

# FIRST QUARTER 2017 FINANCIAL RESULTS

May 4, 2017



## FORWARD-LOOKING STATEMENTS

*This presentation contains forward-looking statements, which reflect the current views of Zoetis with respect to business plans or prospects, future operating or financial performance, future guidance, future operating models, expectations regarding products, future use of cash and dividend payments, tax rate and tax regimes, changes in the tax regimes and laws in other jurisdictions, and other future events. These statements are not guarantees of future performance or actions. Forward-looking statements are subject to risks and uncertainties. If one or more of these risks or uncertainties materialize, or if management's underlying assumptions prove to be incorrect, actual results may differ materially from those contemplated by a forward-looking statement. Forward-looking statements speak only as of the date on which they are made. Zoetis expressly disclaims any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. A further list and description of risks, uncertainties and other matters can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, including in the sections thereof captioned "Forward-Looking Information and Factors That May Affect Future Results" and "Item 1A. Risk Factors," in our Quarterly Reports on Form 10-Q and in our Current Reports on Form 8-K. These filings and subsequent filings are available online at [www.sec.gov](http://www.sec.gov), [www.zoetis.com](http://www.zoetis.com), or on request from Zoetis.*

## NON-GAAP FINANCIAL INFORMATION

*We use non-GAAP financial measures, such as adjusted net income, adjusted diluted earnings per share, operational results (which excludes the impact of foreign exchange) to assess and analyze our results and trends and to make financial and operational decisions. We believe these non-GAAP financial measures are also useful to investors because they provide greater transparency regarding our operating performance. The non-GAAP financial measures included in this presentation should not be considered alternatives to measurements required by GAAP, such as net income, operating income, and earnings per share, and should not be considered measures of liquidity. These non-GAAP financial measures are unlikely to be comparable with non-GAAP information provided by other companies. Reconciliation of non-GAAP financial measures and GAAP financial measures are included in the tables accompanying our earnings release and are posted on our website at [www.zoetis.com](http://www.zoetis.com).*

# JUAN RAMÓN ALAIX CHIEF EXECUTIVE OFFICER

# KEY CEO TAKEAWAYS

## STRONG START TO 2017

- Strong start to 2017 with operational<sup>1</sup> revenue growth driven largely by sales of companion animal products such as Simparica, Apoquel and Cytoint, and our livestock portfolio featured growth in swine, cattle and fish across our international markets
- Adjusted net income<sup>2</sup> growth continues to outpace revenue growth
- Steady, profitable results based on diverse portfolio, new products and more efficient cost structure

## WELL-POSITIONED FOR LONG TERM PROFITABLE GROWTH

- Good runway for future growth based on recently launched products and investments
- Operational efficiency initiative is fully implemented
- Continue to make investments internally and externally to support key growth opportunities
- Reaffirmed full-year 2017 guidance

<sup>1</sup>Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange

<sup>2</sup>Adjusted Net Income (non-GAAP financial measure) is defined as reported U.S. generally accepted accounting principles (GAAP) net income excluding purchase accounting adjustments, acquisition-related costs and certain significant items

# GLENN DAVID CHIEF FINANCIAL OFFICER

# INCOME STATEMENT HIGHLIGHTS

	First Quarter		
	2017*	2016*	Change
Revenue	\$1,231	\$1,162	6%
Reported Net Income	238	204	17%
Reported Diluted Earnings Per Share	\$0.48	\$0.41	17%
Adjusted Net Income <sup>1</sup>	261	239	9%
Adjusted Diluted EPS <sup>1</sup>	\$0.53	\$0.48	10%

\* Millions of dollars, except per share data

<sup>1</sup>Adjusted net income and adjusted diluted earnings per share (non-GAAP financial measures) are defined as reported net income attributable to Zoetis and reported diluted earnings per share, excluding purchase accounting adjustments, acquisition-related costs and certain significant items.

# ADJUSTED INCOME STATEMENT HIGHLIGHTS

	First Quarter				
	2017*	2016*	Change	Foreign Exchange	Operational <sup>2</sup>
Revenue	\$1,231	\$1,162	6%	-	6%
Adjusted Cost of Sales <sup>1</sup>	438	378	16%	2%	14%
<i>as a percent of revenue</i>	35.6%	32.5%	NA	NA	NA
Adjusted SG&A Expenses <sup>1</sup>	306	300	2%	-	2%
Adjusted R&D Expenses <sup>1</sup>	89	89	-	-	-
Effective Tax Rate on Adjusted Income <sup>1</sup>	27.8%	30.9%	NA	NA	NA
Adjusted Net Income <sup>1</sup>	261	239	9%	(1)%	10%

\* Millions of dollars

NA – Not applicable

<sup>1</sup>Adjusted net income and its components and adjusted diluted EPS (non-GAAP financial measures) are defined as reported U.S. generally accepted accounting principles (GAAP) net income and its components and reported diluted EPS excluding purchase accounting adjustments, acquisition-related costs and certain significant items. Adjusted cost of sales, adjusted selling, general and administrative (SG&A) expenses, adjusted research and development (R&D) expenses, and adjusted tax expenses are income statement line items prepared on the same basis, and, therefore, components of the overall adjusted income measure.

<sup>2</sup>Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange.

