

COMMERCIAL-IN-CONFIDENCE

26 November 2021

Anthony Stewart
Senior Investigator
Commerce Commission
Te Komihana Tauhokohoko
44 The Terrace
Wellington 6140
New Zealand

Via email: anthony.stewart@comcom.govt.nz (cc: registrar@comcom.govt.nz)

Re: Submission regarding Zoetis/Jurox

Dear Mr Stewart

I refer to the Commerce Commission's request for submissions relating to the proposed acquisition of Betrola Pty Ltd (including its wholly owned subsidiary, Jurox Pty Ltd) (**Jurox**) by Zoetis Australia Research and Manufacturing Pty Ltd, a wholly owned subsidiary of Zoetis Inc. (**Zoetis**).

Please note that in the submission we refer to sales data in relevant categories. This data is sourced from both the New Zealand Baron Animal health sales audit for the 12-month period to September 2021 (Sep MAT) and the NZ (NEW ZEALAND) wholesaler sales to clinic data for the 12-month period to October 2021 as a Moving Annual Total (Oct MAT). As Jurox currently does not participate in the NZ Baron animal health audit, we have also referred to the NZ wholesaler sales to clinic data in this submission. Note that this data set is skewed towards the Companion animal segment, while the Baron data is a more complete data source reflecting both Farm and Companion animal sales.

Further, please note that in this submission we refer to confidential business plans and projects of Troy Laboratories NZ Pty Limited (**Troy**). It would significantly hurt those plans and our business if that information became publicly available or known to our competitors. Please ensure that it is treated as strictly confidential.

1. Impact on Competition

Zoetis and Jurox compete directly in a number of categories in a material capacity. The key direct intersections between the two portfolios are in the companion animal Anaesthetics/Analgesics category, and the companion animal Oral Antibiotics category. The acquisition will also provide Zoetis a platform to strengthen their market position within the Sheep Broad Spectrum Multi Active Parasiticide and farm animal Antibiotics Intramammary categories.

Troy is of the view that the proposed acquisition of Jurox by Zoetis and the resultant merger of those two businesses will have the effect of substantially lessening competition in the market. Our key concern is the ability that Zoetis will gain to influence price, control supply and distribution channels and leverage proprietary products to bundle a range of products (including products in other categories). In our view this is highly likely to impact the ability of current and potential market participants to effectively compete in the market.

2. About Troy Laboratories

Troy is an Australian owned animal healthcare company that develops, manufactures and distributes animal medicines in Australia across a wide variety of therapeutic areas. Troy was established in 1958 and continues to operate from its current manufacturing base in Western Sydney. Troy products have been available in New Zealand for over 30 years and in 2021 Troy has [REDACTED]

Outlined in Appendix A is a table indicating the competitive landscape between Troy, Zoetis and Jurox as outlined by product active.

3. Key Questions for Troy

In your email dated 17 November 2021, you requested specific information on Troy products. This information is outlined below.

a. Ilium Propercillin

Ilium Propercillin is a prescription product indicated for the treatment of infections caused by penicillin-sensitive organism and is registered for use in dogs, cats, horses, cattle, sheep and pigs.

The annual sales of Ilium Propercillin are [REDACTED] (MAT Oct 2021), and the product is primarily used in large animals in New Zealand (mainly horses and cattle). There are difficulties in analysing the sales data by species, but the majority of volume is sold through the larger presentations, 500ml ([REDACTED] of volume), 250ml ([REDACTED] of volume) as opposed to the small 100ml presentation ([REDACTED]) which could be assumed to be used primarily in companion animal.

b. Ilium Butorgesic

Ilium Butorgesic is a prescription product used as an analgesic and sedative to relieve moderate to severe pain in horses, dogs and cats. It can also be used in combination with anaesthetics to reduce the anaesthetic dose.

We have outlined below in section 4 the comparison between Ilium Butorgesic and products from Zoetis and Jurox which compete in this market.

c. Ilium Medetomidine

Ilium Medetomidine sedative and analgesic which is used in examinations, minor surgical procedures or clinical procedures such as x-rays, pre-anaesthetic in dogs and as a sedative for restraint in cats.

We have outlined below in section 4 the comparison between Ilium Butorgesic and products from Zoetis and Jurox which compete in this market.

3. Zoetis/Jurox Product Substitution

We have identified three products from Zoetis and Jurox that can be directly substituted for one another. These are outlined below in Table 1 where there are no significant differentiators in active ingredients, efficacy, dosage, frequency and method of delivery. Further details of these products and their place in therapeutic categories is outlined in further sections below.

