Zoetis Inc.
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 2, 2017
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.)
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. x 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). x 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 x	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 x No
At August 2, 2017, there were 489,111,671 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	
(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Revenue	$1,269	$1,208	$2,500	$2,370
Costs and expenses:				
Cost of sales[(a)]	440	399	883	788
Selling, general and administrative expenses[(a)]	336	343	645	658
Research and development expenses[(a)]	86	88	176	178
Amortization of intangible assets[(a)]	23	22	45	43
Restructuring charges/(reversals) and certain acquisition-related costs	—	(21)	(1)	(19)
Interest expense, net of capitalized interest	41	41	82	84
Other (income)/deductions—net	(2)	4	(12)	(26)
Income before provision for taxes on income	345	332	682	664
Provision for taxes on income	98	108	196	236
Net income before allocation to noncontrolling interests	247	224	486	428
Less: Net income attributable to noncontrolling interests	—	—	1	—
Net income attributable to Zoetis Inc.	$247	$224	$485	$428
Earnings per share attributable to Zoetis Inc. stockholders:				
Basic	$0.50	$0.45	$0.99	$0.86
Diluted	$0.50	$0.45	$0.98	$0.86
Weighted-average common shares outstanding:				
Basic	490.8	496.3	491.6	496.9
Diluted	494.0	498.8	494.6	499.2
Dividends declared per common share	$0.105	$0.095	$0.210	$0.190

(a) 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 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 income.

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	
(MILLIONS OF DOLLARS)	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Net income before allocation to noncontrolling interests	$247	$224	$486	$428
Other comprehensive income/(loss), net of taxes and reclassification adjustments:				
Unrealized losses on derivatives, net[(a)]	(1)	(3)	(1)	(3)
Foreign currency translation adjustments, net	12	63	56	65
Benefit plans: Actuarial (losses)/gains, net[(a)]	(1)	2	1	3
Total other comprehensive income/(loss), net of tax	10	62	56	65
Comprehensive income before allocation to noncontrolling interests	257	286	542	493
Less: Comprehensive income/(loss) attributable to noncontrolling interests	—	—	1	(1)
Comprehensive income attributable to Zoetis Inc.	$257	$286	$541	$494

(a) 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, into Cost of sales, Selling, general and administrative expenses, and/or Research and development expenses, as appropriate, in the condensed consolidated statements of income.

See notes to condensed consolidated financial statements.

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ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA)	July 2, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and cash equivalents[(a)]	$ 705	$ 727
Accounts receivable, less allowance for doubtful accounts of $31 in 2017 and $30 in 2016	975	913
Inventories	1,498	1,502
Assets held for sale	53	—
Other current assets	353	248
Total current assets	3,584	3,390
Property, plant and equipment, less accumulated depreciation of $1,397 in 2017 and $1,358 in 2016	1,355	1,381
Goodwill	1,495	1,481
Identifiable intangible assets, less accumulated amortization	1,210	1,228
Deferred tax assets	93	96
Other noncurrent assets	65	73
Total assets	$ 7,802	$ 7,649
Liabilities and Equity		
Short-term borrowings	$ 100	$ —
Current portion of long-term debt	750	$ —
Accounts payable	199	265
Dividends payable	52	52
Accrued expenses	406	464
Accrued compensation and related items	163	224
Income taxes payable	82	71
Liabilities associated with assets held for sale	4	—
Other current liabilities	28	41
Total current liabilities	1,784	1,117
Long-term debt, net of discount and issuance costs	3,719	4,468
Deferred tax liabilities	261	244
Other taxes payable	83	73
Other noncurrent liabilities	209	248
Total liabilities	6,056	6,150
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; 501,891,243 and 501,891,243 shares issued; 489,659,511 and 492,855,297 shares outstanding at July 2, 2017, and December 31, 2016, respectively	5	5
Treasury stock, at cost, 12,231,732 and 9,035,946 shares of common stock at July 2, 2017, and December 31, 2016, respectively	(615)	(421)
Additional paid-in capital	1,024	1,024
Retained earnings	1,843	1,477
Accumulated other comprehensive loss	(542)	(598)

Total Zoetis Inc. equity	1,715	1,487
Equity attributable to noncontrolling interests	31	12
Total equity	1,746	1,499
Total liabilities and equity	$ 7,802	$ 7,649

