INTERVIEW: Zoetis CEO Discusses Company's Singular Focus on Animal Health
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26 January 2015 - Only established as a new company two years ago, Zoetis today claims the leading spot in the global animal health industry.

At the recent J.P. Morgan Healthcare Conference, Zoetis CEO Juan Ramón Alaix stated that his company is 35% bigger in terms of annual sales than its closest large competitor Merck, and enjoys a market share of close to 20%.

"We are generating a growth which is faster than our competitors," Alaix told his San Francisco audience. "And we are not only leading in total, but you see that we are leading in many different dimensions. In terms of geographies, we have a very strong position; also a very strong position in terms of the therapeutic areas which are relevant for our customers in animal health, and we have a very strong position in terms of species."

Zoetis was heavily featured under the media spotlight during the second half of 2014: the company obtained a conditional green light for its vaccine for the prevention of PEDv, a virus which significantly impacted pig herds last year. It also announced plans to acquire the companion animal assets of Abbott Animal Health for USD 255 million. Activist investor William Ackman's Pershing Square Capital Holdings also revealed a stake in Zoetis, opening up the rumor mill again. And finally, Zoetis held an investor day in November during which growth plans were outlined as well as financial goals through 2017.

Feedinfo News Service spoke to Juan Ramón Alaix and asked him to reflect back on the company developments of 2014 and share his views on industry issues.

[Feedinfo News Service] Mr. Alaix, you were appointed Chief Executive Officer of Zoetis in July 2012. What lessons would you say you have learned from this position?

[Juan Ramón Alaix] I’ve learned many lessons in my time as CEO of Zoetis, but perhaps the most important is the value that we can bring to our customers and shareholders through our singular focus on animal health. This focus differentiates us from our largest competitors and gives us an advantage. I recently spoke to the head of one of our largest customers about our "singular focus." He told me that they were initially skeptical when we became independent, but he said they have seen a definite difference and advantage in the way we operate, deal with them and focus on their needs. Every colleague at Zoetis knows they can have a big impact on our company’s success and we are focused on doing even better.
Can you provide a brief overview of Zoetis’ scale with regard to the farm animal side of your business? How does it compare to companion animal health and diagnostics?

We have the most diverse portfolio in the USD 23 billion animal health market, spanning livestock and companion animal products. In 2013, 65% of our sales were in the livestock animal segment and 35% were in the companion animal segment (2013 total sales were USD 4.6 billion). In terms of market share by species, we are number one in cattle and swine, number two in poultry and number two in companion animal products. We are also quite diverse in terms of product categories. To give you some background, our portfolio ranked number one in anti-infectives, which represented approximately 29% of our 2013 revenue. We ranked number two in medicated feed additives, which represented approximately 10% of our revenue; number two in vaccines, which represented approximately 27% of our revenue and our portfolio ranked third in parasiticides, which represented approximately 15% of our revenues.

Zoetis has a very diverse portfolio with more than 300 product lines. Boon or bane?

While it can be complex to manage 300 product lines, having a diverse portfolio provides strength in serving our varied customer needs, and it is a benefit to our financial performance. We leverage our broad portfolio of products and customer relationships to provide the most relevant and meaningful solutions that customers need. Our portfolio also helps us maintain steady and durable revenue streams. Since we are not dependent on any single product for a large portion of our revenues, there is less volatility and potential risk. For instance, our largest product is only 7% of our revenue and our top 25 products account for 59%.

When activist investor Bill Ackman acquired a stake in Zoetis in November (roughly 10%), it was speculated that Ackman was pushing for a sale of Zoetis. Moreover, Zoetis CFO Paul Herendeen in November said that, as a public company, Zoetis is "for sale every day" if someone made the right offer. Could you let us know what your stance is? And should Zoetis be subject to an acquisition in 2015, what ideal takeover candidate profile are you looking for?

We believe Zoetis has the business model, operational discipline and strategies in place to create shareholder value, but we welcome the perspectives of all shareholders. We are focused on our performance and execution, and wouldn't comment on rumor or speculation about potential acquisitions or takeovers.

In November, Zoetis also announced it would acquire a portfolio of pet drugs from Abbott Laboratories for approximately USD 255 million. Can we consider Abbott - mainly veterinary surgical products - as a complementary business for Zoetis? And with regard to Zoetis’ own M&A strategy in general, can we expect more
**Bolt-on acquisitions of complementary businesses?**

[Juan Ramón Alaix] The addition of Abbott Animal Health assets is an excellent complement to the Zoetis companion animal business and addresses the challenges our customers face today in effectively raising and caring for animals that are living longer and receiving more intensive medical and surgical treatment. This acquisition also strengthens our pain portfolio and our diagnostics business so we can deliver more customized solutions to veterinarians. We have certainly added complementary businesses to strengthen our company in the past, but as a matter of policy, we do not comment or speculate on potential M&A activity. In order for us to enter into any new space, it would have to make strategic sense and create sustained value for our business and shareholders.

