and services that offer tangible solutions to the many health and productivity challenges farmers face every day.



## Companion Animal Health Brands

Zoetis' products help improve the quality and extend the lives of cats, dogs and horses. The company strives to make it easier for pet owners to maintain the health and wellness of their companions.



# Business Model

Products to treat a variety of animals that treat varying conditions within 6 product categories

## Revenue Drivers

- Vaccines** to prevent diseases of the respiratory, gastrointestinal and reproductive tracts or induce an immune response
- Anti-infectives** to prevent, kill or slow the growth of bacteria, fungi or protozoa
- Parasiticides** to prevent or eliminate external and internal parasites such as fleas, ticks and worms
- Dermatology Products** that relieve itch associated with allergic conditions and atopic dermatitis
- Medicated feed additives** that provide medicines, nutrients and probiotics
- Animal health diagnostics** that provide disease detection capabilities for various species, including cattle, pigs and poultry
- Other pharmaceuticals** such as medicines for pain and sedation, as well as oncological and antiemetic products

**51% Revenue from Companion Animal Products**



**48% Revenue from Farm Animal Products**

## Patents

Zoetis – Number of Patents	DEC '19	DEC '18	DEC '17	DEC '16	DEC '15	DEC '14	DEC '13	DEC '12	DEC '11
Patents	6,000	5,500	5,200	4,800	4,800	4,800	4,900	4,000	4,000
Change in Patents	500	300	400	0	0	-100	900	0	0

- **1,550 Pending Patents** across 50 countries, with a concentration on major markets like Australia, Brazil, Canada, China, Europe, Japan and the U.S.
- **Simparica Trio™** received approval in EU, Canada and U.S as a monthly triple parasiticide for dogs protecting against fleas, ticks and heartworm disease
- **ProHeart® 12** obtained U.S. approval as a yearly injection to protect against heart worm disease
- Patent licenses are shared between Pfizer, Zoetis’s parent company, for the development of their products
- Enforces patents vigilantly inside and outside the U.S.

### Notable Patent Expirations

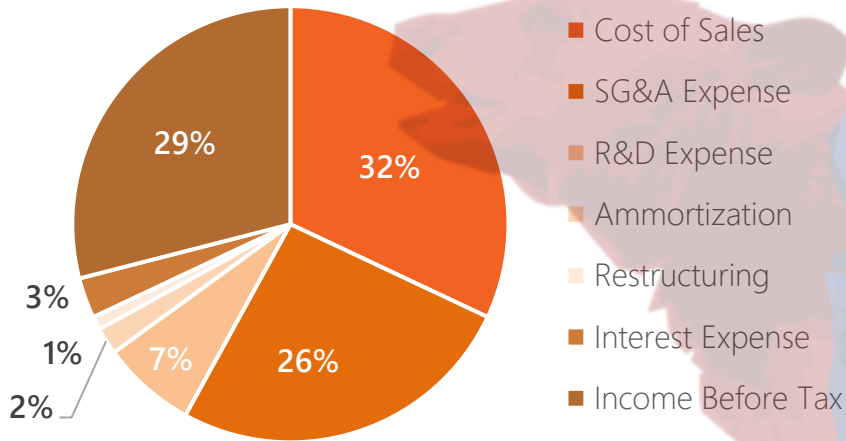
Product	Date	Revenue
Selamectin	November 2019	16%
Draxxin®	February 2021	
Excede® (Ceftiofur Line)	2024	

# Business Model

Zoetis' main costs is driven by their R&D expenditures as well as the restructuring costs arising from their M&A activity

## Cost Drivers

### Cost Breakdown



**Cost of Sales** as a percentage of revenue decreased from prices increases, cost improvement and efficiencies, while it was offset by tariffs on some product along with the acquisition of Abaxis.

**SG&A** increased as a percentage of revenue after the the inclusion of Abaxis and Platinum Performance.

**R&D** increased from more spending on project investments as well as from the inclusion of Abaxis.

**Restructuring Costs** can be attributed from the acquisition of Abaxis

## Acquisition of Abaxis

- Abaxis is a leading provider of veterinary point-of-care diagnostic instruments, was acquired July 2018
- Acquisition came with **VetScan®**, a portfolio of benchtop and handheld diagnostic instruments, rapid tests and associated consumables for cats and dogs
- Abaxis enhances Zoetis' offering towards veterinarians and customers in the companion animal sector
- Serves a large customer base in North America and is poised for expansion internationally

(MILLIONS OF DOLLARS)	Year Ended December 31,		
	2019	2018	2017
Revenue	\$ 6,260	\$ 5,825	\$ 5,307
Costs and expenses:			
Cost of sales <sup>(a)</sup>	1,992	1,911	1,775
% of revenue	32%	33%	33%
Selling, general and administrative expenses <sup>(a)</sup>	1,638	1,484	1,334
% of revenue	26%	25%	25%
Research and development expenses <sup>(a)</sup>	457	432	382
% of revenue	7%	7%	7%
Amortization of intangible assets <sup>(a)</sup>	155	117	91
Restructuring charges and certain acquisition-related costs	51	68	19
Interest expense, net of capitalized interest	223	206	175
Other (income)/deductions—net	(57)	(83)	6
Income before provision for taxes on income	1,801	1,690	1,525
% of revenue	29%	29%	29%



# Management, Governance, and Ownership

Management brings experience, creativity, and vision to the company with Shareholders that believe in its core mission

## Management & Governance



**Kristin Peck, CEO** was appointed January 2020. She had previously held the role of President of U.S. operations at Zoetis from 2015 and before that served as Group President from 2012, driving change and ushering Zoetis through their IPO.



**Tim Bettington, President, U.S. Operations** was appointed January 2020, joining Zoetis from Boehringer Ingelheim where he served for 12 years, most recently as NA Region Head of Commercial Operations for BI's animal health business.



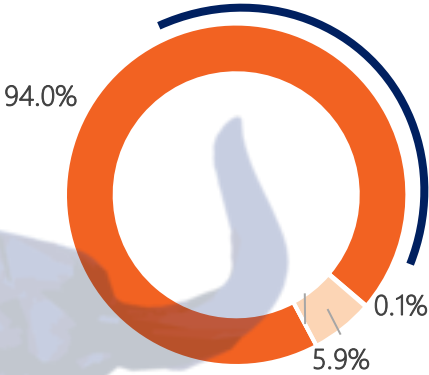
**Catherine Knupp, President of R&D** was appointed in 2012 and has been the driving force behind Zoetis R&D since their spin out from Pfizer. From 2005 to 2012 she served as Vice President of Pfizer's Veterinary Medicine Research and Development business unit.



**Micheal McCallister – Chairman** has served since 2013. Mr. McCallister was CEO for Humana from February 2000 until his retirement. During his tenure as CEO, Humana gained a reputation as one of the industry's leading people-focused innovative companies, to help individuals take control of their own health.

Zoetis Executive Team is highly skilled in the animal health field. Most are veterans with the company with experience averaging 9 years. Most of the team worked for Pfizer before their spinoff of ZTS in 2012. The executive team consists of 50% male and 50% female. The Board of Director is completely independent except for the CEO, Kristin Peck who also serves as a board member. The Board engages in a detailed review and discussion of the corporation's short and long-term strategy on an annual basis and no risk of entrenchment has been identified within ZTS' Leadership.

## Shareholder Ownership



- Institutional Ownership
- Insider Ownership (0.1%)
- Retail Ownership
- Top 10 Institutional Holders (34%)

Top 5 Institutional Holders	Ownership	Position (000)	Activism
The Vanguard Group, Inc.	7.70%	36,573	Very Low
BlackRock Fund Advisors	5.04%	23,955	Medium
SSgA Funds Management, Inc.	4.19%	19,883	Very Low
State Farm Investment Management Corp.	3.82%	18,133	Very Low
AllianceBernstein LP	2.94%	13,954	Low

Zoetis common shares are listed on the New York Stock Exchange (NYSE). Institutional investors hold 94% of the shares outstanding. This institutional interest is the highest in the Animal Health Pharma industry. The top 10 largest shareholders hold 34% of the shares and none of them are activist investors that risk to move the share price significantly. Although, Insider Ownership is small (0.1%), Zoetis' board is very close with their significant shareholders.





