

Zoetis Inc.  
Form 10-Q  
May 07, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 29, 2015  
or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

.. For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35797

Zoetis Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	46-0696167 (I.R.S. Employer Identification No.)
100 Campus Drive, Florham Park, New Jersey (Address of principal executive offices)	07932 (Zip Code)
(973) 822-7000 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).  Yes  No

At May 1, 2015, there were 499,964,316 shares of common stock outstanding.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

ZOETIS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (UNAUDITED)

(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	Three Months Ended	
	March 29, 2015	March 30, 2014
Revenue	\$1,102	\$1,097
Costs and expenses:		
Cost of sales <sup>(a)</sup>	394	379
Selling, general and administrative expenses <sup>(a)</sup>	354	356
Research and development expenses <sup>(a)</sup>	80	87
Amortization of intangible assets <sup>(a)</sup>	15	15
Restructuring charges and certain acquisition-related costs	1	3
Interest expense, net of capitalized interest	28	29
Other (income)/deductions—net	—	1
Income before provision for taxes on income	230	227
Provision for taxes on income	65	72
Net income before allocation to noncontrolling interests	165	155
Less: Net income attributable to noncontrolling interests	—	—
Net income attributable to Zoetis Inc.	\$165	\$155
Earnings per share attributable to Zoetis Inc. stockholders:		
Basic	\$0.33	\$0.31
Diluted	\$0.33	\$0.31
Weighted-average common shares outstanding:		
Basic	501.146	500.231
Diluted	503.224	500.702
Dividends declared per common share	\$0.083	\$0.072

Amortization expense related to finite-lived acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in

- <sup>(a)</sup> Amortization of intangible assets as these intangible assets benefit multiple business functions. Amortization expense related to finite-lived acquired intangible assets that are associated with a single function is included in Cost of sales, Selling, general and administrative expenses or Research and development expenses, as appropriate, in the condensed consolidated statements of income.

See notes to condensed consolidated financial statements.

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ZOETIS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (UNAUDITED)

(MILLIONS OF DOLLARS)	Three Months Ended	
	March 29, 2015	March 30, 2014
Net income before allocation to noncontrolling interests	\$165	\$155
Other comprehensive income/(loss), net of taxes and reclassification adjustments:		
Foreign currency translation adjustments, net	(118	) (11
Benefit plans: Actuarial gains, net <sup>(a)</sup>	1	—
Plan settlement, net <sup>(b)</sup>	—	3
Total other comprehensive loss, net of tax	(117	) (8
Comprehensive income before allocation to noncontrolling interests	48	147
Less: Comprehensive income attributable to noncontrolling interests	1	—
Comprehensive income attributable to Zoetis Inc.	\$47	\$147

Presented net of reclassification adjustments and tax impacts, which are not significant in any period presented.

(a) Reclassification adjustments related to benefit plans are generally reclassified, as part of net periodic pension cost, into Cost of sales, Selling, general and administrative expenses, and/or Research and development expenses, as appropriate, in the condensed consolidated statements of income.

(b) Reflects the 2014 settlement charge associated with the 2012 sale of our Netherlands manufacturing facility which was recorded to Other (income)/deductions—net. See Note 12. Benefit Plans for additional information.

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	March 29, 2015 (Unaudited)	December 31, 2014
(MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA)		
Assets		
Cash and cash equivalents	\$559	\$882
Accounts receivable, less allowance for doubtful accounts of \$31 in 2015 and \$32 in 2014	905	980
Inventories	1,346	1,289
Current deferred tax assets	87	109
Other current assets	213	205
Total current assets	3,110	3,465
Property, plant and equipment, less accumulated depreciation of \$1,155 in 2015 and \$1,145 in 2014	1,301	1,318
Goodwill	1,169	976
Identifiable intangible assets, less accumulated amortization	735	727
Noncurrent deferred tax assets	57	54
Other noncurrent assets	58	67
Total assets	\$6,430	\$6,607
Liabilities and Equity		
Short-term borrowings	\$2	\$7
Current portion of long-term debt	400	—
Accounts payable	256	290
Dividends payable	42	42
Accrued expenses	426	475
Accrued compensation and related items	173	238
Income taxes payable	41	26
Other current liabilities	30	8
Total current liabilities	1,370	1,086
Long-term debt	3,243	3,643
Noncurrent deferred tax liabilities	256	277
Other taxes payable	57	57
Other noncurrent liabilities	199	207
Total liabilities	5,125	5,270
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value: 1,000,000,000 authorized, none issued	—	—
Common stock, \$0.01 par value: 6,000,000,000 authorized; 501,454,917 and 501,342,267 shares issued; 500,367,604 and 501,327,524 shares outstanding at March 29, 2015, and December 31, 2014, respectively	5	5
Treasury stock, at cost, 1,087,313 and 14,743 shares of common stock at March 29, 2015, and December 31, 2014, respectively	(49	) —
Additional paid-in capital	969	958
Retained earnings	832	709

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Accumulated other comprehensive loss	(479	) (361	)
Total Zoetis Inc. equity	1,278	1,311	
Equity attributable to noncontrolling interests	27	26	
Total equity	1,305	1,337	
Total liabilities and equity	\$6,430	\$6,607	

See notes to condensed consolidated financial statements.