Table 1: Zoetis/Jurox Competing Products

Competing product - Zoetis	Competing product - Jurox	Comments
Torbugesic injection 10mg	Butordyne injection 10mg	No significant differentiation in active ingredients, efficacy, dosage, frequency and method of delivery
Domitor sedative and analgesic for dogs and cats	Medetate injection	No significant differentiation in active ingredients, efficacy, dosage, frequency and method of delivery
Teatseal 120s	U-seal syringes 200s	No significant differentiation in active ingredients, efficacy, dosage, frequency and method of delivery

Pricing information for competitors including rebates, promotional deals and discounts are not transparent in the market. [REDACTED]

[REDACTED] The proposed acquisition is likely to reduce such price differentiation and therefore reduce competition in the marketplace.

Further, bundling of products both within and across categories and therapeutic areas is common in the animal medicines market. Bundling of products is a common practice (particularly by the larger suppliers) in the animal medicines market in order to secure additional market share. Following the proposed acquisition, some of the listed products may be included in product bundles alongside proprietary products such as Jurox’s Alfaxan Multidose anaesthetic injection or Zoetis’ vaccines for cattle or parasiticide treatments. This will have the effect of decreasing competition not only in the categories in which the products in Table 1 compete but also in other categories. Troy is very concerned about the effect this will have on the anaesthetic category and the parasiticide treatments category.

4. Companion animal Anaesthetic category and Analgesics category

The anaesthetic and antidote products that are competitors are outlined below in Table 2. These products are principally used in procedures carried out on cats, dogs and horses.

The products in Table 2 are generally not used or purchased in isolation of one another. This is largely because in carrying out procedures on companion animals a combination of drugs is used at the same time in order to achieve the correct level of sedation and pain control for the relevant procedure.

Customer incentive programs by some competitors in this market often bundle these products together with purchases of specific quantities of the group of products over a set period resulting in rebates paid directly to the customer.

The nature of veterinary practice in the selection of these medicines is also important to consider. In particular, these are not products which are selected by the end consumer who is paying the vet to carry out the procedure on their animal. These are medicines selected and administered by the vet without input as to brand or price by the consumer. When a supplier increases the unit supply price that increase is usually passed on directly to the consumer. Rebates which are received by vets are generally not factored into the price passed on to the consumer. Consequently, the unit price increase comes at the cost to the consumer while the vet receives rebates which go straight to their bottom line. There is no real barrier to a company such as Zoetis increasing its price.

Table 2: Companion Animal Anaesthetics and Analgesics (MAT Oct)

Active	Jurox	Zoetis	Combined Jurox and Zoetis Anaesthetics and Analgesics market share	Troy	Troy market share
Butorgesic active injection	██████	██████	████	██████	████
	Butordyne	Torbugesic		Butorgesic	
Medetomidine active injection	██████	██████	████	██████	████
	Medetate	Domitor		Medetomidine	
Diazepam				██████	████
				Diazepam	
Alfaxalone	██████		████		
Other brands	██████	██████	████	██████	████
Total	██████	██████	████	██████	████

This acquisition would result in Zoetis’ Anaesthetic and Antidotes range tripling their current market share to ██████ in New Zealand. We believe this would reduce the ability of Troy, and other companies to compete as effectively. In this regard we note that the remaining █% of market share is split primarily between CEVA (████) and Boehringer Ingelheim (████) and a few smaller players similar in market share to Troy. With more than █% of vet sales going through corporate vet groups in NZ, which account for ██████ of clinics, Zoetis could effectively capture significant market share with this acquisition through bundling and rebate programs.

Further, this is a therapeutic area in which there are very significant barriers to entry. The medicines listed in Table 2 above are Restricted medicines. Restricted medicines are subject to stringent manufacturing requirements as they are controlled substances of addiction. There are very few registered manufacturing facilities which are ACVM compliant and therefore limited ability for new entrants to enter the market in New Zealand There is also no research and development in this field undertaken outside of the multi-nationals due to the barriers to entry. The proposed acquisition of Jurox by Zoetis may likely have the effect of removing any remaining incentive for new entrants.