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## Industry Overview

UTMCM Healthcare Industry Group - April 15<sup>th</sup>, 2020



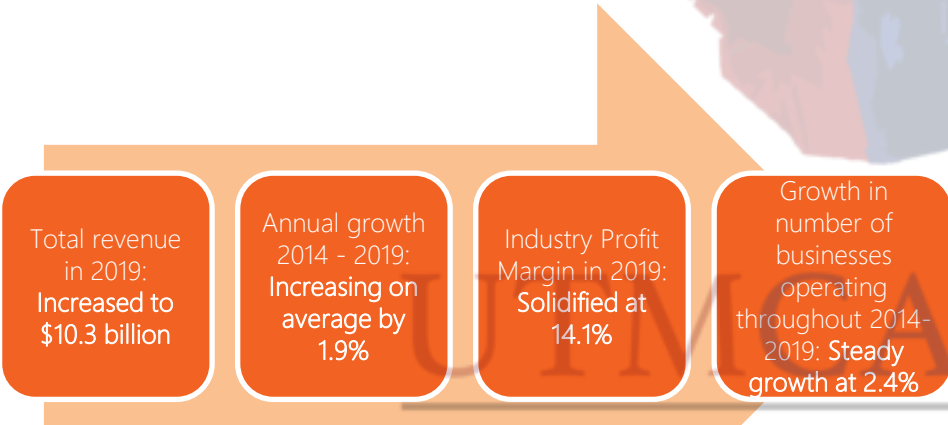
# Industry Metrics

Animal health is a growing industry due to the increase in companion animals from a growing middle class

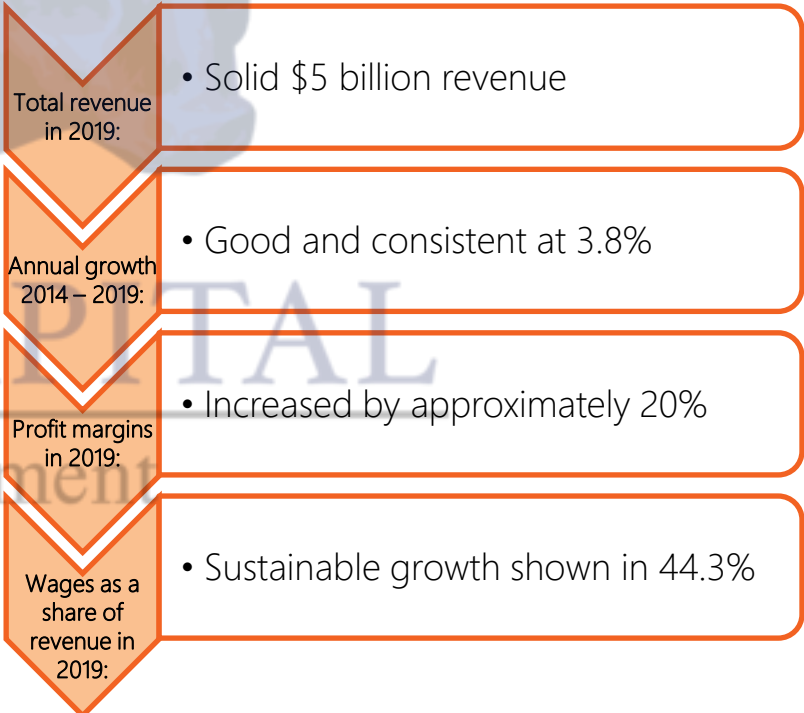
## Animal Healthcare in North America

Zoetis is well-positioned to be considered as a player in two industries: Livestock Production Support Services, as well as Animal Health Biotechnology. However, our research points out that the majority of services/products the company offers would fall into category of a broader market - Animal Health. The Animal Health (Biotechnology) industry researches, develops, tests and distributes therapeutic drugs, diagnostic tools and preventive products for livestock and companion animals. The sector is an attractive, unconventional healthcare niche, with much of the inherent resiliency and defensive characteristics of human health care without the strict government regulations. The Animal Health Biotechnology industry is expected to steadily grow over the five years to 2024, with revenue forecast to increase an annualized 1.4% to \$11.0 billion. Accelerated growth in the number of pets and rising global demand for livestock products are likely to provide steady demand for industry products, while technological innovation in veterinary medicine is expected to extend the average lifespan of companion animals, fueling industry expansion.

### Animal Healthcare Biotechnology in the U.S.



### Veterinary Service Sector in Canada



# Industry & Macro Outlook

COVID-19 serves as a headwind but animal healthcare will always survive

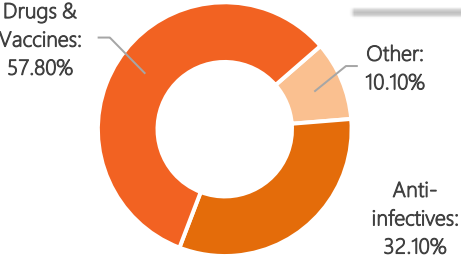
## Key Industry Trends

- **Industry growth** is largely fueled by research and development expenditure.
- **Growing demand** for companion animals and livestock has enabled companies to increase the price of their products.
  - Rising demand from the global agribusiness to protect livestock produce will lead to gradual industry expansion.
- **New Products:** Companies have produced new vaccines and drugs to replace antibiotics.
- **Increasing per capita disposable income** encourages increased spending on pet health coupled with increasing pet ownership.
- **Humanization of pets:** 90% of dog owners and 86% of cat owners consider their pets as important members of their family.
- **Increasing competition** forces the industry to operate in a challenging trade environment.

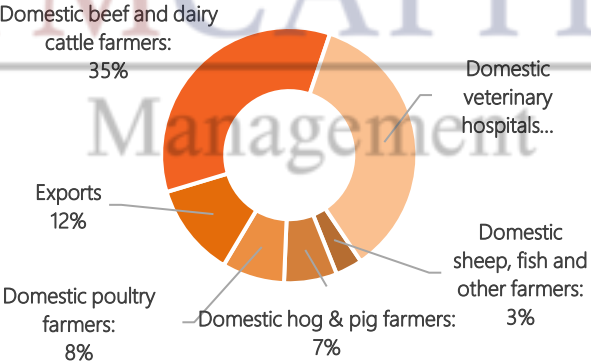
## COVID-19 Effects

- **Cyclicality of Discretionary Spending:** the animal health market is relatively resilient to recessions (especially with veterinarian medicine being classified as essential business in North America). The sector has outperformed through the recent market sell off (down ~23% versus negative 31% for the broader market index (S&P 500) since the end of February).
- **Alternative channels** for product purchases are taking off fueled by increasing consumer preference towards online shopping.
- **Pet Adoptions** - February pet adoptions accelerated, albeit not yet reflecting COVID-19 effects
- **Pet Retail Tracker**—Pet product sales rose due to price increased (from a volume perspective, pet care units were flat).
- **Veterinary prescription** growth momentum continues. Currently sales are growing at an average rate of 7.7%.
- **FDA** intends to temporarily suspend enforcement of portions of the federal veterinarian-client-patient relationship (VCPR) requirements relevant to certain FDA regulations which makes regulation less fierce during these uncertain times due to the virus.

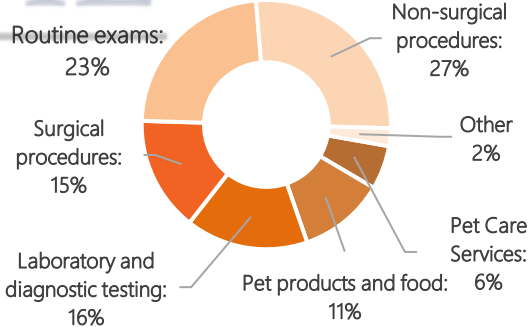
**Industry Products and Services Segmentation**




