

Zoetis Inc.
Form 10-Q
August 06, 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 June 28, 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	46-0696167
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Campus Drive, Florham Park, New Jersey	07932
(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 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 August 3, 2015, there were 498,943,831 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 OPERATIONS

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)				
Revenue	\$ 1,175	\$ 1,158	\$ 2,277	\$ 2,255
Costs and expenses:				
Cost of sales ^(a)	427	413	821	792
Selling, general and administrative expenses ^(a)	379	396	733	752
Research and development expenses ^(a)	84	92	164	179
Amortization of intangible assets ^(a)	15	15	30	30
Restructuring charges and certain acquisition-related costs	266	5	267	8
Interest expense, net of capitalized interest	29	29	57	58
Other (income)/deductions—net	2	8	2	9
(Loss)/income before provision for taxes on income	(27	) 200	203	427
Provision for taxes on income	9	61	74	133
Net (loss)/income before allocation to noncontrolling interests	(36	) 139	129	294
Less: Net income attributable to noncontrolling interests	1	3	1	3
Net (loss)/income attributable to Zoetis Inc.	\$(37	) \$136	\$128	\$291
(Loss) earnings per share attributable to Zoetis Inc. stockholders:				
Basic	\$(0.07	) \$0.27	\$0.26	\$0.58
Diluted	\$(0.07	) \$0.27	\$0.25	\$0.58
Weighted-average common shares outstanding:				
Basic	500.173	500.975	500.660	500.603
Diluted	500.173	501.684	502.893	501.193
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

(a) 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 operations.

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		Six Months Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Net (loss)/income before allocation to noncontrolling interests	\$ (36	) \$ 139	\$ 129	\$ 294
Other comprehensive (loss)/income, net of taxes and reclassification adjustments:				
Foreign currency translation adjustments, net	(25	) 29	(143	) 18
Benefit plans: Actuarial gains, net ^(a)	—	—	1	—
Plan settlement, net ^(b)	—	—	—	3
Total other comprehensive (loss)/income, net of tax	(25	) 29	(142	) 21
Comprehensive (loss)/income before allocation to noncontrolling interests	(61	) 168	(13	) 315
Less: Comprehensive income attributable to noncontrolling interests	—	2	1	2
Comprehensive (loss)/income attributable to Zoetis Inc.	\$ (61	) \$ 166	\$ (14	) \$ 313

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 operations.

(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

	June 28, 2015 (Unaudited)	December 31, 2014
(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA)		
Assets		
Cash and cash equivalents	\$544	\$882
Accounts receivable, less allowance for doubtful accounts of \$35 in 2015 and \$32 in 2014	993	980
Inventories	1,417	1,289
Current deferred tax assets	127	109
Other current assets	235	205
Total current assets	3,316	3,465
Property, plant and equipment, less accumulated depreciation of \$1,179 in 2015 and \$1,145 in 2014	1,295	1,318
Goodwill	1,167	976
Identifiable intangible assets, less accumulated amortization	697	727
Noncurrent deferred tax assets	65	54
Other noncurrent assets	58	67
Total assets	\$6,598	\$6,607
Liabilities and Equity		
Short-term borrowings	\$4	\$7
Current portion of long-term debt	400	—
Accounts payable	278	290
Dividends payable	—	42
Accrued expenses	627	475
Accrued compensation and related items	165	238
Income taxes payable	59	26
Other current liabilities	39	8
Total current liabilities	1,572	1,086
Long-term debt	3,243	3,643
Noncurrent deferred tax liabilities	234	277
Other taxes payable	59	57
Other noncurrent liabilities	288	207
Total liabilities	5,396	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; 501,501,542 and 501,342,267 shares issued; 499,339,397 and 501,327,524 shares outstanding at June 28, 2015, and December 31, 2014, respectively	5	5
Treasury stock, at cost, 2,162,145 and 14,743 shares of common stock at June 28, 2015, and December 31, 2014, respectively	(100) —
Additional paid-in capital	980	958
Retained earnings	795	709

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Accumulated other comprehensive loss	(504) (361)
Total Zoetis Inc. equity	1,176	1,311	
Equity attributable to noncontrolling interests	26	26	
Total equity	1,202	1,337	
Total liabilities and equity	\$6,598	\$6,607	

See notes to condensed consolidated financial statements.

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

	Zoetis				Accumulated Other Comprehensive Loss	Equity Attributable to Noncontrolling Interests	Total Equity
	Common Stock ^(a)	Treasury Stock ^(a)	Paid-in Capital	Retained Earnings			
(MILLIONS OF DOLLARS)							
Balance, December 31, 2013	\$5	\$—	\$ 878	\$276	\$ (219)	\$ 22	\$962
Six months ended June 29, 2014							
Net income	—	—	—	291	—	3	294
Other comprehensive income/(loss)	—	—	—	—	22	(1)	21
Share-based compensation awards ^(b)	—	—	13	—	—	—	13
Defined contribution plans transactions ^(c)	—	—	29	—	—	—	29
Pension plan transfer from Pfizer Inc. ^(d)	—	—	2	—	(2)	—	—
Employee benefit plan contribution from Pfizer Inc. ^(e)	—	—	1	—	—	—	1
Dividends declared	—	—	—	(36)	—	(1)	(37)
Balance, June 29, 2014	\$5	\$—	\$ 923	\$531	\$ (199)	\$ 23	\$1,283
Balance, December 31, 2014	\$5	\$—	\$ 958	\$709	\$ (361)	\$ 26	\$1,337
Six months ended June 28, 2015							
Net income	—	—	—	128	—	1	129
Other comprehensive (loss)/income	—	—	—	—	(143)	1	(142)
Share-based compensation awards ^(b)	—	(2)	21	—	—	—	19
Treasury stock acquired ^(f)	—	(98)	—	—	—	—	(98)
Employee benefit plan contribution from Pfizer Inc. ^(e)	—	—	1	—	—	—	1
Dividends declared	—	—	—	(42)	—	(2)	(44)
Balance, June 28, 2015	\$5	\$(100)	\$ 980	\$795	\$ (504)	\$ 26	\$1,202

As of June 28, 2015, and June 29, 2014, there were 499,339,397 and 501,037,794 outstanding shares of common stock, respectively, and 2,162,145 and 13,420 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) Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with the vesting of employee share-based awards. For additional information, see Note 13. Share-Based Payments and Note. 14. Stockholders' Equity.

^(c) 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.

^(d) 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.

^(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.

^(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)	Six Months Ended	
	June 28, 2015	June 29, 2014
Operating Activities		
Net income before allocation to noncontrolling interests	\$ 129	\$ 294
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	98	101
Share-based compensation expense	21	13
Restructuring, net of payments	225	(5)
Asset write-offs and asset impairments	38	1
Deferred taxes	(73	