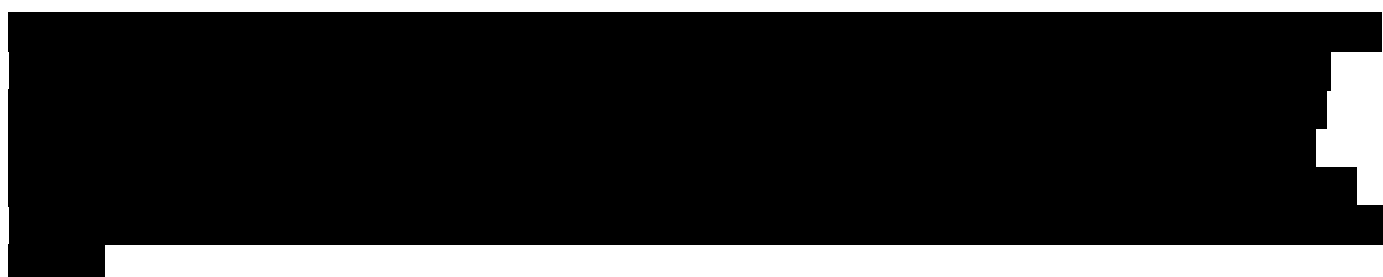
5. Livestock Antibiotics Intramammary category

Within the Livestock segment, the proposed acquisition would result in a strengthening of Zoetis ██████ share in the Antibiotics intramammary category which is already very tightly held. There are 3 other major competitors in this category, Virbac current share ████, MSD Animal Health current share ████ and Elanco market share ████. While the balance of share ██████ belongs to Norbrook. Due to the lack of data for Jurox’s products in this category, we refer to the Australian market where Jurox has ██████ market share (MAT Sep) and surmise that it is highly likely Zoetis’ dominant market position will be leveraged to grow the complementary Jurox products in this category in the New Zealand market.

The acquisition would further consolidate Zoetis' position and a segment that only has 3 major competitors does raise questions on whether there is price competitiveness and choice in the market for consumers and whether new entrants are able to enter and compete effectively within the category.

Table 3: Intramammary Products (MAT Sep)

	Brand	Zoetis	Zoetis share	Jurox	Jurox share
Dry Cow	Orbenin	████████	██████		
	Orbenin	████████	██████		
Lactating cow	Clavulox LA Injectable	████████	██████		
	Mastalone	████████	██████		
Teat seal	Teatseal	████████	██████		
Total		████████	██████		



6. Sheep Broad Spectrum Multi Active Parasiticide category

The proposed acquisition will position Zoetis with an additional brand to strengthen their clear number two position in market. Boehringer Ingelheim dominates the category with █████ market share, followed by Zoetis at █████ market share (MAT Sep). Due to the lack of data for Jurox's products in this category, we refer to the Australian market where Jurox has █████ market share, predominantly through their Q-drench brand that has █████ market share (MAT Sep). We are of the view that it is highly likely Zoetis will leverage Jurox's product suite within this category to further grow their market share in New Zealand.

One of the main drivers of product choice for farmers is drench resistance. Drench resistance is a threat to every sheep farm in Australia and New Zealand.^{1,2} Best practice management of sheep drench parasiticides involves rotating products between different chemical families to reduce the likelihood of resistance building up in the target parasites, in this case round worms. Ownership of both Startect and Q-drench would enable Zoetis to secure a strong market position where farmers could continuously rotate between these two products each drenching season as they have different active ingredients. This would provide Zoetis a competitive advantage in the market and a superior bargaining power with customers through rural distributors, shutting out competitors from those large rural distributors.

Startect is currently under patent protection, further embedding Zoetis' strong position in this category. Currently the top 10 brands in this category are owned by only four different manufacturers. This acquisition would further consolidate Zoetis' position in the category and further reduce the ability of smaller players to compete effectively.

¹ <https://www.zoetis.com.au/livestock-solutions/sheep/effective-parasite-management/drench-resistance.aspx> viewed 21/10/2021

² <http://www.startect.co.nz/strategic-drenching/index.html> viewed 25/10/2021

Table 4: Sheep Broad Spectrum Multi Active Parasiticides (MAT Sep)

Brand	Zoetis	Zoetis market share	Jurox	Jurox market share
Startect	████████	████████	Market share not known as Jurox does not participate in Baron data audit	
Eweguard	████████	████████		
Cydectin	████████	████████		
Total	████████	████████		



It is also relevant that Australia and New Zealand are the only geographies with significant sheep flocks and therefore the need for these products. Accordingly, the global interest by multi-nationals in sheep is relatively low. There is a current trend at the global level of consolidation of multi-nationals who have sheep products which is lessening competition progressively. By way of example, we note the acquisition of the Bayer business by Elanco in 2020. Further there are very significant barriers to entry in terms of the cost of research and development and associated clinical trials in this area. Troy believes that further consolidation of share in the hands of existing large players, combined with the fact that it is extremely unlikely any new players will enter, means that competition will decrease.

