Zoetis Inc.
Form 10-K
March 28, 2013
Table of Contents

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, 2012

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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.)
5 Giralda Farms, Madison, NJ	07940
(Address of principal executive offices)	(Zip Code)

(973) 660-7491
(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
Class A 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 ¨ No x

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. x

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 registrant completed the initial public offering of its Class A common stock on February 6, 2013. There was no public market for the registrant’s Class A common stock or Class B common stock as of June 29, 2012, the last business day of the registrant’s most recently completed second fiscal quarter. At March 22, 2013, there were 99,015,000 shares of Class A common stock and 400,985,000 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

Table of Contents

TABLE OF CONTENTS

Table of Contents

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), 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 currently 5 Giralda Farms, Madison, New Jersey 07940. 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, 2012 (2012 Annual Report) refer to Zoetis Inc., a Delaware corporation, and its subsidiaries after giving effect to the transactions described below under “Recent Developments.” In addition, unless the context requires otherwise, references to “Pfizer” in this 2012 Annual Report refer to Pfizer Inc., a Delaware corporation, and its subsidiaries other than Zoetis and Zoetis’s subsidiaries. Unless the context requires otherwise, statements relating to our history 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, and, therefore, the historical financial results of Pfizer's animal health business unit should not be relied upon as indicative of the performance of Zoetis.

On February 6, 2013, an initial public offering (IPO) of our Class A common stock was completed, which represented approximately 19.8% of our total outstanding shares. As of the date of this 2012 Annual Report, Pfizer owns 100% of our outstanding Class B common stock and no shares of our Class A common stock, giving Pfizer 80.2% of the economic interest and the combined voting power in shares of our outstanding common stock, other than with respect to the election of directors, and 97.6% of the combined voting power of our outstanding common stock with respect to the election of directors. On February 1, 2013, our Class A common stock began trading on the New York Stock Exchange (NYSE) under the symbol “ZTS.” 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. We refer to the transactions to separate our business from Pfizer, as described here and elsewhere in this 2012 Annual Report, as the “Separation.” For additional information, see Notes to Combined Financial Statements—Note 19. Subsequent Events, as well as Recent Developments below.

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 revenues of $1,776 million that were 41% of total revenues for the year ended December 31, 2012.
- Europe/Africa/Middle East with revenues of $1,096 million that were 25% of total revenues for the year ended December 31, 2012. Key developed markets in this segment include the United Kingdom, Germany and France. Key emerging markets in this segment include Russia, Turkey and South Africa.
- Canada/Latin America with revenues of $769 million that were 18% of total revenues for the year ended December 31, 2012. The developed market in this segment is Canada. Key emerging markets in this segment include Brazil and Mexico.
- Asia/Pacific with revenues of $695 million that were 16% of total revenues for the year ended December 31, 2012. Key developed markets in this segment include Australia, Japan, New Zealand and South Korea. Key emerging markets in this segment include India and China.

For additional information regarding our performance in each of these operating segments and the impact of foreign exchange rates, as well as significant acquisitions that Pfizer completed in recent years, see Management's Discussion and Analysis of Financial Condition and Results of

Table of Contents

Operations and Notes to Combined Financial Statements—Note 17A. 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 brand in all of 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 major product categories are:

- anti-infectives: products that prevent, kill or slow the growth of bacteria, fungi or protozoa;
- vaccines: biological preparations that 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, nutrients and probiotics to livestock; and
- other pharmaceutical products: complementary products, such as pain and sedation, oncology and antiemetic products.

Our remaining revenues are derived from other product categories, such as nutritionals and agribusiness, as well as products in complementary areas, including diagnostics, genetics, devices and services such as dairy data management, e-learning and professional consulting. We believe many of these complementary areas represent potential growth opportunities for our business to expand in the future.

Historically, a substantial portion of our products and revenues have been the result of brand lifecycle development. For example, the first product in our Ceftiofur line was an anti-infective approved for treating Bovine Respiratory Disease 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. Several products in the line provide a full course of therapy in one injection. The Ceftiofur product line currently includes the brands Excede, Excenel and Naxcel.

In addition to brand lifecycle development, we also pursue the development of new chemical and biological entities through new product research and development (R&D) as part of our growth strategies. Examples of our first-in-class or best-in-class products that we have launched in the past ten years and products that we believe may represent platforms for future brand lifecycle development include:

- Draxxin, a novel antibiotic for livestock that delivers a full course of therapy in one dose, launched in 2003;
- Inforce, 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 parainfluenza3 (PI3), launched in 2010;
- Improvac/Improvest, the only product that reduces boar taint in male swine without surgical castration, launched in 2004 in Australia and New Zealand and in 2011 in the United States;
- Convenia, the first single-injection anti-infective for common bacterial skin infections in cats and dogs, launched in 2006; and
- Palladia, the first drug to be approved by the FDA for treating cancer in dogs, launched in 2009.

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 U.S. and European Union and the first swine vaccine for Pandemic H1N1 Influenza Virus in the U.S.

Our livestock products primarily 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 growth drivers for our livestock products in three major ways. First, as population grows and standards of living rise, there is increased demand for improved nutrition, particularly animal protein. Second, population growth leads to increased natural resource constraints driving a need for enhanced productivity. And, finally, as standards of living improve, there is increased focus on food safety. Livestock products represented approximately 65% of our revenues for the

year ended December 31, 2012.

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 35% of our revenues for the year ended December 31, 2012.

In 2012, our top selling product line, the Ceftiofur line, contributed approximately 7% of our revenues. The Ceftiofur line and our next two top selling products, Revolution and Draxxin, contributed approximately 20% of our revenues. Our top ten product lines contributed 39% of our revenues. Our product lines and products that represented approximately 1% or more of our revenues in 2012 include:

Table of Contents

Livestock products

Product line/ product	Description	Primary species
Anti-infectives		
Aureomycin	Provides livestock producers treatment and convenience against a wide range of respiratory, enteric and reproductive diseases	Cattle, poultry, sheep, swine
BMD	Aids in preventing and controlling enteritis, thereby increasing rate of weight gain and improving feed efficiency	Cattle, poultry, swine
Ceftiofur 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 kerato conjunctivitis and bovine foot rot	Cattle, swine
Lincomycin line	Aids in preventing and treating Chronic Respiratory Disease associated with mycoplasma and coliform infections in growing chickens and for the treatment of swine dysentery (bloody scours) associated with Brachyspira (Serpulina) hyodysenteriae	Swine, poultry
Spectramast	Aids in preventing and treating mastitis, delivered via intramammary administration. Same active ingredient as the Ceftiofur line	Cattle
Terramycin	Antibiotic for the treatment of susceptible infections	Cattle, poultry, sheep, swine