

## Dear Shareholders,

**“At Zoetis, we are inspired to serve the world by ensuring the health of its animals. People rely on animals for a variety of reasons — comfort and companionship from pets as well as protein and nutrition from farm animals — and we see tremendous opportunity to help address these needs and grow our business.”**

I first wrote these words in my 2013 Letter to Shareholders upon concluding our first year as a public company and setting our sights on shaping the future of the animal health industry. As we mark our fifth anniversary this February, the opportunities in animal health are more evident than ever; the role Zoetis plays in helping ensure the health of animals is well-recognized; and the value we can create for our shareholders has been proven.

During these years, we have relied on several competitive advantages to deliver our results: a singular focus on animal health, products sold in more than 100 countries, and a diverse portfolio of approximately 300 product lines. We have strengthened our three interconnected capabilities — direct customer relationships, highly productive research and development, and high-quality manufacturing — while we have increased profit margins and improved our financial position. And, we have demonstrated our value proposition to grow revenue in line with or faster than the animal health market; grow adjusted net income faster than revenue; target value-added investment opportunities; and return excess capital to shareholders.

In 2017, we delivered our **fifth** consecutive year of operational revenue growth and increased profitability — 8% and 21%, respectively — consistent with our value proposition. We have placed Zoetis firmly on a course for sustainable profitable growth by continuing to simplify our operations and increasing our cash for internal and external investments, while returning excess capital to shareholders.

The credit for this success goes to our Zoetis colleagues. I am very proud of their dedication and passion for supporting our customers, and I admire the many ways they demonstrate their commitment to Our Core Beliefs.



**JUAN RAMÓN ALAIX**  
CHIEF EXECUTIVE OFFICER

### OUR CORE BELIEFS

**OUR COLLEAGUES  
MAKE THE DIFFERENCE**

**ALWAYS DO THE  
RIGHT THING**

**CUSTOMER OBSESSED**

**RUN IT LIKE YOU OWN IT**

**WE ARE ONE ZOETIS**

## OUR VALUE PROPOSITION



Grow revenue in line with or faster than the market



Grow adjusted net income faster than revenue



Target value-added investment opportunities



Return excess capital to shareholders

## 2017 — FIFTH CONSECUTIVE YEAR OF SOLID PERFORMANCE

Our performance in 2017 demonstrated our financial strength in the following ways:

- achieved \$5.3 billion in revenue in 2017, becoming the first global animal health company to earn more than \$5 billion in annual revenue
- grew operational revenue at 8%, faster than the historical 5% to 6%<sup>1</sup> compound annual growth for the animal health market
- grew adjusted net income faster than revenue at 21% operationally
- achieved adjusted EBIT margin of 34%, an improvement of 900 basis points in the past three years
- realized the full impact of our efficiency improvements and nearly doubled operating cash flow.

## BUILT A RESILIENT, GROWING, AND COMPETITIVE COMPANY

We demonstrated the resilience of our business and ability to successfully compete, achieving growth in the face of economic and political challenges, regulatory changes and the normal business cycles of our livestock farmer customers.

As we improved our profitability and cash flow in 2017, we allocated capital for investments that will support our future growth in these ways:

- expanded our field force in fast growing markets such as China and Brazil
- implemented direct to consumer advertising and promotional campaigns in the United States and Brazil to support key companion animal products, Apoquel<sup>®</sup> and Simparica<sup>®</sup>
- invested in research and development and acquisitions
- enhanced the capacity and capabilities of our global manufacturing network.

## GROWTH STRATEGY FRAMED AROUND EVOLVING CUSTOMER NEEDS

A growing world population, increasing middle class and urbanization are all fueling greater demand for meats, milk, poultry, eggs and fish. Likewise, they are driving up pet ownership and spending on healthcare. These have been — and will remain — the fundamental drivers of demand for animal health products and for predictable growth in the animal health sector.

We also see other forces in the marketplace that are shaping customer needs and creating new opportunities to address and issues to navigate.

## Maintaining the Pace of Improvements in Animal Agriculture

Consumers in markets worldwide are more interested in how their food is produced. Together with food retailers and regulators, they are paying attention to the responsible use of antibiotics in livestock and to the use of production efficiency technologies.

While we anticipate continued demand for these products, our customers are looking to Zoetis for innovation to help them maintain the pace of improvements in animal agriculture. We are focusing our research and development and our marketing on highly integrated solutions and technologies across the continuum of care — predicting disease with genetic tests; preventing it with vaccines that are administered in some cases with robotic automation systems; detecting illness early using diagnostics and digital sensor systems; and treating disease with innovative medicines.