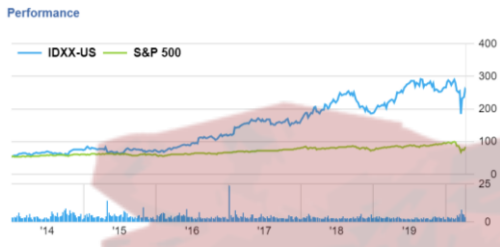






**U.S. Market Segmentation**



**Canadian pet industry product & services distribution**







# Competitive Landscape

	Stock Price Performance	Business Description	Key Financial Statistics
	<p>Performance</p> 	<p>IDEXX Laboratories, Inc. engages in the development, manufacture, and distribution of products and services for the animal veterinary, livestock and poultry, dairy and water testing markets. It operates through the following segments: CAG, Water, LPD, and Other.</p>	<p>* (stock prices as of Apr 13<sup>th</sup>, 2020 close)  <b>Ticker:</b> IDXX   <b>52 Week Range:</b> \$168.65 – \$296.25  <b>Stock Price:</b> \$254.39   <b>Market Cap (M):</b> 21,680  <b>Sales (M):</b> 2,407   <b>Net Income (M):</b> 428  <b>EPS (Dil):</b> 4.89   <b>ROA (%):</b> 25.4  <b>P/E:</b> 53.4x   <b>EV/EBITDA:</b> 37x  <b>Total Debt/EBITDA:</b> 1.6  <b>Total Debt/Total Assets:</b> 58.4</p>
	<p>Performance</p> 	<p>Elanco Animal Health, Inc. engages in the innovation, development, manufacture and market products for companion and food animals. It offers products through the following four categories: Companion Animal Disease Prevention and Therapeutics, Food Animal Future Protein &amp; Health, and Food Animal Ruminants &amp; Swine.</p>	<p><b>Ticker:</b> ELAN    <b>52 Week Range:</b> \$15.17 – \$35.46  <b>Stock Price:</b> \$23.15   <b>Market Cap (M):</b> 9,232  <b>Sales (M):</b> 3,071   <b>Net Income (M):</b> 67.9  <b>EPS (Dil):</b> 0.18   <b>ROA (%):</b> 0.8  <b>P/E:</b> 160.6x   <b>EV/EBITDA:</b> 19.1x  <b>Total Debt/EBITDA:</b> 3.4  <b>Total Debt/Total Assets:</b> 27.2</p>
	<p>Performance</p> 	<p>Phibro Animal Health Corp. engages in the manufacture of animal health and mineral nutrition products. It operates through the following business segments: Animal Health, Mineral Nutrition, and Performance Products.</p>	<p><b>Ticker:</b> PAHC    <b>52 Week Range:</b> \$16.87 – \$36.98  <b>Stock Price:</b> \$24.79   <b>Market Cap (M):</b> 1,003  <b>Sales (M):</b> 813.4   <b>Net Income (M):</b> 38.1  <b>EPS (Dil):</b> 0.94   <b>ROA (%):</b> 7.8  <b>P/E:</b> 23.5x   <b>EV/EBITDA:</b> 13.3x  <b>Total Debt/EBITDA:</b> 2.8  <b>Total Debt/Total Assets:</b> 44.9</p>
	<p>Performance</p> 	<p>Dechra Pharmaceuticals PLC is a holding company, which engages in the veterinary pharmaceuticals and related products business. It operates through the following segments: European and North American Pharmaceuticals, and Pharmaceuticals R&amp;D. The North American division accounts for 36.9% of the total revenue while Europe accounts for the rest.</p>	<p>* (all figures presented in £)  <b>Ticker:</b> DPH-GB   <b>52 Week Range:</b> £20.30 – \$30.90  <b>Stock Price:</b> \$26.10   <b>Market Cap (M):</b> 2,685  <b>Sales (M) (Jun19 report):</b> 481.80  <b>Net Income (M):</b> 30.90  <b>EPS (Dil):</b> 0.30   <b>ROA (%):</b> 3.0  <b>P/E:</b> 91.1x   <b>EV/EBITDA:</b> 22.30x  <b>Total Debt/EBITDA:</b> 2.3  <b>Total Debt/Total Assets:</b> 29.4</p>



# Competitive Landscape

	Stock Price Performance	Business Description	Key Financial Statistics
		<p>Neogen Corp. engages in the development, manufacture, and sale of products dedicated to food and animal safety. It operates through the following segments: Food Safety, Animal Safety, and Corporate and Eliminations. The Food Safety segment consists of diagnostic test kits and related products used by food producers and processors to detect harmful natural toxins, foodborne bacteria, allergens, drug residues, and levels of general sanitation.</p>	<p>* (stock prices as of Apr 13<sup>th</sup>, 2020 close)            Ticker: NEOG              52 Week Range: \$48.91 – \$79.83            Stock Price: \$62.26            Market Cap (M): 3,294            Sales (M) (May19 report): 414.19              Net Income (M): 60.18            EPS (Dil): 1.15   ROA (%): 9.1            P/E: 49.1x   EV/EBITDA: 31.2x            Net Debt/EBITDA: -3.1</p>
		<p>Heska Corp. engages in the provision of veterinary and animal health diagnostic, and specialty products. It operates through two segments: Core Companion Animal Health and Other Vaccines &amp; Pharmaceuticals. The Core Companion Animal Health segment includes point of care diagnostic laboratory instruments and supplies, imaging instruments, software, and services as well as single use diagnostic and other tests, pharmaceuticals, and vaccines.</p>	<p>* (stock prices as of Apr 13<sup>th</sup>, 2020 close)            Ticker: HSKA   52 Week Range: \$50 – \$110.90            Stock Price: \$65.78   Market Cap (M): 515.6            Sales (M): 122.66   Net Income (M): - 1.47            EPS (Dil): - 0.20   ROA (%): - 0.7            P/E: - 487.5x   EV/EBITDA: 104.20x            Total Debt/EBITDA: 6.7            Total Debt/Total Assets: 21.6</p>

## Zoetis' Competitive Advantage

- The most profitable company in its segment
- ZTS maintains low leverage and significant balance sheet optionality similar to all the big pharma players with robust balance sheet strength. Among leveraged companies, ZTS is in the strongest position in terms of total debt, leverage, and the timing of maturity payments given their solid balance sheets and cash flow yield (which is important since a number of companies in the sector are not currently cash flow positive)
- The US dollar has strengthened significantly over the past several weeks, particularly relative to the Brazilian Real (BRL/USD down 21%), Mexican Peso (MXN/USD down 16%) and Australian Dollar (AUD/USD down 10%), where Zoetis has significant presence which poses as a headwind to Zoetis' large scale international operations but not to its competitors who mainly operate in one or a few countries.
- Zoetis' highly anticipated flea & tick products can turn into a main catalyst for the company in the wake of ZTS' pending Simparica Trio launch (already approved medicine by the FDA but not yet commercialized)
- Zoetis' strong cash flow generation allows it grow through M&A. The recent acquisition of Ethos Diagnostic Science (Feb 7<sup>th</sup>), a veterinary reference lab business dedicated to serving leading animal hospitals. This company serves the greater veterinary and researcher community which provides accurate and reliable results for animal diagnostics. This puts ZTS ahead of the game in animal diagnostics compared to peers.



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# Financial & Investment Analysis

UTMCM Healthcare Industry Group - April 15<sup>th</sup>, 2020



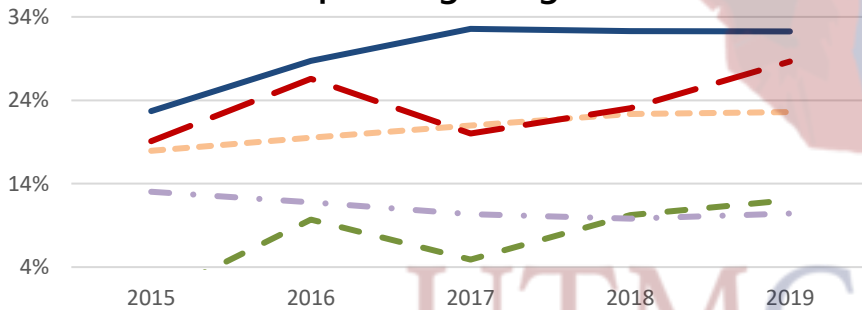
# Financial Analysis

Zoetis has proven to be a leader in the industry by maintaining one of the highest margins in the business

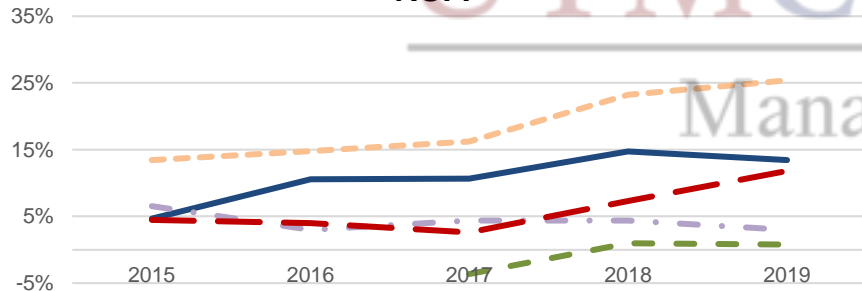
## Profitability

Zoetis is the most profitable company in the industry with operating margin of 32% as of FY 2019 compared to the peer average of 21%. This is mainly due to better cost management practices. In 2015, ZTS went through a major operational restructuring to streamline operations and emphasize key products and regions which has brought their operating margin from 23% back in 2015 to about 32% today. We believe margins will continue to expand as management makes better use of their assets by focusing on expense reduction initiatives. Currently, their goal is to achieve ROA of 25% by 2023.

