

Zoetis Inc.  
Form 10-Q  
August 02, 2018  
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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 June 30, 2018

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 46-0696167  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

10 Sylvan Way, Parsippany, New Jersey 07054  
(Address of principal executive offices) (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, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At July 27, 2018, there were 481,823,803 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)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)				
Revenue	\$1,415	\$1,269	\$2,781	\$2,500
Costs and expenses:				
Cost of sales	447	440	894	883
Selling, general and administrative expenses	359	336	697	645
Research and development expenses	102	86	199	176
Amortization of intangible assets	23	23	46	45
Restructuring charges/(reversals) and certain acquisition-related costs	5	—	7	(1 )
Interest expense, net of capitalized interest	46	41	93	82
Other (income)/deductions—net	(4 )	(2 )	(9 )	(12 )
Income before provision for taxes on income	437	345	854	682
Provision for taxes on income	55	98	122	196
Net income before allocation to noncontrolling interests	382	247	732	486
Less: Net (loss)/income attributable to noncontrolling interests	(2 )	—	(4 )	1
Net income attributable to Zoetis Inc.	\$384	\$247	\$736	\$485
Earnings per share attributable to Zoetis Inc. stockholders:				
Basic	\$0.79	\$0.50	\$1.52	\$0.99
Diluted	\$0.79	\$0.50	\$1.51	\$0.98
Weighted-average common shares outstanding:				
Basic	483.8	490.8	484.8	491.6
Diluted	487.5	494.0	488.6	494.6
Dividends declared per common share	\$0.126	\$0.105	\$0.252	\$0.210

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
(MILLIONS OF DOLLARS)				
Net income before allocation to noncontrolling interests	\$382	\$247	\$732	\$486
Other comprehensive (loss)/income, net of taxes and reclassification adjustments:				
Unrealized losses on derivatives, net <sup>(a)</sup>	—	(1 )	—	(1 )
Foreign currency translation adjustments, net	(115 )	12	(38 )	56
Benefit plans: Actuarial (losses)/gains, net <sup>(a)</sup>	—	(1 )	—	1
Total other comprehensive (loss)/income, net of tax	(115 )	10	(38 )	56
Comprehensive income before allocation to noncontrolling interests	267	257	694	542
Less: Comprehensive (loss)/income attributable to noncontrolling interests	(3 )	—	(4 )	1
Comprehensive income attributable to Zoetis Inc.	\$270	\$257	\$698	\$541

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

Reclassification adjustments related to benefit plans are generally reclassified, as part of net periodic pension cost,  
<sup>(a)</sup> into Other (income)/deductions, beginning in the first quarter of 2018, and into Cost of sales, Selling, general and administrative expenses, and/or Research and development expenses, as appropriate, for periods prior to 2018, in the condensed consolidated statements of income.

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA)	(Unaudited)	
Assets		
Cash and cash equivalents <sup>(a)</sup>	\$ 1,558	\$ 1,564
Accounts receivable, less allowance for doubtful accounts of \$24 in 2018 and \$25 in 2017	973	998
Inventories	1,420	1,427
Other current assets	288	228
Total current assets	4,239	4,217
Property, plant and equipment, less accumulated depreciation of \$1,522 in 2018 and \$1,471 in 2017	1,470	1,435
Goodwill	1,514	1,510
Identifiable intangible assets, less accumulated amortization	1,225	1,269
Noncurrent deferred tax assets	80	80
Other noncurrent assets	75	75
Total assets	\$ 8,603	\$ 8,586
Liabilities and Equity		
Accounts payable	230	261
Dividends payable	61	61
Accrued expenses	434	432
Accrued compensation and related items	160	236
Income taxes payable	53	60
Other current liabilities	29	44
Total current liabilities	967	1,094
Long-term debt, net of discount and issuance costs	4,955	4,953
Noncurrent deferred tax liabilities	229	380
Other taxes payable	266	172
Other noncurrent liabilities	204	201
Total liabilities	6,621	6,800
Commitments and contingencies (Note 16)		
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; 501,891,243 and 501,891,243 shares issued; 482,290,154 and 486,130,461 shares outstanding at June 30, 2018, and December 31, 2017, respectively	5	5
Treasury stock, at cost, 19,601,089 and 15,760,782 shares of common stock at June 30, 2018, and December 31, 2017, respectively	(1,215)	(852)
Additional paid-in capital	1,001	1,013
Retained earnings	2,722	2,109
Accumulated other comprehensive loss	(543)	(505)
Total Zoetis Inc. equity	1,970	1,770
Equity attributable to noncontrolling interests	12	16
Total equity	1,982	1,786
Total liabilities and equity	\$ 8,603	\$ 8,586

(a) As of June 30, 2018, and December 31, 2017, includes \$5 million and \$6 million, respectively, of restricted cash.