[(a)] As of July 2, 2017, includes $7 million 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						
(MILLIONS OF DOLLARS)	Common Stock[(a)]	Treasury Stock[(a)]	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Equity Attributable to Noncontrolling Interests	Total Equity
Balance, December 31, 2015	$ 5	$ (203)	$ 1,012	$ 876	$ (622)	$ 23	$ 1,091
Six months ended July 3, 2016							
Net income	—	—	—	428	—	—	428
Other comprehensive income/(loss)	—	—	—	—	66	(1)	65
Share-based compensation awards[(b)]	—	60	(3)	(20)	—	—	37
Treasury stock acquired[(c)]	—	(151)	—	—	—	—	(151)
Employee benefit plan contribution from Pfizer Inc.[(d)]	—	—	1	—	—	—	1
Divestitures[(e)]	—	—	—	—	2	(8)	(6)
Dividends declared	—	—	—	(94)	—	—	(94)
Balance, July 3, 2016	$ 5	$ (294)	$ 1,010	$ 1,190	$ (554)	$ 14	$ 1,371
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[(f)]	—	—	—	—	—	18	18
Share-based compensation awards [(b)]	—	56	(1)	(16)	—	—	39
Treasury stock acquired[(c)]	—	(250)	—	—	—	—	(250)
Employee benefit plan contribution from Pfizer Inc.[(d)]	—	—	1	—	—	—	1
Dividends declared	—	—	—	(103)	—	—	(103)
Balance, July 2, 2017	$ 5	$ (615)	$ 1,024	$ 1,843	$ (542)	$ 31	$ 1,746

(a) As of July 2, 2017, and July 3, 2016, there were 489,659,511 and 495,389,702 outstanding shares of common stock, respectively, and 12,231,732 and 6,501,541 shares of treasury stock, respectively. Treasury stock is recognized at the cost to reacquire the shares. For additional information, see Note 13. Stockholders' Equity.

(b) 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. 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 12. Share-Based Payments and Note. 13. Stockholders' Equity.

(c) Reflects the acquisition of treasury shares in connection with the share repurchase program. For additional information, see Note 13. Stockholders' Equity.

(d) 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 11. Benefit Plans.

(e) Reflects the divestiture of our share of our Taiwan joint venture. See Note 4. Acquisitions and Divestitures: Divestitures.

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

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	
(MILLIONS OF DOLLARS)	July 2, 2017	July 3, 2016
Operating Activities		
Net income before allocation to noncontrolling interests	$486	$428
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	121	117
Share-based compensation expense	22	19
Restructuring	(1)	(19)
Net loss/(gain) on sale of assets	2	(27)
Provision for losses on inventory	40	35
Deferred taxes	13	17
Employee benefit plan contribution from Pfizer Inc.	1	1
Other non-cash adjustments	—	9
Other changes in assets and liabilities, net of acquisitions and divestitures		
Accounts receivable	(41)	53
Inventories	(46)	(87)
Other assets	(106)	(72)
Accounts payable	(66)	(71)
Other liabilities	(147)	(254)
Other tax accounts, net	21	39
Net cash provided by operating activities	299	188
Investing Activities		
Purchases of property, plant and equipment	(93)	(99)
Acquisitions	(3)	(20)
Net proceeds from sales of assets	1	88
Other investing activities	7	—
Net cash used in investing activities	(88)	(31)
Financing Activities		
Decrease in short-term borrowings, net	—	(1)
Issuance of commercial paper	100	—
Principal payments on long-term debt	—	(400)
Payment of contingent consideration related to previously acquired assets	(5)	(22)
Share-based compensation-related proceeds, net of taxes paid on withholding shares	18	17
Purchases of treasury stock[a]	(250)	(151)
Cash dividends paid	(103)	(94)
Net cash used in financing activities	(240)	(651)
Effect of exchange-rate changes on cash and cash equivalents	7	(2)
Net decrease in cash and cash equivalents	(22)	(496)
Cash and cash equivalents at beginning of period	727	1,154
Cash and cash equivalents at end of period	$705	$658

Supplemental cash flow information

Cash paid during the period for:		
Income taxes	$256	$215
Interest, net of capitalized interest	82	84
Non-cash transactions:		
Purchases of property, plant and equipment	3	6
Contingent purchase price consideration[b]	—	27
Dividends declared, not paid	52	47

(a) Reflects the acquisition of treasury shares in connection with the share repurchase programs. For additional information, see Note 13. Stockholders' Equity.

(b) For 2016, relates primarily to the non-cash portion of the acquisition of a livestock business in South America.

See notes to condensed consolidated financial statements.

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ZOETIS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization

Zoetis Inc. (including its subsidiaries, collectively, Zoetis, the company, we, us or our) 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 organize and operate our business in two geographic regions: the United States (U.S.) and International.