7. Oral Antibiotics category

Zoetis currently holds ██████ market share (MAT Oct) within the companion animal Oral Antibiotics category. They will hold dominant market share of ██████ market share through the acquisition. The next closest competitors Virbac and Dechra have ██████ and ██████ market share respectively (MAT Oct), while the other ██████ market share is fragmented between 10 other competitors.

Table 5: Oral Antibiotics (MAT Sep)

Active	Jurox	Zoetis	Combined Jurox and Zoetis	Troy	Troy market share
Amoxicillin	████████	████████	████████	████████	████████
	Juroclav	Clavulox			
Other brands	████████	████████	████████	████████	████████
Total	████████	████████	████████	████████	████████

This dominant market position, with no close secondary competitor, reduces the likelihood of new entrants in the category and reduces the effectiveness of competition within the current market.

Summary

The proposed acquisition of Jurox by Zoetis significantly strengthens Zoetis’ position in the animal medicine market in New Zealand. There are therapeutic categories of concern that we have outlined above where Jurox and Zoetis have directly competing products and the resulting position will provide Zoetis dominance in those categories.

Furthermore, the acquisition further strengthens the ability of Zoetis to influence price, control supply and distribution channels and leverage proprietary products to bundle a range of products, that may impact the ability of current and potential market participants to effectively compete in the market.

Please feel free to contact me if any questions arise or clarification is required on any of the information contained in this submission.

Yours sincerely,

Nicolas Shortis
CEO
Troy Laboratories Australia Pty Ltd

Appendix A

Active Ingredient	Troy product	Intended use	Product type	Overlaps	Zoetis product	Jurox product
Cloxacillin		Antibiotic for the treatment of dry cow during the dry periods to avoid financial loss from discarded milk. This product is a bactericidal with activity against penicillin resistant and sensitive staphylococci, streptococci and other organisms susceptible to cloxacillin.		Jurox and Zoetis	Orbenin Enduro – Dry cow intramammary suspension Orbenin Dry cow intramammary antibiotic infusion	Juraclox L.A 600 dry cow long acting intramammary suspension
Cloxacillin (Zoetis) Ampicillin and Cloxacillin (Jurox)		Prevention of subclinical mastitis in lactating cows caused by organisms sensitive to cloxacillin during lactation.		Jurox and Zoetis	Orbenin L.A. lactating cow intramammary antibiotic infusion with prolonged action	Ampiclox L.C. Lactating cow intramammary antibiotic infusion
Ampicillin		Prevention of subclinical mastitis in lactating cows caused by organisms sensitive to cloxacillin during lactation.				Ampiclox Dry cow intramammary antibiotic infusion
Bismuth subnitrate		For the prevention of clinical and subclinical mastitis in dairy cows during the non-lactating (dry) period and early post calving		Jurox and Zoetis	Teatseal	U-seal
Derquantel, Abamectin		For the treatment and control of a broad range of susceptible adult and immature gastrointestinal nematodes of sheep such as barber's pole worm, hookworm, lungworm, liver fluke, nasal bot, sheep itch mite, small intestinal worm, tapeworm - including those resistant to levamisole, benzimidazoles, macrocyclic lactones, closantel and/or monopantel.		Jurox and Zoetis	Startect Broad Spectrum Oral drench for sheep	
Abamectin, Closantel, Levamisole, Albendazole		For the treatment and control in sheep of susceptible barber's pole worm, hook worm, roundworms, lungworm, tapeworms, mature and late immature liver fluke, nasal bot and itch mite.				Q-drench multi combination oral drench for sheep
Butorphanol tartrate	Ilium Butorgesic injection	Analgesic and sedative for use in horses, dogs and cats	Generic	Jurox and Zoetis	Torbugesic injection 10mg	Butordyne injection 10mg
Medetomidine hydrochloride	Ilium Medetomidine injection	Sedative analgesic for use in restraint of dogs and cats for clinical examinations/procedures, surgery and pre-anaesthesia	Generic	Jurox and Zoetis	Domitor sedative and analgesic for dogs and cats	Medetate injection
Cloprostenol	Ilium Estromil injection	Synthetic prostraglandin for cattle and horses	Generic	Jurox		Juramate prostaglandin injection
Frusamide	Ilium Frusemide injection	For diuresis and saluresis in dogs, cats, horses and cattle	Generic	Jurox		Frudix furosemide tablets
Meloxicam	Ilium Meloxicam 20 anti-inflammatory injection for cattle, sheep, pigs and horses	Non-steroidal anti-inflammatory, analgesic and antipyretic for use in cattle, sheep, pigs and horses	Generic	Jurox		Reliven 20mg/ml solution for injection