### Operating Margin



### ROA

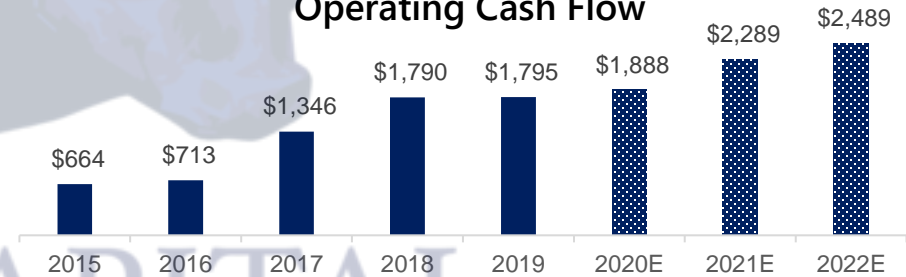


— Zoetis — IDEXX — Elanco — Dephra — Merck

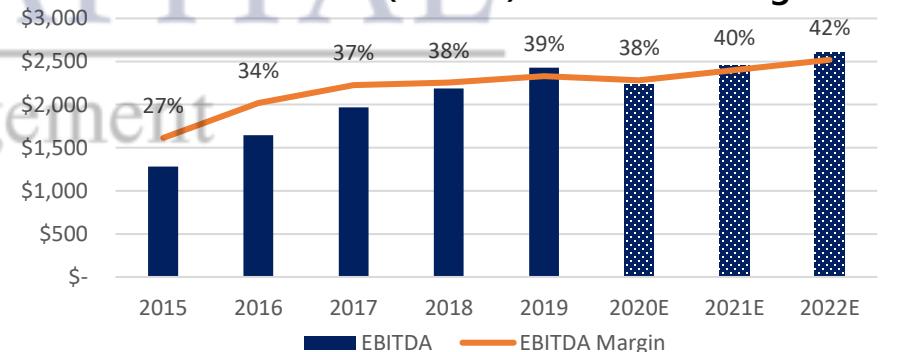
## Operating Forecast

Our estimates assume a lower operating cash flow in 2020 due to recent market developments surrounding COVID-19. Over the past month, the U.S. dollar has strengthened significantly. If this continues, we expect it to be a significant headwind to their international operations which can flow through the company's bottom line. Therefore, in our base case we assumed that EBITDA margins shrank in FY 2020 but picked back up in 2021 assuming the virus subsides by Q1 2020. Historically, Zoetis has been very successful at constantly increasing their operating cash flow while keeping their costs low. This has allowed them to have one of the highest EBITDA and Operating Margins in the industry.

### Operating Cash Flow



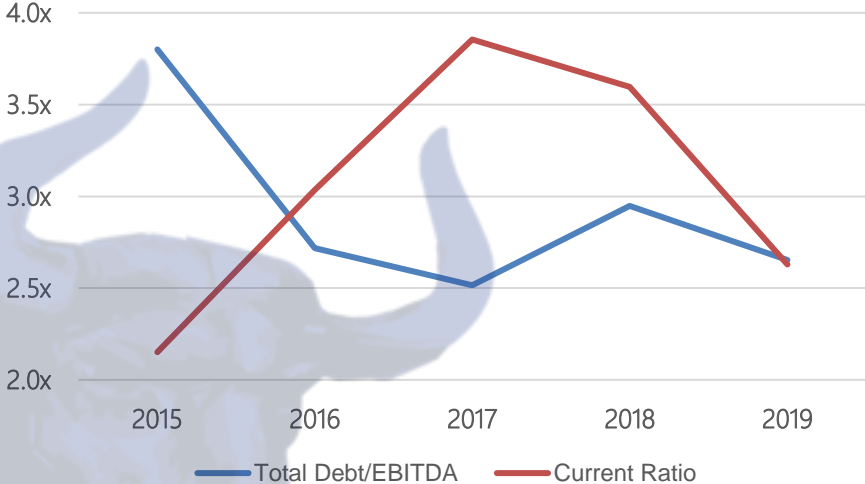
### Total EBITDA (in MM) & EBITDA Margin



# Financial Analysis

## Solid Balance Sheet with Manageable Debt Levels

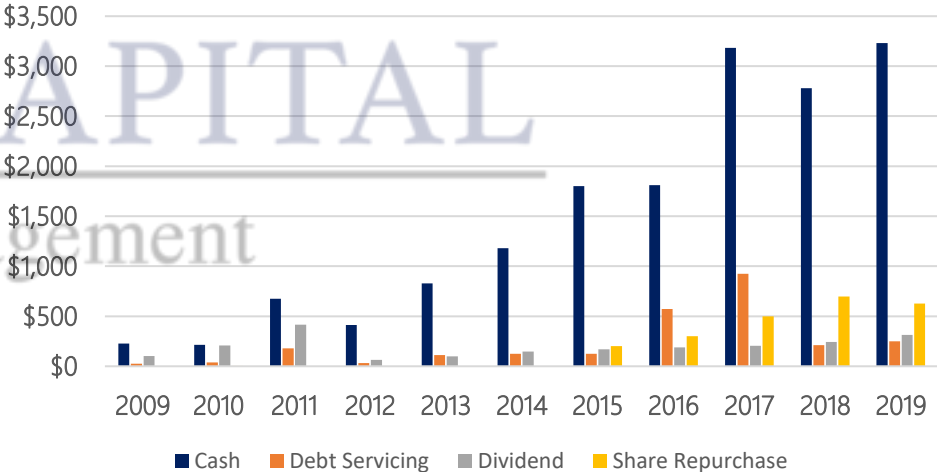
Zoetis currently has a Baa1 Moody Credit rating which makes its bond rating investment grade. The rating reflects its strong position as the world's largest producer of pharmaceuticals for animal health, and its good business diversity across geographic regions, species, and products. Moody has indicated that Zoetis' steady earnings growth will be the primary driver of deleveraging over the next two years following its acquisition of Abaxis in 2018. If the company continues to decrease its Debt/EBITDA ratio below 2.5x, Moody has indicated it would increase its credit rating which we believe is very possible considering its recent efforts in utilizing cash to pay down more debt. Similarly, Zoetis has been able to improve its liquidity ratio by bringing it closer to the industry average of 2.4x. We expect this ratio to come down as Zoetis makes better use of its NWC.



## Strong FCF Generation Positions Zoetis Well for Unencumbered Growth

As of Fiscal Year 2019, Zoetis had cash, cash equivalents and short-term investments of \$1.9B, \$0.5B of short-term debt, and long-term debt of \$4.6B. We estimate free cash flow to be \$1.5B+ for 2020, expanding annually to \$2B+ by 2023, supporting annual dividend payments of \$400-800MM. We expect the company to suspend their share repurchases due to the recent market developments surrounding COVID-19. However, the big accumulation of cash on their balance sheet as seen from the graph on the right allows ZTS to have a cushion to stave off the loss of revenue from COVID-19 and positions them very well to make further bolt-on acquisitions of firms which they can now acquire at lower multiples. Finally, this cash also allows them to retain their employees thus continuing their R&D in Animal Pharmaceutical Drugs.

