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Return on Investment

Current Share Price	\$157.48
Target Price	\$190.00
Dividend Yield	0.63%
Holding Period Return	21%
Conviction Rating	1

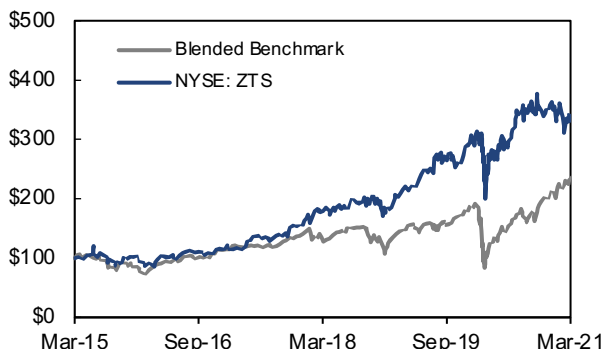
Market Profile

52-Week Range	\$110.75 - \$176.64
Market Capitalization (US\$mm)	\$74,829
Net Debt (US\$mm)	\$3,834
Enterprise Value (US\$mm)	\$78,667
Beta (5-Year Monthly)	0.63

Metrics

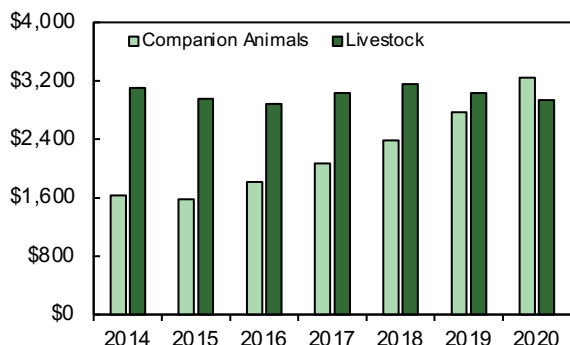
	2020A	2021E	2022E
Revenue (US\$mm)	\$6,675	\$7,475	\$7,926
EBITDA (US\$mm)	\$2,726	\$3,135	\$3,421
EPS (US\$)	\$3.85	\$4.41	\$4.90
EV/EBITDA	28.9x	25.1x	23.0x

Historical Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Segmented Revenue Over time (US\$mm)



Source: Company Filings

Investment Thesis Summary

- The CPMT views ZTS as a best-in-class name in a growing industry supported by a re-opening economy. A growing societal emphasis on companion animals and food security encourage the fund on the Company's prospects
- ZTS's growing product pipeline in key growth segments along with strategic tuck-in acquisitions has supported impressive growth in the past five years, and the CPMT is encouraged by management's ability to expand margins continuously

Business Description

Zoetis (NYSE: ZTS) is a leading international animal health company in the discovery, development, manufacturing, and commercialization of animal health medicines and vaccines, with its core focus on livestock and companion animals. The Company has a portfolio of ~300 commercial product lines across eight core species categorized into two subsegments, **(1) Livestock**: cattle, swine, poultry, sheep and fish, and **(2) Companion Animals**: dogs, cats, and horses. The Company's portfolio products categorize into veterinary medicines, diagnostic products, anti-infectives, vaccines, parasiticides, medicated feed additives, dermatology products, and other pharmaceuticals. Its complementary business includes biodevices, genetic tests, and precision livestock farming. It also offers services such as dairy data management, e-learning, and professional consulting. ZTS' legacy livestock products include the Ceftiofur injectable line, Draxxin, Spectramast, Bovi-Shield line, Rispoval line, Suvaxyn/Fostera, Embrex devices, and Lutalyse. ZTS' legacy companion animal products include Clavamox/Synulox, Convenia, ProHeart, Revolution/Stronghold, Simparica Trio™, Apoquel, Cerenia, and Rimadyl.