# US SEGMENT PERFORMANCE

	First Quarter				
	2017*	2016*	Change	Foreign Exchange	Operational <sup>1</sup>
Revenue	\$605	\$582	4%	-	4%
Livestock	282	288	(2)%	-	(2)%
Companion Animal	323	294	10%	-	10%
Cost of Sales	137	131	5%	-	5%
Gross Profit	468	451	4%	-	4%
<i>Gross Margin</i>	77.4%	77.5%	NA	-	NA
Operating Expenses	96	92	4%	-	4%
Other (Income)/Deductions	-	-	-	-	-
Earnings <sup>2</sup>	372	359	4%	-	4%

\* Millions of dollars, NA – Not applicable

<sup>1</sup>Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange

<sup>2</sup>Defined as income before provision for taxes on income



# INTERNATIONAL SEGMENT PERFORMANCE

	First Quarter				
	2017*	2016*	Change	Foreign Exchange	Operational <sup>1</sup>
Revenue	\$615	\$567	8%	(1)%	9%
Livestock	421	395	7%	-	7%
Companion Animal	194	172	13%	(2)%	15%
Cost of Sales	213	196	9%	-	9%
Gross Profit	402	371	8%	(1)%	9%
<i>Gross Margin</i>	65.4%	65.4%	NA	NA	NA
Operating Expenses	114	109	5%	1%	4%
Other (Income)/Deductions	(3)	2	**	**	**
Earnings <sup>2</sup>	291	260	12%	-	12%

\* Millions of dollars, NA – Not applicable, \*\* Calculation not meaningful

<sup>1</sup>Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange

<sup>2</sup>Defined as income before provision for taxes on income

# INTERNATIONAL MARKET REVENUE

	First Quarter				
	2017*	2016*	Change	Foreign Exchange	Operational <sup>1</sup>
Total International	\$615	\$567	8%	(1)%	9%
Australia	40	35	14%	4%	10%
Brazil	66	46	43%	28%	15%
Canada	34	33	3%	3%	-
China	52	38	37%	(10)%	47%
France	29	36	(19)%	(4)%	(15)%
Germany	28	29	(3)%	(2)%	(1)%
Italy	22	20	10%	(1)%	11%
Japan	34	31	10%	3%	7%
Mexico	18	19	(5)%	(15)%	10%
Spain	20	19	5%	(4)%	9%
United Kingdom	43	50	(14)%	(14)%	-
Other Developed	68	68	-	1%	(1)%
Other Emerging	161	143	13%	(1)%	14%

\* Millions of dollars

<sup>1</sup>Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange.

# FINANCIAL GUIDANCE

Selected Line Items (millions of dollars, except per share amounts)	2017
Revenue <i>Operational growth</i> <sup>1</sup>	\$5,100 to \$5,225 5.5% to 7.5%
Adjusted cost of sales as a percentage of revenue <sup>2</sup>	32% to 33%
Adjusted SG&A expenses <sup>2</sup>	\$1,265 to \$1,325
Adjusted R&D expenses <sup>2</sup>	\$360 to \$380
Adjusted interest expense and other (income) / deductions <sup>2</sup>	Approximately \$160
Adjusted EBIT margin <sup>2</sup>	34% to 35%
Effective tax rate on adjusted income <sup>2</sup>	Approximately 30%
Adjusted diluted EPS <sup>2</sup>	\$2.26 to \$2.36
Adjusted net income <sup>2</sup> <i>Operational growth</i> <sup>1,3</sup>	\$1,120 to 1,170 15% to 20%
Certain significant items <sup>4</sup> and acquisition-related costs	\$30 to \$50
Reported diluted EPS	\$2.08 to \$2.20

<sup>1</sup>Operational growth (a non-GAAP financial measure) excludes the impact of foreign exchange

<sup>2</sup>Adjusted net income and its components and adjusted diluted EPS (non-GAAP financial measures) are defined as reported U.S. generally accepted accounting principles (GAAP) net income and its components and reported diluted EPS excluding purchase accounting adjustments, acquisition-related costs and certain significant items. Adjusted Earnings before Interest and Taxes (EBIT) excludes interest expense net of capitalized interest, interest income and adjusted income taxes.

<sup>3</sup>We do not provide a reconciliation of forward-looking non-GAAP adjusted net income operational growth to the most directly comparable GAAP Reported financial measure because we are unable to calculate with reasonable certainty the foreign exchange impact of unusual gains and losses, acquisition-related expenses, potential future asset impairments and other certain significant items, without unreasonable effort. The foreign exchange impact of these items are uncertain, depend on various factors, and could have a material impact on GAAP Reported results for the guidance period.

<sup>4</sup>Primarily includes certain nonrecurring costs related to restructuring, net gains/losses on sales of assets, and other charges for the operational efficiency initiative and supply network strategy

# ONE TIME COSTS 2015 - 2017

<b>Pre-tax Charges<sup>1</sup></b> (millions of dollars)	<b>2015 - 2017</b>
Stand-up costs, acquisition-related costs and other <sup>2</sup>	\$280
Operational efficiency initiative	\$305 to \$315
Supply network strategy	\$55 to \$65
<b>Certain significant items and acquisition-related costs</b>	<b>\$640 to \$660</b>

<sup>1</sup>Excludes non-cash charges of \$57 million in 2015 and \$8 million in 2016

<sup>2</sup>Includes charges of \$93 million in 2015 for revaluation of Venezuela bolivar-denominated assets and liabilities

# Q&A

*zoetis*