Zoetis' Use of Cash





# Investment Thesis

ZTS has a successful line of diverse products in an attractive market & recent market developments provide attractive valuation

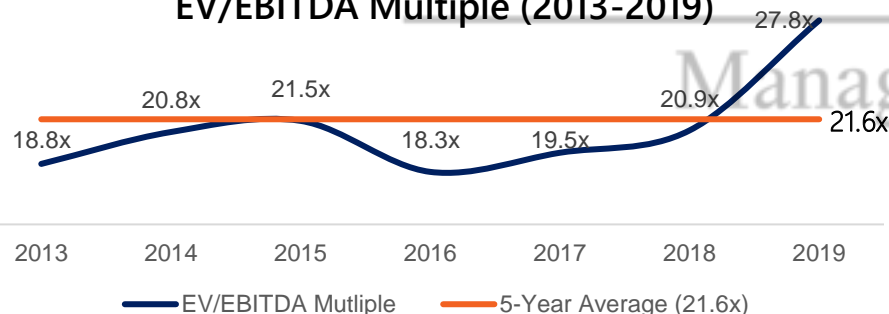
## Upside Potential from Blockbusters

- 1 Zoetis currently has 12 blockbuster products/brands. Estimated sales of the combined products is of \$840MM in 2020 which could grow to \$1.2B by 2024 while improving margins for future growth.
- 2 African Swine Fever (ASF) is a highly contagious, deadly virus affecting pigs that dampened 2019 sales in China. We expect ZTS to make increased revenue after 2020 when the virus subsides thus improving their bottom line.
- 3 In August 2019, ZTS announced that it had filed in the U.S. for two new pain medicines for cats and dogs. Approval of both drugs is expected in 2021 with estimated sales of \$800MM adding upside potential due to increased valuations.

## COVID-19's Silver Lining

Recent market developments allows us to buy Zoetis below its historical valuation levels of 21.6x EV/EBITDA. At the end of 2019, ZTS EV/EBITDA multiple was of 27.1x which seems overvalued. However, at current market prices, the EV/EBITDA multiple stands at 20.7x which is below the 5-year average.

EV/EBITDA Multiple (2013-2019)

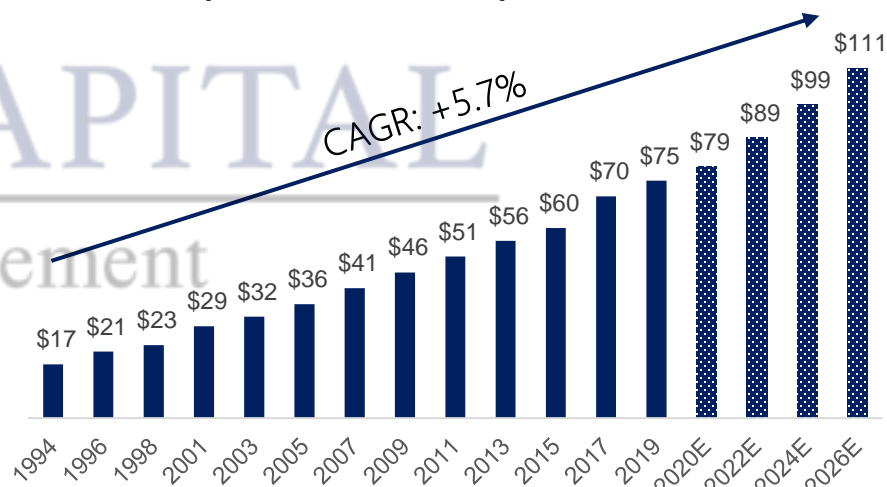


## Leader in an Attractive Market

The Animal Health sector is an attractive, unconventional healthcare niche, with much of the inherent resiliency and defensive characteristics of human health care while unchained to associated risks such as third-party payors, health care reform, generic threats, and development inefficiencies. Fundamentals in terms of demand, pricing, and the utilization of medicines, vaccines, and diagnostics are improving, supporting increasing revenue and earnings growth assumptions in the long-term.

Zoetis is the market leader in animal health with 25% of the U.S. Market Share. The company has recently focused its research in companion animal medicine and diagnostics due to the higher growth rates realized in this market (5.7% CAGR as shown in the graph below). Currently, ZTS has control of almost 60% of the U.S. companion animal health market share.

U.S. Companion Animal Expenditure (in billions)



# Investment Summary

A 12-month target price of \$140.48 offers upside potential of 14.3% from its April 13<sup>th</sup> closing price of \$122.95

## Football Field Valuation

We issue a **BUY** recommendation on ZTS with a 12-month target price of \$140.48. This represents a total return of 14.3% from its April 13<sup>th</sup> closing price of C\$122.95. The main rationales for this upside potential is based on:

- 1) The relative attractiveness of the animal health market and ZTS's solid outlook for top- and bottom-line growth.
- 2) COVID-19 will subside by the end of 2020 and Zoetis' strong balance sheet will allow it to survive any short-term headwinds.
- 3) Upside potential from F/T/HW oral triple Trio, diagnostics expansion, ASF rebound, and injectable pain mAbs for cats/dogs which are currently under review by the FDA.

We believe execution on these prospects will move Zoetis' share price higher.

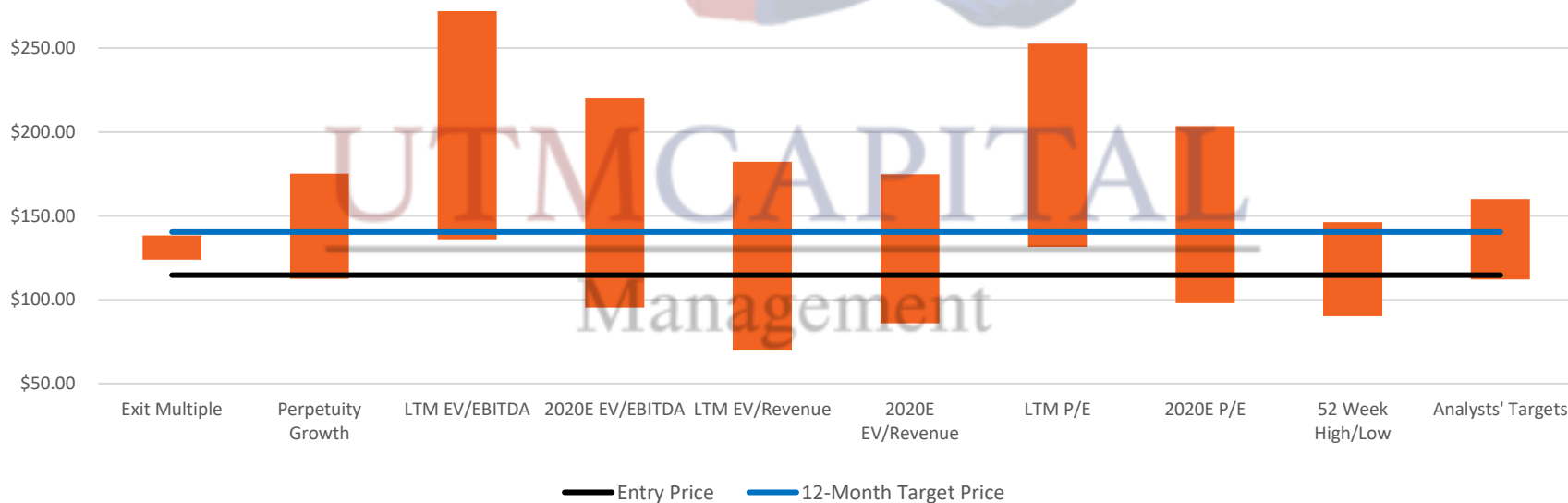
To arrive to our target price of \$140.48, we used the following weights on our valuation:

- I. 40% on Comparable Analysis
- II. 50% on Discounted Cash Flow Analysis (Forecasted only 3 years due to the growing uncertainty around COVID-19)
- III. 10% on Analysts' Target Estimates

**Base Case** - New product launches in line with expectation and COVID-19 subsides by the end of 2020 (Upside of 22.6%).

**Bull Case** - New product launched better than expected and Macro factors (COVID-19) improve faster (Upside of 40.4%).

**Bear Case** - New product launches disappoint, COVID-19 poses as a significant headwind beyond 2021 (Downside of 7.9%).



# Risks and Catalysts

We believe most these risks are manageable and provide limited downside

## Catalysts

### Increase in animal companionship globally

- Historical trends have seen pet ownership continue to rise with every generation.
- Pet ownership rates are increasing outside of North America as well.
- Therefore, as Generations Y & Z start to acquire more companion animals, Zoetis' revenue will have the potential to increase if the company maintains its market share.



### Improvement of ASF in China

- African Swine Fever has dampened livestock sales in China since 2019.
- China has lost half of their pig population to this disease.
- However the outbreak is slowing and once dispelled, the bounce back in swine population will stoke international sales and have the chance to increase Zoetis' top line.



