WELCOME to the JUNGLE

Brunswick's **RAUL DAMAS** speaks with Zoetis CEO **JUAN RAMÓN ALAIX** about leading an animal health company to a $2.2 billion IPO and facing down an aggressive activist

Few CEOs experience the pressure of spinning off a business and taking it public. Rarer still is the chief executive who has successfully handled one of the world's most aggressive activist investors. Juan Ramón Alaix has done both – all within his first five years as CEO of Zoetis (zo-EH-tis), the world's largest animal health company. Today, Zoetis operates across 100 countries and has a market cap of more than $35 billion. It boasts more than 300 product lines, ranging from vaccines to medicated feed additives, and generates nearly $5 billion in annual revenue.

Alaix became CEO in 2012, after Pfizer CEO Ian Read announced the pharmaceutical giant would seek strategic options for its animal health division, a process that ultimately led Pfizer to spin the division off as its own business: Zoetis. In 2013, Zoetis had one of the year's largest initial public offerings, surpassing both Twitter's and Hilton's IPOs.

The IPO put Zoetis, essentially overnight, on the radar of hundreds of analysts and investors – many of whom knew little about the multibillion-dollar business, and the nuances of the animal health industry. One of those interested investors would turn out to be the vocal activist Bill Ackman.

From Zoetis' headquarters in Parsippany, New Jersey, Alaix told Brunswick how intense training and clear communication were crucial in the build-up to Zoetis' public offering. And for the first time, Alaix shared the story of what happened after he received a call from Ackman, and why the company believed open discourse, not a public battle, was the right option.

Did you think you were ready to become CEO?

You only have the experience to be a CEO when you've already been a CEO. Of course, if companies only hired CEOs to be CEOs, you'd quickly run out of talent. I'd been running Pfizer's animal health business successfully for more than six years, and reported to Ian [Read, CEO of Pfizer] for years, so it was an educated bet.

How did you prepare for it?

I was fortunate to have access to a number of current and former CEOs who'd taken a company public. This group included leaders who had failed, and they provided some of the most valuable advice. I was also fortunate to participate in the board recruitment process, meeting and interviewing potential board members. This was a rare opportunity, which helped ease my transition into the role of CEO.

And even before the spinoff, we started acting like a company within a company. We identified who would be running the company, my leadership team. We also had to identify the new structures we needed to build as a standalone company. We did all of this while communicating with our newly formed internal board, just like any company.

You became the face of this new company. How did you feel about that part of the job?

I had to adjust the way I discussed the elements of our business. I was now communicating with individuals who were very familiar with Pfizer, the larger company of which we'd been a part, and the human pharmaceuticals business, but they were less knowledgeable about our animal health business. I needed to take a step back and ensure they understood the fundamental elements of Zoetis' business.

ILLUSTRATION: NIGEL BUCHANAN

"BILL ACKMAN CALLED ME AND SAID, 'I WANT TO TELL YOU THAT I BOUGHT A LITTLE MORE THAN 8 PERCENT OF YOUR COMPANY, AND IT WILL BE IN THE NEWS TOMORROW'"

What audiences are we talking about? Media? Investors?

It's both. In many cases, you assume that the people in front of you have similar knowledge about your business – like internal audiences do – but that's a mistake. And this took me time to learn.

We were talking to investors who didn't appreciate the advantages of animal health, such as our shorter innovation cycle and the lack of third-party payers. These are key differences.

Did this new approach to communications cause some human health-focused analysts to give animal health a second look?

Absolutely. Because we took a step back and did a better job explaining our fundamentals, many Pfizer shareholders saw for the first time the opportunities our business presented.

We've discussed the differences between animal and human health, but what are the similarities that you wanted investors to know?

In digital health, precision medicine and analytics, the animal health ecosystem is seeing incredible innovation, just as in human health. But unlike in human health, you're not dealing as much with governments, insurers and other intermediaries. We're able to work directly with the clinics – veterinarians, our customers – to develop the diagnostics that improve their outcomes. The same goes for livestock, where farms have an enormous amount of data, and we're helping them integrate it with health information to boost productivity.

