Zoetis Inc.
Form 10-K
March 26, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
or

o 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)	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
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 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 x Smaller reporting company ¨

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was $15,445 million. The registrant has no non-voting common stock.

The number of shares outstanding of the registrant's common stock as of March 19, 2014 was 500,729,429 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

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Portions of the registrant's Proxy Statement for the 2014 Annual Meeting of Shareholders to be held on May 13, 2014 (hereinafter referred to as the "2014 Proxy Statement") are incorporated into Parts II and III of this Form 10-K.

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PART I

Item 1. Business.

Overview

Zoetis Inc. 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 market a diverse range of products across four regions: the United States, Europe/Africa/Middle East, Canada/Latin America and Asia/Pacific; eight core species: the livestock species of cattle, swine, poultry, sheep and fish, and the companion animal species of dogs, cats and horses; and five major product categories: anti-infectives, vaccines, parasiticides, medicated feed additives and other pharmaceutical products. For more than 60 years, as a business unit of Pfizer Inc. (Pfizer), and now as an independent public company, we have been committed to enhancing the health of animals and bringing solutions to our customers who raise and care for them.

We were incorporated in Delaware in July 2012. The address of our principal executive offices is 100 Campus Drive, Florham Park, New Jersey 07932. Unless the context requires otherwise, references to “Zoetis,” “the company,” “we,” “us” or “our” in this Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (2013 Annual Report) refer to Zoetis Inc., a Delaware corporation, and its subsidiaries. In addition, unless the context requires otherwise, references to “Pfizer” in this 2013 Annual Report refer to Pfizer Inc., a Delaware corporation, and its subsidiaries. Unless the context requires otherwise, statements relating to our history, for periods prior to the initial public offering (IPO), describe the history of Pfizer’s animal health business unit, although it is important to note that the net assets, operations and cash flows of Zoetis are not the same as the historical net assets, operations and cash flows of Pfizer's animal health operating segment.

On February 1, 2013, our Class A common stock began trading on the New York Stock Exchange (NYSE) under the symbol “ZTS.” On February 6, 2013, an IPO of our Class A common stock was completed, which represented approximately 19.8% of our total outstanding shares. Prior to and in connection with the IPO, we completed a $3.65 billion senior notes offering (senior notes offering) and Pfizer transferred to us substantially all of the assets and liabilities of their animal health business. We did not receive any of the proceeds from the IPO. We paid an amount of cash equal to substantially all of the net proceeds that we received in the senior notes offering to Pfizer prior to the completion of the IPO. In addition, immediately prior to the completion of the IPO, we and Pfizer entered into certain agreements that provide a framework for our ongoing relationship with Pfizer. On June 24, 2013, an exchange offer was completed, whereby Pfizer shareholders exchanged a portion of Pfizer common stock for Zoetis common stock, resulting in the full separation of Zoetis and the disposal of Pfizer's entire ownership and voting interest in Zoetis. We refer to the transactions to separate our business from Pfizer, as described here and elsewhere in this 2013 Annual Report, as the “Separation.” For additional information, see Notes to Consolidated and Combined Financial Statements—Note 2. The Separation, Adjustments Associated with the Separation, Senior Notes Offering, Initial Public Offering and Exchange Offer.

Operating Segments

The animal health medicines and vaccines market is characterized by meaningful differences in customer needs across different regions. This is due to a variety of factors, including:

- economic differences, such as standards of living in developed markets as compared to emerging markets;
- cultural differences, such as dietary preferences for different animal proteins, pet ownership preferences and pet care standards;
- epidemiological differences, such as the prevalence of certain bacterial and viral strains and disease dynamics;
- treatment differences, such as utilization of different types of medicines and vaccines, in particular high-technology products;
- environmental differences, such as seasonality, climate and the availability of arable land and fresh water; and
- regulatory differences, such as standards for product approval and manufacturing.

As a result of these differences, among other things, we organize and operate our business in four segments: the United States, Europe/Africa/Middle East, Canada/Latin America and Asia/Pacific. Within each of these operating segments, we offer a diversified product portfolio for both livestock and companion animal customers so that we can capitalize on local trends and customer needs. Our operating segments are:

- United States with revenue of $1,902 million, or 42% of total revenue for the year ended December 31, 2013.
- Europe/Africa/Middle East with revenue of $1,168 million, or 25% of total revenue for the year ended December 31, 2013. Key developed markets in this segment include France, Germany and the United Kingdom. Key emerging markets in this segment include Russia, South Africa and Turkey.
- Canada/Latin America with revenue of $778 million, or 17% of total revenue for the year ended December 31, 2013. The developed market in this segment is Canada. Key emerging markets in this segment include Brazil and Mexico.
- Asia/Pacific with revenue of $713 million, or 16% of total revenue for the year ended December 31, 2013. Key developed markets in this segment include Australia, Japan and New Zealand. Key emerging markets in this segment include China, India and Thailand.

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Our 2013 reported revenue for the U.S. and top ten non-U.S. markets, based on total revenue, is as follows:

% of 2013 reported revenue	US	Brazil	Canada	Australia	UK	France	Germany	Japan	Italy	Spain	China
Livestock	55%	85%	61%	60%	57%	65%	60%	51%	62%	75%	87%
Companion Animal	45%	15%	39%	40%	43%	35%	40%	49%	38%	25%	13%

For additional information regarding our performance in each of these operating segments and the impact of foreign exchange rates, see Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated and Combined Financial Statements—Note 18A. Segment, Geographic and Other Revenue Information—Segment Information.