## Risks

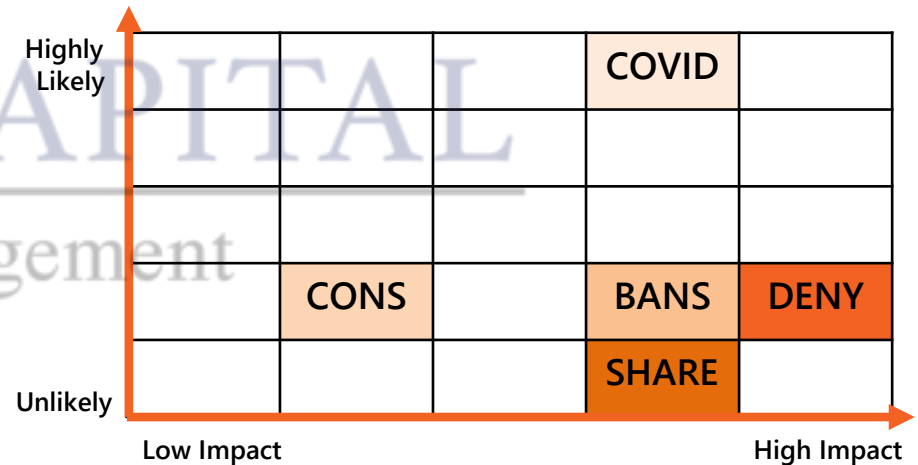
**(COVID)** - COVID-19 short term economic impact (decline in pet ownership, supply chain impact, lowered worldwide animal protein consumption, etc.)


**(CONS)** - Lowered livestock consumption due to shifting consumer demands

**(BANS)** - Increased restrictions and bans on use of anti-bacterials on livestock

**(SHARE)** - New product launches or existing products fail to gain market share

**(DENY)** - Approvals for new drugs are denied





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## Appendix - Valuation Models

UTMCM Healthcare Industry Group - April 15<sup>th</sup>, 2020





# Discounted Cash Flow Model – Assumptions (1/2)

## Assumptions Part 1 - Income Statement and Cash Flow Statement

	Historical Period					Projection Period				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	
<b>Income Statement Assumptions</b>										
Sales (% growth)	0.0%	2.6%	8.6%	9.8%	7.5%	(15.0%)	(5.0%)	8.0%	9.0%	
Base						1 (15.0%)	(5.0%)	8.0%	9.0%	
Upside						2 (10.0%)	- %	7.0%	8.0%	
Downside						3 (20.0%)	(8.0%)	4.0%	7.0%	
Cost of Goods Sold (% sales)	33.6%	30.8%	30.6%	29.5%	27.7%	30.6%	30.6%	30.6%	30.6%	
Base						1 30.6%	30.6%	30.6%	30.6%	
Upside						2 29.6%	29.6%	29.6%	29.6%	
Downside						3 31.6%	31.6%	31.6%	31.6%	
SG&A (% sales)	39.6%	35.6%	32.3%	32.9%	33.5%	33.5%	33.2%	33.2%	33.3%	
Base						1 33.5%	33.2%	33.2%	33.3%	
Upside						2 32.5%	32.2%	32.2%	32.3%	
Downside						3 34.5%	34.2%	34.2%	34.3%	
Depreciation & Amortization (% sales)	4.2%	4.9%	4.6%	5.3%	6.6%	4.9%	4.9%	4.9%	4.9%	
Base						1 4.9%	4.9%	4.9%	4.9%	
Upside						2 4.4%	4.4%	4.4%	4.4%	
Downside						3 5.4%	5.4%	5.4%	5.4%	
<b>Cash Flow Statement Assumptions</b>										
Capital Expenditures (% of sales)	-4.7%	-4.4%	-4.2%	-5.8%	-7.3%	(4.7%)	(4.7%)	(4.7%)	(4.7%)	
Base						1 (4.7%)	(4.7%)	(4.7%)	(4.7%)	
Upside						2 (6.7%)	(6.7%)	(6.7%)	(6.7%)	
Downside						3 (2.7%)	(2.7%)	(2.7%)	(2.7%)	

# Discounted Cash Flow Model – Assumptions (2/2)

## Assumptions Part 2 - Balance Sheet

	Historical Period					Projection Period			
	Year 1 2014	Year 2 2015	Year 3 2017	Year 4 2018	Year 5 2019	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023
<b>Current Assets</b>									
Days Sales Outstanding (DSO)	71.8	68.2	68.6	64.9	63.3	67.4	67.4	67.4	67.4
Base						1 67.4	67.4	67.4	67.4
Upside						2 65.4	65.4	65.4	65.4
Downside						3 70.4	70.4	70.4	70.4
Days Inventory Held (DIH)	334.9	364.3	321.1	295.2	296.6	322.4	322.4	322.4	322.4
Base						1 322.4	322.4	322.4	322.4
Upside						2 292.4	292.4	292.4	292.4
Downside						3 352.4	352.4	352.4	352.4
Prepaid and Other Current Assets (% of sales)	29.9%	19.9%	33.8%	33.9%	36.0%	30.7%	30.7%	30.7%	30.7%
Base						1 30.7%	30.7%	30.7%	30.7%
Upside						2 27.7%	27.7%	27.7%	27.7%
Downside						3 33.7%	33.7%	33.7%	33.7%
<b>Current Liabilities</b>									
Days Payable Outstanding (DPO)	66.9	64.3	58.7	66.4	63.3	63.9	63.9	63.9	63.9
Base						1 63.9	63.9	63.9	63.9
Upside						2 67.9	67.9	67.9	67.9
Downside						3 59.9	59.9	59.9	59.9
Accrued Liabilities (% of sales)	8.5%	0.0%	0.0%	0.2%	8.5%	8.5%	8.5%	8.5%	8.5%
Base						1 8.5%	8.5%	8.5%	8.5%
Upside						2 6.5%	6.5%	6.5%	6.5%
Downside						3 10.5%	10.5%	10.5%	10.5%
Other Current Liabilities (% of sales)	22.7%	17.4%	15.7%	15.5%	15.5%	17.4%	17.4%	17.4%	17.4%
Base						1 17.4%	17.4%	17.4%	17.4%
Upside						2 15.4%	15.4%	15.4%	15.4%
Downside						3 19.4%	19.4%	19.4%	19.4%

# Capital Structure & WACC Calculation

ZTS Capital Structure		ZTS WACC Calculation	
<u>Common Equity</u>		<u>Cost of Debt</u>	
Share Price (As of April 9th)	\$128.75	Pre-Tax Cost of Debt	2.73%
Shares Outstanding (Millions)	317.0	Income Tax Rate	0.75%
Market Capitalization	\$40,814	After Tax Cost of Debt	2.71%
<u>Debt</u>		<u>Cost of Common Equity</u>	
Short-Term Debt	\$535.0	Risk-Free Interest Rate	0.77%
Long-Term Debt	\$6,111.0	3-Year Adjusted Beta	1.03
Total Debt	\$6,646	Market Risk Premium	5.20%
<u>Preferred Equity</u>		Cost of Common Equity	6.13%
Preference Shares (\$ Millions)	\$0	<u>Cost of Preferred Equity</u>	
Debt-to-Total Capitalization	14.0%	Preferred Dividend	\$0.00
Common Equity-to-Total Capitalization	86.0%	Preferred Equity	\$0
Preferred Equity-to-Total Capitalization	0.0%	Cost of Preferred Equity	0.00%
		<b>WACC</b>	<b>5.65%</b>

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# Discounted Cash Flow Model – Base Case Output (1/2)