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ZOETIS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY  
 (UNAUDITED)

(MILLIONS OF DOLLARS)	Zoetis				Accumulated Other Comprehensive Loss	Equity Attributable to Noncontrolling Interests	Total Equity
	Common Stock <sup>(a)</sup>	Treasury Stock <sup>(a)</sup>	Paid-in Capital	Retained Earnings			
Balance, December 31, 2013	\$5	\$—	\$ 878	\$276	\$ (219 )	\$ 22	\$962
Three months ended March 30, 2014							
Net income	—	—	—	155	—	—	155
Other comprehensive loss	—	—	—	—	(8 )	—	(8 )
Share-based compensation awards <sup>(b)</sup>	—	—	5	—	—	—	5
Defined contribution plans transactions <sup>(c)</sup>	—	—	21	—	—	—	21
Pension plan transfer from Pfizer Inc. <sup>(d)</sup>	—	—	2	—	(2 )	—	—
Employee benefit plan contribution from Pfizer Inc. <sup>(e)</sup>	—	—	—	—	—	—	—
Dividends declared	—	—	—	(36 )	—	—	(36 )
Balance, March 30, 2014	\$5	\$—	\$ 906	\$395	\$ (229 )	\$ 22	\$1,099
Balance, December 31, 2014	\$5	\$—	\$ 958	\$709	\$ (361 )	\$ 26	\$1,337
Three months ended March 29, 2015							
Net income	—	—	—	165	—	—	165
Other comprehensive loss	—	—	—	—	(118 )	1	(117 )
Share-based compensation awards <sup>(b)</sup>	—	(2 )	10	—	—	—	8
Treasury stock acquired <sup>(f)</sup>	—	(47 )	—	—	—	—	(47 )
Employee benefit plan contribution from Pfizer Inc. <sup>(e)</sup>	—	—	1	—	—	—	1
Dividends declared	—	—	—	(42 )	—	—	(42 )
Balance, March 29, 2015	\$5	\$(49 )	\$ 969	\$832	\$ (479 )	\$ 27	\$1,305

As of March 29, 2015, and March 30, 2014, there were 500,367,604 and 500,738,620 outstanding shares of  
<sup>(a)</sup> common stock, respectively, and 1,087,313 and 6,763 shares of treasury stock, respectively. Treasury stock is  
 recognized at the cost to reacquire the shares. For additional information, see Note 14. Stockholders' Equity.

Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock  
<sup>(b)</sup> associated with the vesting of employee share-based awards. For additional information, see Note 13. Share-Based  
 Payments and Note. 14. Stockholders' Equity.

<sup>(c)</sup> Reflects company matching and profit-sharing contributions funded through the issuance of shares of Zoetis Inc.  
 common stock. For additional information, see Note 14. Stockholders' Equity.

<sup>(d)</sup> Reflects the 2014 transfers of defined benefit pension plans from Pfizer Inc. and the associated reclassification  
 from Additional Paid in Capital to Accumulated Other Comprehensive Loss. See Note 12. Benefit Plans.

<sup>(e)</sup> Represents contributed capital from Pfizer Inc. associated with service credit continuation for certain Zoetis Inc.  
 employees in Pfizer Inc.'s U.S. qualified defined benefit and U.S. retiree medical plans. See Note 12. Benefit Plans.



- (f) Reflects the acquisition of treasury shares in connection with the Share Repurchase Program. For additional information, see Note 14. Stockholders' Equity.

See notes to condensed consolidated financial statements.

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ZOETIS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

(MILLIONS OF DOLLARS)	Three Months Ended	
	March 29, 2015	March 30, 2014
Operating Activities		
Net income before allocation to noncontrolling interests	\$ 165	\$ 155
Adjustments to reconcile net income before noncontrolling interests to net cash provided by/(used in) operating activities:		
Depreciation and amortization expense	48	50
Share-based compensation expense	10	5
Asset write-offs and asset impairments	1	—
Deferred taxes	(3	) 2
Employee benefit plan contribution from Pfizer Inc.	1	—
Other non-cash adjustments	3	3
Other changes in assets and liabilities, net of acquisitions and divestitures	(165	) (238
Net cash provided by/(used in) operating activities	60	(23
Investing Activities		
Purchases of property, plant and equipment	(45	) (45
Asset acquisition <sup>(a)</sup>	(230	) —
Net proceeds from sales of assets	1	—
Net cash used in investing activities	(274	) (45
Financing Activities		
Increase/(decrease) in short-term borrowings, net	(5	) 1
Stock-based compensation-related proceeds and excess tax benefits	1	—
Purchases of treasury stock	(48	) —
Cash dividends paid	(42	) (36
Net cash used in financing activities	(94	) (35
Effect of exchange-rate changes on cash and cash equivalents	(15	) (1
Net decrease in cash and cash equivalents	(323	) (104
Cash and cash equivalents at beginning of period	882	610
Cash and cash equivalents at end of period	\$559	\$506
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes	\$52	\$13
Interest, net of capitalized interest	58	59
Non-cash transactions:		
Purchases of property, plant and equipment	\$10	\$—
Contingent purchase price consideration <sup>(a)</sup>	22	—
Dividends declared, not paid	42	36

<sup>(a)</sup> Reflects the acquisition of certain assets of Abbott Animal Health. See Note 5. Acquisitions for additional information.

See notes to condensed consolidated financial statements.

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ZOETIS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

Zoetis Inc. (including its subsidiaries, collectively, Zoetis, the company, we, us or our) is a global leader in the discovery, development, manufacture and commercialization of animal health medicines and vaccines, with a focus on both livestock and companion animals. We organize and operate our business in four geographic regions: the United States (U.S.); Europe/Africa/Middle East (EuAfME); Canada/Latin America (CLAR); and Asia/Pacific (APAC). We directly market our products in approximately 70 countries across North America, Europe, Africa, Asia, Australia and South America, and our products are sold in more than 120 countries, including developed markets and emerging markets. Our revenue is mostly generated in the U.S. and EuAfME. We have a diversified business, marketing products across eight core species: cattle, swine, poultry, sheep and fish (collectively, livestock) and dogs, cats and horses (collectively, companion animals); and within five major product categories: anti