We directly market our products in approximately 45 countries across North America, Europe, Africa, Asia, Australia and South America. Our products are sold in more than 100 countries, including developed markets and emerging markets. We have a diversified business, marketing products across eight core species: cattle, swine, poultry, sheep and fish (collectively, livestock) and dogs, cats and horses (collectively, companion animals); and within five major product categories: anti-infectives, vaccines, parasiticides, medicated feed additives and other pharmaceuticals.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) can be condensed or omitted. Balance sheet amounts and operating results for subsidiaries operating outside the United States are as of and for the three and six-month periods ended May 28, 2017, and May 29, 2016.

Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be representative of those for the full year.

We are responsible for the unaudited condensed consolidated financial statements included in this Form 10-Q. The condensed consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. The information included in this interim report should be read in conjunction with the financial statements and accompanying notes included in our 2016 Annual Report on Form 10-K.

3. Significant Accounting Policies

Recently Adopted Accounting Standards

In January 2017, the Financial Accounting Standards Board (FASB) issued an accounting standards update which clarifies the definition of a business. Under the new guidance, a set of integrated activities and assets is a business only if it has, at a minimum, an input and substantive process that together significantly contribute to the ability to create outputs. The update also introduces the concept of an initial screening or “Step 1” which requires companies to first determine if substantially all of the fair value of the gross assets acquired is concentrated in a single (or group of similar) identifiable assets. Transactions that pass the Step 1 screening will be considered a business if they contain an input and substantive process and either; (1) an output or (2) an organized workforce with skills critical to the ability to create outputs and inputs that can be utilized to create the outputs. Companies will no longer be required to evaluate whether a market participant could replace any missing inputs or processes, instead focusing on the substance of what was acquired. The provisions of the new standard are effective, on a prospective basis, beginning January 1, 2018, for annual and interim reporting periods and may be adopted early for any transactions not yet reported in issued financial statements. We elected to early adopt the new standard for any new transactions occurring on or after January 1, 2017.

In July 2015, the FASB issued an accounting standards update to simplify the measurement of inventory by requiring that inventory be measured at the lower of cost or net realizable value, rather than at the lower of cost or market, with market being defined as either replacement cost, net realizable value or net realizable value less a normal profit margin. We adopted this guidance as of January 1, 2017. This guidance did not have a significant impact on our condensed consolidated financial statements.

Recently Issued Accounting Standards

In March 2017, the FASB issued an accounting standards update to simplify and improve the reporting of net periodic pension benefit cost by requiring only present service cost to be presented in the same line item as other current employee compensation costs while remaining components of net periodic benefit cost would be presented within Other (income)/deductions—net outside of operations. We plan to adopt this guidance as of January 1, 2018, the required effective date, and do not expect the new standard will have a significant impact on our consolidated financial statements.

In October 2016, the FASB issued an accounting standards update that will require the recognition of the income tax consequences of an intra-entity asset transfer, other than inventory, when the transfer occurs as opposed to when the asset is sold to an outside third party. The provisions of the new standard are effective beginning January 1, 2018, for annual and interim reporting periods. Early adoption is permitted beginning on January 1, 2017. We plan to adopt this guidance as of January 1, 2018, the required effective date, and do not expect the new standard will have a significant impact on our consolidated financial statements.

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In February 2016, the FASB issued an accounting standards update which requires lessees to recognize most leases on the balance sheet with a corresponding right of use asset. Leases will be classified as financing or operating which will drive the expense recognition pattern. For lessees, the income statement presentation and expense recognition pattern for financing and operating leases is similar to the current model for capital and operating leases, respectively. Companies may elect to exclude short-term leases. The update also requires additional disclosures that will better enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We plan to adopt this guidance as of January 1, 2019, the required effective date, for annual and interim reporting periods. The new standard requires a modified retrospective adoption approach, at the beginning of the earliest comparative period presented in the financial statements. We continue to assess the potential impact that adopting this new guidance will have on our consolidated financial statements.

In May 2014, the FASB issued an accounting standards update that outlines a new, single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. This update supersedes most current revenue recognition guidance under U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance includes a five-step model for determining how, when and how much revenue should be recognized. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We plan to adopt this guidance as of January 1, 2018, the required effective date, using the modified retrospective transition method. Under the modified retrospective method, the cumulative effect of applying the new standard will be recognized as of the date of initial application with disclosure of results under both the new and prior standards. We continue to assess the impact of the new standard on our current policies, procedures, and disclosures related to revenue recognition. Based on the work performed to date, we do not believe that the adoption will have a material impact on our consolidated financial statements. While implementation procedures are still ongoing, we have evaluated the impact on our primary revenue stream, product sales, in both the United States and our key international markets and no matters have currently been identified individually or in the aggregate that would have a material impact on the timing or amount of revenue recognition based on the provisions of the new standard.