Zoetis									
Discounted Cash Flow Analysis (Millions of Dollars)									
Calculation of FCFF									
	Units	2015	2016	Historical 2017	2018	2019	Projected		
							2020	2021	2022
Operating Scenario	1 Base								
<b>Revenue</b>		\$4,765	\$4,888	\$5,307	\$5,825	\$6,260	\$5,321	\$5,055	\$5,459
% Growth		0.0%	2.6%	8.6%	9.8%	7.5%	-15.0%	-5.0%	8.0%
Cost of Goods Sold (Excl. D&A)		1,599.0	1,505.0	1,622.0	1,720.0	1,735.0	1,626.3	1,545.0	1,668.6
Gross Profit		3,166.0	3,383.0	3,685.0	4,105.0	4,525.0	3,694.7	3,510.0	3,790.8
% Margin		66.4%	69.2%	69.4%	70.5%	72.3%	69.4%	69.4%	69.4%
Selling, General & Administrative		1,885.0	1,739.0	1,716.0	1,916.0	2,095.0	1,780.8	1,677.2	1,811.4
EBITDA		1,281	1,644	1,969	2,189	2,430	1,914	1,833	1,979
% Margin		26.9%	33.6%	37.1%	37.6%	38.8%	36.0%	36.3%	36.3%
Depreciation & Amortization		199.0	240.0	242.0	308.0	412.0	261.3	248.2	268.1
EBIT		1,082	1,404	1,727	1,881	2,018	1,653	1,585	1,711
% Margin		22.7%	28.7%	32.5%	32.3%	32.2%	31.1%	31.3%	31.3%
Income Taxes		206.0	409.0	663.0	266.0	301.0	347.1	332.8	359.4
EBIAT		876	995	1,064	1,615	1,717	1,306	1,252	1,352
Free Cash Flow Adjustments:									
Plus: Depreciation & Amortization		199.0	240.0	242.0	308.0	412.0	261.3	248.2	268.1
Less: Capital Expenditures		(224.0)	(216.0)	(224.0)	(338.0)	(460.0)	(250)	(238)	(257)
Less: Increase in NWC							611	-26	-200
<b>Free Cash Flow to Firm</b>							\$2,428.3	\$1,711.9	\$1,676.3
Weighted Average Cost of Capital		5.65%							
Discount Period							1.0	2.0	3.0
Discount Factor							0.95	0.90	0.85
<b>Present Value of FCFFs</b>							\$2,298.5	\$1,533.8	\$1,421.6



# Discounted Cash Flow Model – Base Case Output (2/2)

## Exit Multiple Method

Enterprise Value	
Present Value of Projected FCF	\$5,253.9
Terminal Value	
Terminal Year EBITDA	\$1,979.4
Exit Multiple	24.1x
Terminal Value	\$47,703.4
Discount Factor	0.85
Present Value of Terminal Value	\$40,454.9
% of Enterprise Value	89%
Enterprise Value	\$45,708.8

Implied Equity Value	
Enterprise Value	\$45,708.8
Less: Total Debt	\$6,111.0
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$1,934.0
Implied Equity Value	\$41,531.8
Shares Outstanding	317.0
Implied Share Price	\$131.02

## Perpetuity Growth Method

Enterprise Value	
Present Value of Projected FCF	\$5,253.9
Terminal Value	
Terminal Year FCF	\$1,676.3
Perpetual FCF Growth Rate	2.3%
Terminal Value	\$50,075.7
Discount Factor	0.85
Present Value of Terminal Value	\$42,466.7
% of Enterprise Value	89%
Enterprise Value	\$47,720.6

Implied Equity Value	
Enterprise Value	\$47,720.6
Less: Total Debt	\$6,111.0
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$1,934.0
Implied Equity Value	\$43,543.6
Shares Outstanding	317.0
Implied Share Price	\$137.36

Implied Share Price						Implied Share Price						
Exit Multiple						Long Term FCF Growth Rate						
	\$131.02	23.1x	23.6x	24.1x	24.6x	25.1x	\$137.36	2.1%	2.2%	2.3%	2.4%	2.5%
WACC	6.2%	\$123.85	\$126.46	\$129.07	\$131.68	\$134.29	6.2%	\$112.42	\$115.18	\$118.09	\$121.15	\$124.38
	5.9%	\$124.77	\$127.40	\$130.03	\$132.66	\$135.29	5.9%	\$120.50	\$123.66	\$127.01	\$130.54	\$134.28
	5.7%	\$125.71	\$128.36	\$131.01	\$133.65	\$136.30	5.7%	\$129.71	\$133.37	\$137.25	\$141.37	\$145.75
	5.4%	\$126.66	\$129.32	\$131.99	\$134.65	\$137.32	5.4%	\$140.32	\$144.60	\$149.15	\$154.01	\$159.20
	5.2%	\$127.61	\$130.29	\$132.98	\$135.67	\$138.35	5.2%	\$152.67	\$157.73	\$163.14	\$168.94	\$175.18

# Discounted Cash Flow Model – Upside Case Output (1/2)

Zoetis										
Discounted Cash Flow Analysis (Millions of Dollars)										
Calculation of FCFF	Units	Historical			Projected					
		2015	2016	2017	2018	2019	2020	2021	2022	
Operating Scenario	2 Upside									
Revenue		\$4,765	\$4,888	\$5,307	\$5,825	\$6,260	\$5,634	\$5,634	\$6,028	
% Growth		0.0%	2.6%	8.6%	9.8%	7.5%	-10.0%	0.0%	7.0%	
Cost of Goods Sold (Excl. D&A)		1,599.0	1,505.0	1,622.0	1,720.0	1,735.0	1,665.6	1,665.6	1,782.2	
Gross Profit		3,166.0	3,383.0	3,685.0	4,105.0	4,525.0	3,968.4	3,968.4	4,246.2	
% Margin		66.4%	69.2%	69.4%	70.5%	72.3%	70.4%	70.4%	70.4%	
Selling, General & Administrative		1,885.0	1,739.0	1,716.0	1,916.0	2,095.0	1,829.2	1,813.0	1,909.8	
EBITDA		1,281	1,644	1,969	2,189	2,430	2,139	2,155	2,336	
% Margin		26.9%	33.6%	37.1%	37.6%	38.8%	38.0%	38.3%	38.8%	
Depreciation & Amortization		199.0	240.0	242.0	308.0	412.0	248.5	248.5	265.9	
EBIT		1,082	1,404	1,727	1,881	2,018	1,891	1,907	2,071	
% Margin		22.7%	28.7%	32.5%	32.3%	32.2%	33.6%	33.8%	34.3%	
Income Taxes		206.0	409.0	663.0	266.0	301.0	397.1	400.5	434.8	
EBIAT		876	995	1,064	1,615	1,717	1,494	1,506	1,636	
Free Cash Flow Adjustments:										
Plus: Depreciation & Amortization		199.0	240.0	242.0	308.0	412.0	248.5	248.5	265.9	
Less: Capital Expenditures		(224.0)	(216.0)	(224.0)	(338.0)	(460.0)	(378)	(378)	(404)	
Less: Increase in NWC							583	-72	-302	
Free Cash Flow to Firm							\$2,702.5	\$2,060.8	\$2,003.9	
Weighted Average Cost of Capital		5.65%								
Discount Period							1.0	2.0	3.0	
Discount Factor							0.95	0.90	0.85	
Present Value of FCFFs							\$2,558.0	\$1,846.3	\$1,699.4	

# Discounted Cash Flow Model – Upside Case Output (2/2)

## Exit Multiple Method

Enterprise Value	
Present Value of Projected FCF	\$6,103.7
Terminal Value	
Terminal Year EBITDA	\$2,336.4
Exit Multiple	24.1x
Terminal Value	\$56,307.7
Discount Factor	0.85
Present Value of Terminal Value	\$47,751.8
% of Enterprise Value	89%
Enterprise Value	\$53,855.5

Implied Equity Value	
Enterprise Value	\$53,855.5
Less: Total Debt	\$6,111.0
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$1,934.0
Implied Equity Value	\$49,678.5
Shares Outstanding	317.0
Implied Share Price	\$156.71

## Perpetuity Growth Method

Enterprise Value	
Present Value of Projected FCF	\$6,103.7
Terminal Value	
Terminal Year FCF	\$2,003.9
Perpetual FCF Growth Rate	2.3%
Terminal Value	\$59,860.2
Discount Factor	0.85
Present Value of Terminal Value	\$50,764.4
% of Enterprise Value	89%
Enterprise Value	\$56,868.1

Implied Equity Value	
Enterprise Value	\$56,868.1
Less: Total Debt	\$6,111.0
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$1,934.0
Implied Equity Value	\$52,691.1
Shares Outstanding	317.0
Implied Share Price	\$166.22