See notes to condensed consolidated financial statements.

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

	Zoetis				Accumulated Equity		
	Common Stock <sup>(a)</sup>	Treasury Stock <sup>(a)</sup>	Paid-in Capital	Retained Earnings	Other Comprehensive Loss	Noncontrolling Interests	Total Equity
(MILLIONS OF DOLLARS)							
Balance, December 31, 2016	\$ 5	\$(421 )	\$ 1,024	\$ 1,477	\$ (598 )	\$ 12	\$ 1,499
Six months ended July 2, 2017							
Net income	—	—	—	485	—	1	486
Other comprehensive income	—	—	—	—	56	—	56
Consolidation of a noncontrolling interest <sup>(b)</sup>	—	—	—	—	—	18	18
Share-based compensation awards <sup>(c)</sup>	—	56	(1 )	(16 )	—	—	39
Treasury stock acquired <sup>(d)</sup>	—	(250 )	—	—	—	—	(250 )
Employee benefit plan contribution from Pfizer Inc. <sup>(e)</sup>	—	—	1	—	—	—	1
Dividends declared	—	—	—	(103 )	—	—	(103 )
Balance, July 2, 2017	\$ 5	\$(615 )	\$ 1,024	\$ 1,843	\$ (542 )	\$ 31	\$ 1,746
Balance, December 31, 2017	\$ 5	\$(852 )	\$ 1,013	\$ 2,109	\$ (505 )	\$ 16	\$ 1,786
Six months ended June 30, 2018							
Net income/(loss)	—	—	—	736	—	(4 )	732
Other comprehensive income	—	—	—	—	(38 )	—	(38 )
Share-based compensation awards <sup>(c)</sup>	—	42	(13 )	(1 )	—	—	28
Treasury stock acquired <sup>(d)</sup>	—	(405 )	—	—	—	—	(405 )
Employee benefit plan contribution from Pfizer Inc. <sup>(e)</sup>	—	—	1	—	—	—	1
Dividends declared	—	—	—	(122 )	—	—	(122 )
Balance, June 30, 2018	\$ 5	\$(1,215 )	\$ 1,001	\$ 2,722	\$ (543 )	\$ 12	\$ 1,982

As of June 30, 2018, and July 2, 2017, there were 482,290,154 and 489,659,511 outstanding shares of common (a) stock, respectively, and 19,601,089 and 12,231,732 shares of treasury stock, respectively. Treasury stock is recognized at the cost to reacquire the shares. For additional information, see Note 14. Stockholders' Equity.

(b) Represents the consolidation of a European livestock monitoring company, a variable interest entity of which Zoetis is the primary beneficiary.

Includes the issuance of shares of Zoetis Inc. common stock and the reissuance of treasury stock in connection with the vesting of employee share-based awards. Upon reissuance of treasury stock, differences between the proceeds from reissuance and the cost of the treasury stock that result in gains are recorded in Additional paid-in capital.

(c) Losses are recorded in Additional paid-in capital to the extent that they can offset previously recorded gains. If no such credit exists, the differences are recorded in Retained earnings. Also includes the reacquisition of shares of treasury stock associated with the vesting of employee share-based awards to satisfy tax withholding requirements. For additional information, see Note 13. Share-Based Payments and Note 14. Stockholders' Equity.

(d) Reflects the acquisition of treasury shares in connection with the share repurchase program. For additional information, see Note 14. Stockholders' Equity.

(e) 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.



See notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 30, 2018	July 2, 2017
(MILLIONS OF DOLLARS)		
Operating Activities		
Net income before allocation to noncontrolling interests	\$732	\$486
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	123	121
Share-based compensation expense	22	22
Restructuring	7	(1 )
Asset write-offs and asset impairments	7	—
Net loss on sale of assets	—	2
Provision for losses on inventory	25	40
Deferred taxes <sup>(a)</sup>	(155 )	13
Employee benefit plan contribution from Pfizer Inc.	1	