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- Juan Ramón Alaix

[Feedinfo News Service] Zoetis received conditional regulatory approval last summer to market vaccines for porcine epidemic diarrhea virus. Do you think PEDv is a wildcard for 2015? Is the company ready to supply across North America should there be a resurgence? On the contrary, if PEDv doesn’t resurface, would you consider all the effort/time/resources put into the PEDv vaccine development as lost?

[Juan Ramón Alaix] PEDv was a significant issue for swine producers in the U.S. in 2014 and increasingly in other markets around the world. We were very pleased to be able to provide our U.S. customers with a conditionally licensed PED vaccine that could help address this devastating disease and demonstrate our commitment to these customers. Bringing this vaccine to market quickly – in a little more than a year since the disease was identified in the U.S. – exemplifies our commitment to supporting veterinarians and livestock producers with high-quality vaccines that can help control the evolving and complex threat of emerging infectious diseases. Regardless of what happens with the spread of PEDv in 2015, we would consider the resources put into the development of this vaccine as essential to maintaining our role as an innovative leader in animal health. Our customers had an urgent need that required a rapid response, and our people used their experience, knowledge and expertise to meet the challenge.

[Feedinfo News Service] Zoetis also recently announced the reintroduction of Zoamix® (zoalene) for the prevention and control of coccidiosis in poultry (after a 5-year stop). The U.S. poultry industry loses an estimated USD 600 million a year to coccidiosis. Do you see that number decreasing next year with Zoetis’ coccidiosis management strategy and action plan returning to the forefront?

[Juan Ramón Alaix] Coccidiosis is an ever present disease and the industry needs all the tools it can get to manage it. Bringing Zoamix® back will allow for new management strategies to address this challenge, and allow producers some new flexibility in designing protocols thanks to the unique characteristics of the product. A new coccidiosis management tool will also allow for the resting of other products in order to protect their efficacy. Zoamix® can also be used in programs where the use of antibiotics is restricted. It will be an extremely valuable tool in these settings, as these producers have fewer tools to rely on to manage the disease.
Zoetis produces therapeutic antibiotics to treat animal diseases, but is the company feeling any indirect consequences of the increasing global pressure on the use of in-feed antibiotics (AGPs)?

At Zoetis we believe antibiotic medicines are a precious resource and by using them responsibly today, we will work to help protect their efficacy for tomorrow. Zoetis supports the responsible use of antibiotic medicines in animals and in people. We believe that veterinary professionals should be involved in decisions about the use of antibiotic medicines in animals for several reasons: to protect both animal and human health; to assure the safety of the food supply; and to help reduce the risk of resistance. We are committed to supporting our veterinary and livestock farmer customers with the knowledge and tools to use antibiotic medicines responsibly and properly according to their labeling. We comply with all regulatory requirements and work with authorities to ensure that appropriate label precautions are in place to assure the safety of these products for animals, their caregivers and the public.

There has been some scrutiny recently on Zoetis' antibiotic ceftiofur and the frequency with which it's being misused on farms across America. How can you explain this? What is the company putting in place to reassure its customers, and to another extent the consumer?

All ceftiofur products are FDA-approved for specific animal diseases and available only through veterinary prescription. We think the role of the veterinarian is critical in this issue. Problems arise when the product is administered incorrectly and without the involvement of a veterinarian. We urge our customers to strictly follow drug treatment protocols and withhold times, and to only market animals that are healthy. We strongly support judicious use of antibiotics by providing producers and veterinarians with ongoing education and training so that ceftiofur products are used appropriately and within the label guidelines outlined by FDA. Zoetis advocates for the involvement of a veterinarian in any animal health decisions as part of an ongoing veterinary-client-patient relationship. Zoetis also sponsors the largest antibiotic resistance monitoring program in the animal health industry to ensure ceftiofur is used carefully and remains effective for the diseases for which it is a cure. We also have a number of resources to help our customers keep their animals healthy in the first place, as well as robust protocols and training in case antibiotic treatment is needed to restore animal health and protect the food supply.

Mr. Alaix, to conclude: animal genetics has been mentioned as a big focus for Zoetis going forward. Can you let us know where the company is headed in this area?

Zoetis is focused on the role of genetics as a key driver for the health and productivity of livestock. With the world’s need for protein growing and resources at a premium, producers need to use all the tools they have to produce more with less. Genetics fits very well with the many health and productivity solutions that Zoetis provides to producers across the globe. Zoetis is well positioned to drive the adoption of this technology by creating new information based products and educating our customers on the application of genetics.