Implied Share Price						Implied Share Price						
Exit Multiple						Long Term FCF Growth Rate						
	\$156.71	23.1x	23.6x	24.1x	24.6x	25.1x	\$166.22	2.1%	2.2%	2.3%	2.4%	2.5%
WACC	6.2%	\$148.25	\$151.34	\$154.42	\$157.50	\$160.58	6.2%	\$136.40	\$139.71	\$143.18	\$146.84	\$150.70
	5.9%	\$149.35	\$152.45	\$155.55	\$158.66	\$161.76	5.9%	\$146.06	\$149.85	\$153.84	\$158.07	\$162.54
	5.7%	\$150.45	\$153.58	\$156.70	\$159.83	\$162.95	5.7%	\$157.08	\$161.45	\$166.09	\$171.01	\$176.25
	5.4%	\$151.57	\$154.72	\$157.86	\$161.01	\$164.16	5.4%	\$169.76	\$174.87	\$180.31	\$186.12	\$192.32
	5.2%	\$152.69	\$155.86	\$159.03	\$162.20	\$165.37	5.2%	\$184.52	\$190.56	\$197.03	\$203.97	\$211.43

# Discounted Cash Flow Model – Downside Output (1/2)

Zoetis										
Discounted Cash Flow Analysis (Millions of Dollars)										
Calculation of FCFF		Units	2015	2016	Historical 2017	2018	2019	Projected		
			2020	2021	2022					
Operating Scenario	3	Downside								
<b>Revenue</b>			<b>\$4,765</b>	<b>\$4,888</b>	<b>\$5,307</b>	<b>\$5,825</b>	<b>\$6,260</b>	<b>\$5,008</b>	<b>\$4,607</b>	<b>\$4,792</b>
% Growth			0.0%	2.6%	8.6%	9.8%	7.5%	-20.0%	-8.0%	4.0%
Cost of Goods Sold (Excl. D&A)			1,599.0	1,505.0	1,622.0	1,720.0	1,735.0	1,580.7	1,454.2	1,512.4
Gross Profit			3,166.0	3,383.0	3,685.0	4,105.0	4,525.0	3,427.3	3,153.1	3,279.2
% Margin			66.4%	69.2%	69.4%	70.5%	72.3%	68.4%	68.4%	68.4%
Selling, General & Administrative			1,885.0	1,739.0	1,716.0	1,916.0	2,095.0	1,726.1	1,574.8	1,637.8
<b>EBITDA</b>			<b>1,281</b>	<b>1,644</b>	<b>1,969</b>	<b>2,189</b>	<b>2,430</b>	<b>1,701</b>	<b>1,578</b>	<b>1,641</b>
% Margin			26.9%	33.6%	37.1%	37.6%	38.8%	34.0%	34.3%	34.3%
Depreciation & Amortization			199.0	240.0	242.0	308.0	412.0	270.9	249.3	259.2
<b>EBIT</b>			<b>1,082</b>	<b>1,404</b>	<b>1,727</b>	<b>1,881</b>	<b>2,018</b>	<b>1,430</b>	<b>1,329</b>	<b>1,382</b>
% Margin			22.7%	28.7%	32.5%	32.3%	32.2%	28.6%	28.8%	28.8%
Income Taxes			206.0	409.0	663.0	266.0	301.0	300.4	279.1	290.3
<b>EBIAT</b>			<b>876</b>	<b>995</b>	<b>1,064</b>	<b>1,615</b>	<b>1,717</b>	<b>1,130</b>	<b>1,050</b>	<b>1,092</b>
Free Cash Flow Adjustments:										
Plus: Depreciation & Amortization			199.0	240.0	242.0	308.0	412.0	270.9	249.3	259.2
Less: Capital Expenditures			(224.0)	(216.0)	(224.0)	(338.0)	(460.0)	(135)	(124)	(129)
Less: Increase in NWC								622	46	-32
<b>Free Cash Flow to Firm</b>								<b>\$2,157.8</b>	<b>\$1,469.5</b>	<b>\$1,449.1</b>
Weighted Average Cost of Capital			5.65%							
Discount Period								1.0	2.0	3.0
Discount Factor								0.95	0.90	0.85
<b>Present Value of FCFFs</b>								<b>\$2,042.5</b>	<b>\$1,316.6</b>	<b>\$1,228.9</b>



# Discounted Cash Flow Model – Downside Case Output (2/2)

## Exit Multiple Method

Enterprise Value	
Present Value of Projected FCF	\$4,588.0
Terminal Value	
Terminal Year EBITDA	\$1,641.5
Exit Multiple	24.1x
Terminal Value	\$39,559.6
Discount Factor	0.85
Present Value of Terminal Value	\$33,548.5
% of Enterprise Value	88%
Enterprise Value	\$38,136.5

Implied Equity Value	
Enterprise Value	\$38,136.5
Less: Total Debt	\$6,111.0
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$1,934.0
Implied Equity Value	\$33,959.5
Shares Outstanding	317.0
Implied Share Price	\$107.13

## Perpetuity Growth Method

Enterprise Value	
Present Value of Projected FCF	\$4,588.0
Terminal Value	
Terminal Year FCF	\$1,449.1
Perpetual FCF Growth Rate	2.3%
Terminal Value	\$43,288.6
Discount Factor	0.85
Present Value of Terminal Value	\$36,710.9
% of Enterprise Value	89%
Enterprise Value	\$41,298.9

Implied Equity Value	
Enterprise Value	\$41,298.9
Less: Total Debt	\$6,111.0
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$1,934.0
Implied Equity Value	\$37,121.9
Shares Outstanding	317.0
Implied Share Price	\$117.10

Implied Share Price						Implied Share Price						
Exit Multiple						Long Term FCF Growth Rate						
	\$107.13	23.1x	23.6x	24.1x	24.6x	25.1x	\$117.10	2.1%	2.2%	2.3%	2.4%	2.5%
WACC	6.2%	\$101.18	\$103.34	\$105.51	\$107.67	\$109.84	6.2%	\$95.54	\$97.93	\$100.44	\$103.09	\$105.88
	5.9%	\$101.95	\$104.13	\$106.31	\$108.49	\$110.67	5.9%	\$102.53	\$105.26	\$108.15	\$111.21	\$114.44
	5.7%	\$102.73	\$104.92	\$107.12	\$109.32	\$111.51	5.7%	\$110.49	\$113.66	\$117.01	\$120.57	\$124.36
	5.4%	\$103.51	\$105.73	\$107.94	\$110.15	\$112.36	5.4%	\$119.67	\$123.36	\$127.30	\$131.50	\$135.98
	5.2%	\$104.31	\$106.54	\$108.76	\$110.99	\$113.22	5.2%	\$130.34	\$134.71	\$139.39	\$144.40	\$149.80

# Comparable Companies Analysis

Zoetis Comparable Companies Analysis		Current	% of			Enterprise Value				Price	
		Share	52-Week.	Equity	Enterprise	LTM	2020E	LTM	2020E	LTM	2020E
Company	Ticker	Price	High	Value (in M)	Value (in M)	Sales	Sales	EBITDA	EBITDA	Earnings	Earnings
Zoetis	ZTS	\$128.75	\$146.26	\$60,432.00	\$65,528.00	10.8x	10.2x	26.8x	24.1x	36.4x	33.9x
IDEXX Laboratories Inc.	IDXX	\$258.88	\$296.25	\$22,037.00	\$23,000.00	9.9x	9.1x	37.2x	34.4x	53.4x	49.4x
Elanco Animal Health	ELAN	\$24.50	\$35.46	\$9,770.00	\$11,865.00	4.2x	4.8x	19.4x	16.0x	27.8x	23.8x
Dechra Pharmaceuticals	DPH	\$32.54	\$37.00	\$3,347.00	\$3,666.00	6.3x	5.6x	22.3x	20.5x	30.5x	28.2x
Mean						6.8x	6.5x	26.3x	23.6x	37.2x	33.8x
Median						6.3x	5.6x	22.3x	20.5x	30.5x	28.2x
High						9.9x	9.1x	37.2x	34.4x	53.4x	49.4x
Low						4.2x	4.8x	19.4x	16.0x	27.8x	23.8x

## Implied Share Price

Mean	\$121.11	\$121.19	\$188.43	\$147.11	\$176.18	\$139.25
Median	\$111.23	\$102.59	\$157.77	\$125.86	\$144.32	\$116.18
High	\$182.32	\$174.94	\$271.98	\$220.14	\$252.68	\$203.52
Low	\$69.76	\$86.05	\$135.54	\$95.34	\$131.55	\$98.05

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