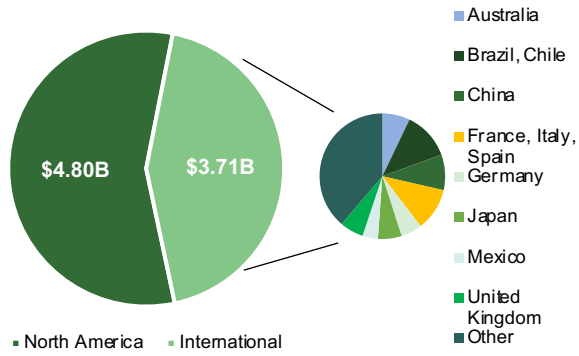
Industry Overview

According to Vetnosis, the animal medicines and vaccines sector is estimated to represent a global market of ~US\$40B in 2021. Additionally, the global animal health market is forecasted to reach US\$70B by 2026. Key industry drivers include: (1) government initiatives to encourage the growth of veterinary products and treatments, further supporting food security measures, (2) increased companion animal ownership and spending on medicines for pets to live longer, healthier lives, (3) increased demand for animal protein, challenged by limited new farmland and water, (4) technological advancements, and (5) supporting regulations that improve animal health and prevent animal disease outbreaks protecting the food supply and economy.

Animal health products are classified according to four primary segments: (1) **Vaccines**: live attenuated vaccines, DNA vaccines, recombinant vaccines, and inactivated vaccines; (2) **Pharmaceuticals**: parasiticides, anti-infectives, and analgesics; (3) **Feed Additives**: nutritional and medicinal; and (4) **Diagnostics**: instruments and consumables.

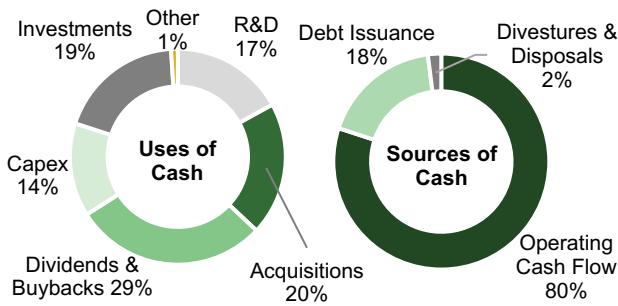
Leading distribution channels for animal health products include retail, e-commerce, and hospital pharmacy. End users for animal health products provide reference laboratories, point of care/in-house testing, and veterinary hospitals and clinics.

Figure 2: FY2020 International Revenue Breakdown (US\$\$)



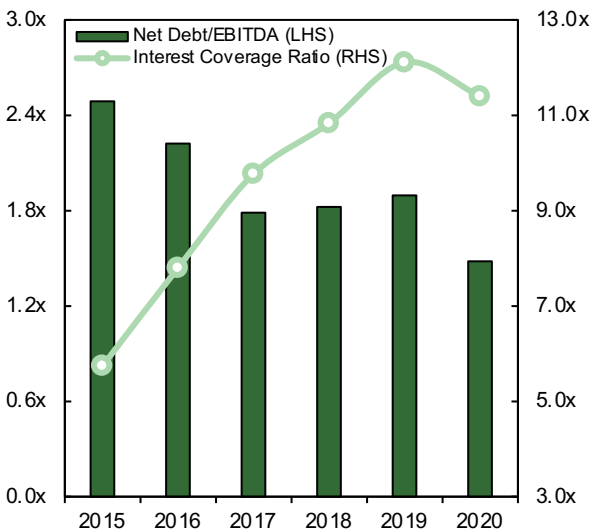
Source: Company Filings

Figure 3: Last Fiscal 5-Year Capital Deployment



Source: Company Filings

Figure 4: Interest Coverage & Net Debt/EBITDA



Source: Company Filings

Operational Overview

ZTS's operations center around its 'continuum of care model' to predict, prevent, detect, and treat diseases of companion and farm animals through its portfolio of medications, vaccines, technologies, methodologies, and consulting services to customers and clinics.

Companion Animals: the Companion Animal segments include medicines, vaccines, and portfolio services to dogs, cats, and horses. Zoetis' one-of-a-kind, unique companion animal health products include Simparica Trio™, a triple combination treatment for fleas and ticks, heartworm disease, and gastrointestinal parasites, as well as CORE EQ Innovator™, the first and only marketed vaccine for horses to contain all core equine disease antigens in one vaccine. Simparica, Simparica Trio™, Revolution Plus, and ProHeart 12 helped drive operational YoY sales growth of 25% in Companion Animal, rising 21% in the U.S.

Farm Animals: ZTS's Farm Animal product portfolio services the beef cattle, dairy cattle, fish, pig, sheep, and poultry industry. In FQ4, reductions in poultry and cattle attributed a 5% operational decline, partially offset by growth in swine and aquaculture. Key drivers for this segment will be continued growth in China swine as producers rebuild their herds and ongoing strength in emerging markets such as Brazil, partially offset by U.S. Draxxin competition (~\$300 million livestock antibiotic) leading to loss of exclusivity in February.