So, we come back to communication.

Yes. One of the lessons we learned at the beginning is that you cannot be "cheap" in communicating externally. You always need to spend time with investors, but this is especially true after a spinoff, because the reasons for them to continue investing in your business may have changed.

What other communications tactics were important?

Repetition is key. Investors hear from lots of different people. They see lots of presentations. I needed to ensure that they heard what we were saying, even if I felt like a broken record by the third time … and the fourth time. Also, personal delivery: I needed to make sure I showed the same level of engagement, enthusiasm and understanding of the audience in the first meeting of the day or the last.

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That brings us to Bill Ackman. He was one of those investors who watched you take the company public, and afterwards, wanted you to do more.
Bill Ackman called me and said, "I want to tell you that I bought a little more than 8 percent of your company, and it will be in the news tomorrow." I told him that since we would be holding an investor meeting the following week, I hoped he'd attend and learn more about our company. And that began a series of discussions.

How did those go?
They went well. We met with Pershing Square [the hedge fund led by Bill Ackman] to discuss their investment thesis and their areas of focus. And, through these conversations, they expressed interest in a board seat. I discussed this request with our board, which ultimately agreed to incorporate two new directors: one from Pershing Square and one independent director.

And where do things stand today?
After about 18 months, Pershing Square saw good progress with its investment and decided to sell its stake in Zoetis, and resign their board seat.

You employed a dialogue-based approach, different than the public fights we often see in activist challenges. Why?
When you are approached by an activist, you always have options. The board and I agreed that, given the distraction and cost to our business of a public fight, it was not the right choice for Zoetis at the time.

In addition to the board seats, what other changes did you make?
We implemented what we called an operational efficiency initiative, which was the next phase of evolving our business following the spinoff. We wanted to make sure that we would continue growing faster than the market, as we did in Zoetis' first two years as a standalone company. That required us to be much more efficient, by eliminating complexity in our company.

Did you develop this business plan at Pershing Square's urging?
No. It was already under way, because we understood it was something we needed to do following the spinoff of our business. We did inform them of it, of course. We also presented the completed plan to our board, including the two new directors. The board approved it unanimously.

You took some major actions, including reducing your workforce by 20 percent. Was everything on the table?
No. One of Pershing Square's theses was there were opportunities to reduce R&D efforts. This may have been based on their understanding of human health, where that could make sense. Once they saw our return on R&D investment, our productivity, they understood the need to continue it.

Culture seems to be a challenge every CEO wrestles with. Have you?
From the beginning, we involved 2,000 colleagues to help us translate our core values into simple, practical language that would resonate with them.

Take "Run It Like You Own It," which is one of our core beliefs. Coming from a larger organization, where it was harder to move the needle on the overall business, we realized we now had the opportunity to explain to colleagues that this was truly their business. What would have been insignificant changes at Pfizer had real, lasting impact on our business.

While you're much smaller than Pfizer, Zoetis is still a large, global corporation. How do you retain the agility that helped drive the decision to spin off?
It requires challenging our organization – every day – to find simpler ways to operate. There can be no compromise when it comes to safety and risk, but what are we doing just because we've always done it? What can we do differently, more simply? These are the questions we need to answer, and the answers need to come from the bottom up, because it's the employees dealing with these processes who know their true value. And, if we decide we need to maintain a certain level of complexity internally, I ask that we not translate it to our customers.

It's a never-ending process, because any organization tends to build complexity over time. A key lesson from the spinoff, and the hard work we did to meet our targets after the spinoff, is that it forced us to become the unified company we are proud to be today.

RAUL DAMAS is a Partner based in Brunswick's New York office. He specializes in public affairs, crisis management, and reputation issues, with a focus on the healthcare industry.

JUAN RAMÓN ALAIX

Juan Ramón Alaix is CEO of Zoetis as well as a member of the company's board of directors. He has spent more than two decades in the pharma industry. Prior to Zoetis, Alaix served as President of Pfizer Animal Health. He is a native of Spain.