## Capturing Opportunities from the Humanization of Pets

Pets have become part of the family, and the “humanization” of pets is a driving force in increased demand for specialty therapeutics to manage acute and chronic diseases in companion animals such as osteoarthritis, allergies, diabetes and cardiovascular disease. It is also fueling demand for improved anti-parasitic therapies, formulations and combinations to help keep pets healthy. Add to this the increasing importance of the millennial generation who are especially motivated to spend on pet health and wellness and give reason to anticipate demand increasing for years to come.

We are already seeing the return on our investment in innovation in specialty care therapeutics with the success of our canine dermatology products Apoquel, an oral Janus kinase inhibitor, and the monoclonal antibody therapy Cytopoint<sup>®</sup>. These novel therapeutics generated \$428 million in combined sales in 2017.

We view our industry-leading innovation as central to staying competitive and fully capturing the potential of highly

integrated solutions that can generate revenue growth in line with or faster than the market.

### **2017 INVESTMENTS SHAPED PROFITABLE GROWTH**

In 2017, we began to see the benefits of recent allocations of resources, and we continued to use our increased operating cash flow to fund future growth investments.

#### **Delivered Industry-Leading Innovation**

With \$382 million in R&D expense in 2017, Zoetis continued to shape and define innovation in the animal health industry, with 200+ approvals worldwide for new products and enhancements to the current portfolio.

#### **For Companion Animals**

- We were proud to be the first company to receive approval in the European Union for a veterinary use monoclonal antibody (mAb) therapy with marketing authorization for Cytopoint, a mAb that helps reduce the clinical signs associated with atopic dermatitis, such as itching, in dogs.
- We received approval in the EU of Stronghold® Plus (selamectin/sarolaner) to treat fleas, ticks, ear mites, lice and gastrointestinal worms and prevent heartworm disease in cats. This followed the launch in 2016 of Simparica, a once-monthly chewable formulation of sarolaner to treat fleas and ticks in dogs. These were the first in a series of products to be developed from our sarolaner platform.

#### **For Livestock**

- Approval of our Alpha Ject® micro 1PD vaccine brought a new effective solution to control pancreatic disease in farmed salmon in Norway, UK and Ireland.
- For pigs, our Suvaxyn® PRRS MLV, approved in the EU, extended our Suvaxyn swine vaccine franchise to help protect pigs against the common and costly porcine reproductive and respiratory syndrome.

#### **Expanded and Enhanced Manufacturing Capacity**

Our customers also count on Zoetis for a reliable supply of high quality products at competitive prices, and we continue to see this as a critical element of supporting profitable growth.

- **Announced Plans to Expand Vaccine Development and Manufacturing in China.** To help capture the attractive growth opportunities in China from increasing demand for quality vaccines for pigs, cattle, and farmed fish, we announced plans to break ground in the spring of 2018 for a new manufacturing and R&D facility in Suzhou. We also acquired the remaining share and became the sole owner of our joint venture vaccine manufacturing site in Jilin where Zoetis has produced vaccines for swine tailored to the needs of the Chinese market since 2011.
- **Added Capacity to Produce Active Pharmaceutical Ingredient.** We enhanced our capacity to produce active pharmaceutical ingredient for our most important products within our owned global manufacturing and supply network. In September 2017, we completed the purchase of a manufacturing site in Rathdrum, Ireland. Start-up work is underway to prepare the site to take on an important role in our manufacturing.
- **Increased Capabilities and Capacity to Manufacture Medicines and Vaccines.** To meet increasing customer demand for oral tablet medications and for a new generation of vaccines developed on vector technology for the fast-growing poultry industry, Zoetis began expansions of manufacturing facilities in Kalamazoo, Michigan, and Charles City, Iowa, respectively.

#### **Deployed Capital to Strategic Acquisitions**

In July 2017, Zoetis completed the acquisition of Nexvet Biopharma for approximately \$85 million. The transaction strengthened our development platform of mAb therapies and added potential new alternatives to treat chronic pain associated with osteoarthritis in companion animals, an area of high need in animal health.

#### **ACTED ON OUR COMMITMENT TO CAPITAL EFFICIENCY**

We have delivered on our value proposition every year since our initial public offering in February 2013.