Diagnostics: ZTS's Diagnostics portfolio consists of more than 90 instruments and tests for vets to monitor health and detect disease. ZTS' legacy diagnostic instruments include VETSCAN®, StableLab, Zoetis Reference Laboratories, AlphaTRAK logoPet, and immunodiagnostic test kits WITNESS, ProFLOK, and SERELISA. ZTS posted ~20% YoY growth in its diagnostics portfolio, supported by its launch of VETSCAN® Imagyst, an AI-Based microscope, and cloud-based diagnostic platform to tap into the ~\$500mm fecal diagnostics market growing 7% annually over the next five years. ZTS referenced vital contributions in FQ4 from its 2020 reference lab acquisitions, including Phoenix Central Lab, ZNLabs, and Ethos Diagnostic Science, which contributed ~8% (US\$6mm) to overall diagnostics growth.

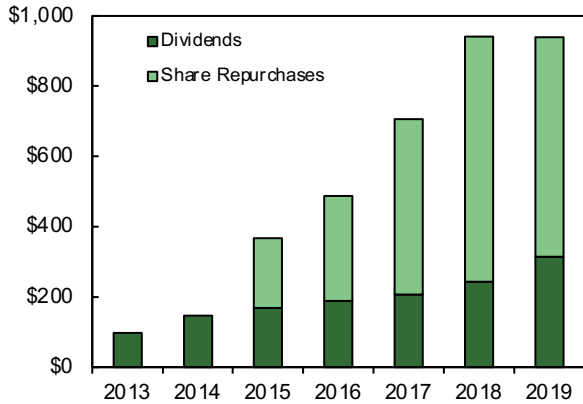
Genetics: ZTS has one of the broadest portfolios of animal genetics products and support services in the industry, which provide accurate genetic predictions that increase producers' optimization of profitability and yield. Zoetis leverages the insights from a global network of research and development labs and strategic alliances to offer DNA-marker innovations such as HD 50K for Angus, CLARIFIDE® for Nelore, CLARIFIDE® for Dairy, and Sheep 50K.

Precision Livestock Farming: Precision livestock farming tools are digital platforms, technologies, and on-farm data that aid in creating transparency for consumers interested in how food-processing animals are raised. ZTS's precision livestock tools include the SMARTBOW®, an advanced ear-tag monitoring system that tracks the location, rumination, and heat of the cattle, as well as signs of stress and subclinical disease. Performance Livestock Analytics, a cloud-based platform, allows producers to connect and share data with their veterinarian, nutritionist, or other trusted advisors for better data-driven cattle management.

Mandate Fit

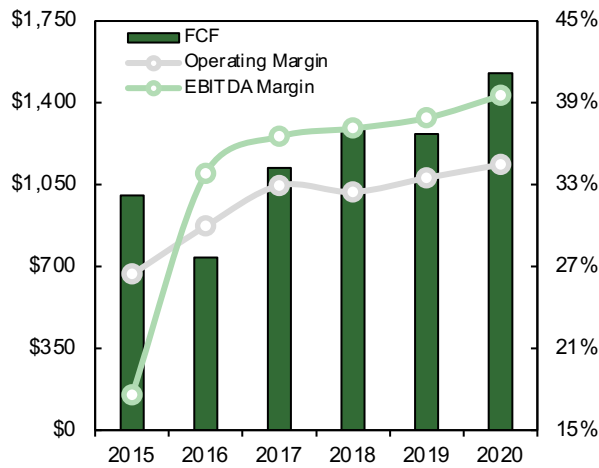
Quality Management: As of January 2020, ZTS has been led by CEO and Director Kristin Peck. Ms. Peck served as Executive VP for Pfizer's Executive Leadership Team for Pfizer's Animal Health and Nutrition businesses. In 2013, Peck assisted ZTS through (cont.)