4. Acquisitions and Divestitures

Assets and Liabilities Held for Sale

On March 30, 2017, as part of our supply network strategy, we announced an agreement with the Brazilian-based pharmaceutical company União Química (UQ) to sell our manufacturing site in Guarulhos, Brazil, and we met the criteria for held for sale classification. The agreement also includes entering into a five-year manufacturing and supply agreement with UQ to begin upon closing of the transaction.

As of July 2, 2017, recorded assets and liabilities held for sale are summarized below:

(MILLIONS OF DOLLARS)	July 2, 2017
Assets held for sale	
Inventories	$ 12
Property, plant and equipment	26
Deferred tax assets	4
Other current assets	8
Goodwill	3
Total	$ 53
Liabilities associated with assets held for sale	
Accounts payable	$ 3
Other current liabilities	1
Total	$ 4

We expect to complete this transaction during the second half of 2017.

Divestitures

On May 11, 2017, we completed the sale of our manufacturing site in Shenzhou, China. We had previously exited operations at this site during the second quarter of 2015 as part of our operational efficiency program. We received total cash proceeds of approximately $3 million and recorded a net pre-tax gain of approximately $2 million within Other (income)/deductions—net. Additionally, in the second quarter of 2017, we recorded a $4 million expense within Other (income)/deductions—net related to the prior year sale of the U.S. manufacturing sites noted below.

On April 28, 2016, we completed the sale of our 55 percent ownership share of a Taiwan joint venture, including a manufacturing site in Hsinchu, Taiwan to Yung Shin Pharmaceutical Industrial Co., Ltd., a pharmaceutical company with an animal health business and headquarters in Taiwan. The sale also included a portfolio of products in conjunction with our comprehensive operational efficiency program. These products include medicated feed additives, anti-infective medicines and nutritional premixes for livestock, sold primarily in Taiwan and in international markets. We received $13 million in cash upon closing.

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On February 17, 2016, we completed the sale of our manufacturing site in Haridwar, India to the India-based pharmaceutical company Zydus Cadila (Cadila Healthcare Ltd.). The agreement also included the sale of a portfolio of our products in conjunction with our comprehensive operational efficiency program.

On February 12, 2016, we completed the sale of two of our manufacturing sites in the United States: Laurinburg, North Carolina, and Longmont, Colorado, to Huvepharma NV (Huvepharma), a European animal health company. Huvepharma also assumed the assets and operations and the lease of our manufacturing and distribution site in Van Buren, Arkansas. The agreement included the sale of a portfolio of products in conjunction with our comprehensive operational efficiency program.

During the first six months of 2016, we received total cash proceeds of approximately $88 million related to the divestitures of the India and U.S. manufacturing sites noted above. During the first quarter of 2016, we recognized a net pre-tax gain of approximately $33 million, partially offset by a net pre-tax loss of approximately $6 million recognized during the second quarter of 2016. Gains and losses related to divestitures are recorded within Other (income)/deductions—net.

5. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives

In connection with our cost-reduction/productivity initiatives, we typically incur costs and charges associated with site closings and other facility rationalization actions, workforce reductions and the expansion of shared services, including the development of global systems. In connection with our acquisition activity, we typically incur costs and charges associated with executing the transactions, integrating the acquired operations, which may include expenditures for consulting and the integration of systems and processes, product transfers and restructuring. This may include charges related to employees, assets and activities that will not continue. All operating functions can be impacted by these actions, including sales and marketing, manufacturing and research and development (R&D), as well as functions such as business technology, shared services and corporate operations.

The components of costs incurred in connection with restructuring initiatives, acquisitions and cost-reduction/productivity initiatives are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended July 2, 2017	Three Months Ended July 3, 2016	Six Months Ended July 2, 2017	Six Months Ended July 3, 2016
Restructuring charges/(reversals) and certain acquisition-related costs:				
Integration costs[(a)]	$2	$2	$2	$2
Restructuring charges/(reversals)[(b)]:				
Employee termination costs	(3)	(24)	(4)	(23)
Exit costs	1	1	1	2
Total Restructuring charges/(reversals) and certain acquisition-related costs	$—	$(21)	$(1)	$(19)

(a) Integration costs represent external, incremental costs directly related to integrating acquired businesses and primarily include expenditures for consulting and the integration of systems and processes, as well as product transfer costs.