Products

Since the inception of our business, we have focused on developing a broad portfolio of animal health products. We refer to a single product in all brands or its dosage forms for all species as a product line. We have comprehensive product lines for both livestock and companion animals across each of our major product categories.

Our livestock products primarily help prevent or treat diseases and conditions to enable the cost-effective production of safe, high-quality animal protein. Human population growth and increasing standards of living are important long-term growth drivers for our livestock products in three major ways. First, population growth and increasing standards of living drive increased demand for improved nutrition, particularly animal protein. Second, population growth leads to increased natural resource constraints driving a need for enhanced productivity. Finally, as standards of living improve, there is increased focus on food safety. Livestock products represented approximately 64% of our revenue for the year ended December 31, 2013.

Our companion animal products improve the quality of and extend the life of pets, increase convenience and compliance for pet owners and help veterinarians improve the quality of care they provide. Growth in the companion animal medicines and vaccines sector is driven by economic development and related increases in disposable income, increasing pet ownership, companion animals living longer, increasing medical treatment of companion animals and advances in animal health medicines and vaccines. Companion animal products represented approximately 36% of our revenue for the year ended December 31, 2013.

Our major product categories are:

- anti-infectives: products that prevent, kill or slow the growth of bacteria, fungi or protozoa;
- vaccines: biological preparations that help prevent diseases of the respiratory, gastrointestinal and reproductive tracts or induce a specific immune response;
- parasiticides: products that prevent or eliminate external and internal parasites such as fleas, ticks and worms;
- medicated feed additives: products added to animal feed that provide medicines to livestock; and
- other pharmaceutical products: pain and sedation, oncology, antiemetic, allergy and dermatology; and reproductive products.

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Our remaining revenue is derived from other product categories, such as nutritionals and agribusiness, as well as products and services in complementary areas, including diagnostics, genetics, devices, dairy data management, e-learning and professional consulting.

As part of our growth strategy, through our R&D group, we focus on both product lifecycle development and new chemical and biological entities. Historically, a substantial portion of our products and revenue has been the result of product lifecycle development. For example, the first product in our ceftiofur line was an anti-infective approved for treating bovine respiratory disease (BRD) in cattle that was administered via intramuscular injection. Through follow-on studies and reformulations, we have expanded the product line into additional cattle claims and administration routes, as well as other species and regions. The ceftiofur product line currently includes the brands Excede, Excenel RTU, Excenel RTU EZ, Excenel, Naxcel and Spectramast.

Examples of our first-in-class and/or best-in-class products that we have launched in the past ten years and products that we believe may represent platforms for future product lifecycle development include:

- Improvac/Improvest/Vivax, a protein product that works like an immunization, is currently the only product that provides a safe and effective alternative to physical castration to manage unpleasant aromas that can occur when cooking pork; launched in Australia and New Zealand in 2004, in Brazil in 2007, in certain European countries beginning in 2008, and in the United States in 2011;
- Convenia, the first single-injection anti-infective for common bacterial skin infections in cats and dogs, launched in 2006;
- Palladia, the first drug to be approved by the FDA for treating cancer in dogs, launched in 2009;
- Inforce™3, the first and only respiratory vaccine for cattle that prevents respiratory disease caused by bovine respiratory syncytial virus (BRSV) while also aiding in the prevention of infectious bovine rhinotracheitis (IBR) and parainfluenza$_3$ (PI$_3$), launched in 2010; and
- Apoquel, the first Janus kinase inhibitor for use in veterinary medicine, approved for the control of pruritus associated with allergic dermatitis and the control of atopic dermatitis in dogs at least 12 months of age, successfully completed its early experience program in the United States late in 2013, and fully launched in the United States, United Kingdom, Austria and Germany in January 2014; other market launches will follow.

We pursue the development of new vaccines for emerging infectious diseases, with an operating philosophy of “first to know and fast to market.” Examples of the successful execution of this strategy include the first equine vaccine for West Nile virus in the United States and European Union, the first swine vaccine for pandemic H1N1 influenza virus in the United States and the first conditionally licensed vaccine to help reduce disease caused by the Georgia 08 variant of infectious bronchitis virus (IBV) in poultry.

In 2013, our top selling product line, the ceftiofur line, contributed approximately 7% of our revenue. The ceftiofur line and our next two top selling products, Revolution and Draxxin, contributed approximately 20% of our revenue. Our top ten product lines contributed 39% of our revenue. Our product lines and products that represented approximately 1% or more of our revenue in 2013 are as follows:

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Livestock products

Product line/ product	Description	Primary species
Anti-infectives		
Ceftiofur injectable line	Broad-spectrum cephalosporin antibiotic active against gram-positive and gram-negative bacteria, including ß-lactamase-producing strains, with some formulations producing a single course of therapy in one injection	Cattle, sheep, swine
Draxxin	Single-dose low-volume antibiotic for the treatment and prevention of bovine and swine respiratory disease, infectious bovine keratoconjunctivitis and bovine foot rot	Cattle, swine
Spectramast	Aids in preventing and treating mastitis, delivered via intramammary administration; same active ingredient as the ceftiofur line	