- Achieved operational revenue growth in line with or faster than the market at 8% in 2017 and every prior year (2013, 7%; 2014, 7%; 2015, 8%; 2016, 5%)

**WE DELIVERED OUR FIFTH CONSECUTIVE YEAR OF OPERATIONAL REVENUE GROWTH AND INCREASED PROFITABILITY, CONSISTENT WITH OUR VALUE PROPOSITION. THE CREDIT FOR THIS SUCCESS GOES TO OUR ZOETIS COLLEAGUES, THEIR DEDICATION AND PASSION FOR SUPPORTING OUR CUSTOMERS, AND THE MANY WAYS THEY DEMONSTRATE THEIR COMMITMENT TO OUR CORE BELIEFS.**

## ACTING ON OUR SIX RESPONSIBILITIES

Here are highlights of how Zoetis helped create shared value for society by acting on Our Six Responsibilities.



### ENSURE A SAFE AND SUSTAINABLE FOOD SUPPLY

- Began the **African Livestock Productivity and Health Advancement (A.L.P.H.A.) initiative** through which Zoetis will develop veterinary diagnostic networks and animal health infrastructure in Ethiopia, Nigeria and Uganda.
- A.L.P.H.A. has support of a US\$14.4 million grant from the Bill & Melinda Gates Foundation over three years.



### PROMOTE THE VETERINARY PROFESSION

- Celebrated the inaugural graduating class of the **U.S. – China Joint Doctor of Veterinary Medicine Scholarship**, which Zoetis has supported with the International Veterinary Collaboration for China (IVCC).
- The four graduates were the first from China to earn veterinary degrees in the U.S. since 1949.
- Zoetis is helping the veterinarians in China build a strong community prepared to serve the country's animal health needs.



### SUPPORT THE COMMUNITIES WHERE WE OPERATE

- Supported our veterinarian and livestock farmer customers when they needed us most with **response worldwide to hurricanes, earthquakes, wildfires and other natural disasters**.
- Donated \$1+ million in products and provided on-the-ground veterinary relief services.

- Improved the growth rate in adjusted net income from 16% in 2013 to 21% in 2017, consistently faster than our revenue growth rates
- Increased cash returned to shareholders in the form of dividends as a result of annual increases in the dividend rate from \$98 million in 2013 at a quarterly rate of \$0.065 to \$206 million in 2017 at a quarterly rate of \$0.105
  - Increased the per share dividend by 10.5% between 2016 and 2017
  - In December, declared a first quarter 2018 dividend of \$0.126 per share, an increase of 20% from the quarterly rate paid in 2017
- Completed \$500 million share repurchase program in 2016. Following authorization by the Board of Directors of a new \$1.5 billion multi-year share repurchase program in 2016, Zoetis completed \$500 million in share repurchases in 2017.

## CREATED SHARED VALUE

We are proud to use our resources, expertise and diverse portfolio to help build a better business and a better world.

We help create shared value for society by acting on Our Six Responsibilities: Advance Animal Health; Promote the Veterinary Profession; Ensure a Safe and Sustainable Food Supply; Support the Communities Where We Operate; Run Our Business Ethically and Responsibly; and Provide a Workplace Where Colleagues Feel Valued.

Highlights of our achievements in 2017 can be found in the sidebar “Acting on Our Six Responsibilities.” We provide a broad view of our accomplishments across Our Six Responsibilities at the Responsibility section of our website [www.zoetis.com/responsibility](http://www.zoetis.com/responsibility).

## SHAPING FUTURE SUCCESS

As Zoetis marks its fifth anniversary, we are energized by the growth opportunities in a \$31 billion<sup>1</sup> core animal health market of vaccines, medicines, parasiticides, and medicated feed additives. We are also excited by the prospect of expanding our presence in genetics, biodevices, diagnostics

and data analytics, which are part of the broader \$150 billion<sup>2</sup> animal health industry.

We are determined to stay well-positioned as:

- the **clear leader** in innovation, focusing our highly productive research and development on integrated solutions that help our customers as they strive to better predict, prevent, detect and treat disease in animals
- a **growing, resilient, competitive business** with a global presence, diverse portfolio, singular focus on animal health, and proven business model, driving increasing financial strength and competitiveness
- a **customer-obsessed company** whose colleagues are passionate about solving our customers' most pressing challenges and helping their businesses succeed
- an **admired employer with highly engaged colleagues** who live Our Core Beliefs and demonstrate the culture of ownership and accountability
- a business with the **strategic vision and management expertise** to chart a successful future for Zoetis and the animal health industry.

We stand committed to delivering on our long-term value proposition for shareholders: to grow revenue in line with or faster than the market; grow adjusted net income faster than revenue; make targeted, value-added investments; and return excess capital to shareholders.

Thank you, our shareholders, for your investment and confidence in Zoetis.

**Juan Ramón Alaix**  
Chief Executive Officer

<sup>1</sup> *Vetnosis Storm Report 2017*

<sup>2</sup> *Based on internal estimates*