(b) The restructuring charges/(reversals) for the three months ended July 2, 2017, are associated with the following: U.S. ($1 million reversal), International ($1 million) and Manufacturing/research/corporate ($2 million reversal).

The restructuring charges/(reversals) for the six months ended July 2, 2017, are associated with the following: International ($1 million reversal) and Manufacturing/research/corporate ($2 million reversal).

The restructuring charges/(reversals) for the three months ended July 3, 2016, are associated with the following: U.S. ($1 million reversal), International ($14 million reversal) and Manufacturing/research/corporate ($8 million reversal).

The restructuring charges/(reversals) for the six months ended July 3, 2016, are associated with the following: U.S. ($2 million reversal), International ($15 million reversal) and Manufacturing/research/corporate ($4 million reversal).

During 2015, we launched a comprehensive operational efficiency program, which was incremental to the previously announced supply network strategy. These initiatives have focused on reducing complexity in our product portfolios through the elimination of approximately 5,000 product stock keeping units (SKUs), changing our selling approach in certain markets, reducing our presence in certain countries, and planning to sell or exit 10 manufacturing sites over a long term period. As of July 2, 2017, we divested or exited three U.S. manufacturing sites, three international manufacturing sites, and our 55 percent ownership share of a Taiwan joint venture, inclusive of its related manufacturing site. We are also continuing to optimize our resource allocation and efficiency by reducing resources associated with non-customer facing activities and operating more efficiently as a result of less internal complexity and more standardization of processes. As part of these initiatives, we planned to reduce certain positions through divestitures, normal attrition and involuntary terminations by approximately 2,000 to 2,500, subject to consultations with works councils and unions in certain countries. In 2016, the operations of the Guarulhos, Brazil manufacturing site, including approximately 300 employees, were transferred to us from Pfizer, which increased our range of planned reduction in certain positions to 2,300 to 2,800. Including divestitures, as of July 2, 2017, approximately 2,200 positions have been eliminated and the comprehensive operational efficiency program is substantially complete. We expect additional reductions through divestitures related to our supply network strategy over the next several years.

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Charges related to the operational efficiency initiative and supply network strategy are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended July 2, 2017	Three Months Ended July 3, 2016	Six Months Ended July 2, 2017	Six Months Ended July 3, 2016
Restructuring charges/(reversals) and certain acquisition-related costs:				
Operational efficiency initiative				
Employee termination costs[a]	$2	$(30)	$1	$(29)
Exit costs	1	2	1	3
	3	(28)	2	(26)
Supply network strategy:				
Employee termination costs	(5)	6	(5)	6
	(5)	6	(5)	6
Total restructuring charges/(reversals) related to the operational efficiency initiative and supply network strategy	(2)	(22)	(3)	(20)
Other operational efficiency initiative charges				
Selling, general and administrative expenses:				
Accelerated depreciation	—	1	—	1
Consulting fees	1	4	1	7
Other (income)/deductions—net:				
Net loss/(gain) on sale of assets[b]	2	6	2	(27)
Total other operational efficiency initiative charges	3	11	3	(19)
Other supply network strategy charges				
Cost of sales:				
Accelerated depreciation	1	1	2	2
Consulting fees	—	1	2	3
Total other supply network strategy charges	1	2	4	5
Total charges associated with the operational efficiency initiative and supply network strategy	$2	$(9)	$4	$(34)

(a) For the three and six months ended July 3, 2016, includes a reduction in employee termination accruals primarily as a result of higher than expected voluntary attrition rates experienced in the first half of 2016.

(b) For the three months ended July 3, 2016, primarily represents the net loss on the sale of our share of our Taiwan joint venture as part of our operational efficiency initiative. For the six months ended July 3, 2016, represents the net gain on the sale of certain manufacturing sites and products, partially offset by the loss on the sale of our share of our Taiwan joint venture, as part of our operational efficiency initiative.

The components of, and changes in, our restructuring accruals are as follows:

(MILLIONS OF DOLLARS)	Employee Termination Costs	Exit Costs	Accrual[a]
Balance, December 31, 2016[a]	$ 90	$ —	$ 90
Provision	(4)	1	(3)
Utilization and other[b]	(36)	(1)	(37)
Balance, July 2, 2017[a]	$ 50	$ —	$ 50

(a)

At July 2, 2017, and December 31, 2016, included in Accrued expenses ($29 million and $61 million, respectively) and Other noncurrent liabilities ($21 million and $29 million, respectively).

(b) Includes adjustments for foreign currency translation.

6. Other (Income)/Deductions—Net

The components of Other (income)/deductions—net are as follows:

Three Months Ended		Six Months Ended	
July 2,	July 3,	July 2,	July