Figure 5: Capital Returned to Shareholders (US\$m)



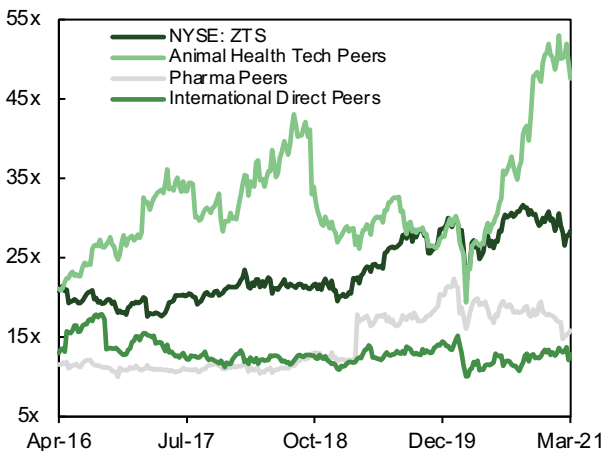
Source: Company Filings

Figure 6: FCF (US\$m) (LHS) & Margins (RHS)



Source: Company Filings

Figure 7: LTM EV/EBITDA vs Peer Groups



Source: Refinitiv Eikon

Animal Health Tech Peers: NASDAQ: IDXX, CVET

Pharma Peers: NYSE: LLY, MRK, BMY

International Peers: EPA: VETO, VIRP, NASDAQ: PAHC

its IPO. She has been a driving force of change in multiple teams, such as Global Manufacturing and Supply, Global Diagnostics, Global Poultry, and New Product Marketing and Global Market Research. The current management team has focused on growth in innovation and acquisitions, successfully acquiring Abbott's animal health assets, KL Products, Inc., PHARMAQ, Scandinavian Micro Biodevices, Nexvet, SmartBow, ZNLabs, and Abaxis to date. Management has returned US\$3.687B in capital to shareholders from 2013-2019 through share repurchases and dividends.

Competitive Advantages: (1) Breadth of portfolio products and expertise across the entire continuum of animal care; in FY2019, ZTS's top 10 products and product lines accounted for 41% of total revenue, with the top five accounting for 29%. (2) Sustained innovation momentum and portfolio expansion; ZTS's U.S. companion animal segment grew 30% YoY in 2020 due to the mix of the Simparica Trio™ launch and dermatology growth, translating to outperformance against peers. With Revolution, ProHeart 12, and Simparica Trio™, ZTS capitalizes on the sizeable \$4-5B parasiticide market. (3) ZTS' main competitors are large pharmaceutical companies with animal health subsidiaries and international, small-cap animal health biotechnology companies, rendering ZTS a pure-play leader within the industry. (4) Best-in-class products that are first to market, such as the Core EQ Innovator™, the first and only vaccine for horses to contain all five core equine disease antigens; Cytoint®, the first canine monoclonal antibody to help reduce the clinical signs of atopic dermatitis in dogs; and Apoquel®, the first Janus kinase inhibitor for use in veterinary medicine.

Strong Balance Sheet: ZTS's recent FQ4 2020 report highlights building cash reserves, operational efficiency initiatives, and strong working capital management. The company has cash reserves of US\$3.6B, net debt to EBITDA of 1.3x, and a strong interest coverage ratio of 11.4x. Additionally, ZTS's sustained dividend suggests upward pressure, as its dividend payout of ~23% is below the peer median at ~44%. ZTS's total dividend coverage of 10.48x implies that dividends are wholly paid from operating and investing cash flows net of any debt repayments, suggesting high dividend quality. The CPMT believes ZTS's balance sheet strengths signal ample ability to invest in internal growth and inorganic growth initiatives, including tuck-in deals in tangential areas – genetics and data analytics.

Growing Free Cash Flow: ZTS has shown resilience throughout the pandemic, achieving 9% operational revenue growth and 10% income growth in 2020. We are encouraged by management's ability to expand margins over time. Expanding margins and a 6-year FCF CAGR of 7.2% showcases the Company's strong cash-generating capacity.

Valuation and Investment Thesis

ZTS was valued using a five-year DCF with a WACC of 7.14% and an EV/LTM EBITDA exit multiple of 23x arriving at a price target of \$190. This assumes mid-single-digit revenue growth and conservative further margin expansion for the forecasted period. The CPMT believes ZTS represents an opportunity to capitalize on a stabilizing companion animal market, strengthened by the human-pet bond enforced over the pandemic. Additionally, the CPMT believes that ZTS' ability to capitalize on key market trends exposure with strong R&D (Diagnostics, Genetics) will provide long-term value.

Catalysts include (1) upcoming pipeline opportunities, (2) core product growth, and (3) and improving livestock fundamentals. **Risks** include (1) high competition and (2) extended pandemic effects.