

June 27, 2013



Equity Research

Johnson & Johnson

JNJ: Zytiga Uptake Generally Solid Despite Recent Share Dip

Outperform

Sector: Diversified

Market Weight

Company Note

• **Summary:** We reviewed Symphony Health (formerly ImpactRx) survey data and IMS Rx data for JNJ's Zytiga and competing products for prostate cancer. Zytiga overall share dipped for the second consecutive month in May, the product remains a market leader with continued healthy share gain in the pre-chemo segment more than offset by share loss in the post-chemo market. Despite the recent modest share decline, we expect overall Zytiga uptake to continue through H2 2013 as the drug continues to gain share in the pre-chemo segment, which is about 2-3x the size of the post-chemo segment. With pre-chemo use accounting for roughly 65% of Zytiga use, a figure that is likely to continue to increase, we should see higher revenue per patient as the median duration of use was 15 months in pre-chemo patients vs. 8 months for post-chemo patients (per clinical trial experience). We estimate 2013 US Zytiga sales of \$708M growing to \$1.2B in 2015 and worldwide sales increasing from \$1.5B in 2013 to \$2.4B in 2015.

• **Symphony survey shows Zytiga share dip for the second consecutive month due to share decline in post-chemo segment.** We reviewed May 2013 data that showed Zytiga lost nearly 300bps share sequentially in the overall CRPC (castration resistant prostate cancer) market (Figure 1). The share decline was primarily due to a drop in post-chemo share (from 31% in April to 27% in May), partly offset by 220bps pre-chemo share gain (from 54% to 56%) (Figures 2-3). At the same time, Xtandi's share climbed from 100bps to 19% in May, driven by 220bps increase in post-chemo share to nearly 26% partly offset by 150bps decline in pre-chemo share to 11%. Xtandi generated 27% of its demand from the pre-chemo population in May vs. 36% in April. Zytiga's pre-chemo usage held steady at 64% in May, which is up from 56% in January (Figure 4). Over 90% of Xtandi use in the last 6 months was in 2nd line therapy or later (Figure 5). During the same period, 53% of Zytiga use was in first-line treatment, which is directionally consistent with JNJ's estimate that ~45% of Zytiga sales are in the pre-chemo population (from May 23rd Pharma Day). DNDN's Provenge held 4% share of overall CRPC market (up from 3% in April) while Bayer/Algeta's Xofigo, approved for CRPC patients with symptomatic bone metastases in May, has garnered 0.3% share in its first few weeks on the market. Caveats about the Symphony survey: 1) absence of urologists, who are key prescribers in the pre-chemo setting; 2) post-chemo represents 50%+ of the market in the survey even though there are 2-3x as many pre-chemo patients—we believe the survey data reflects the concentration of oncologists (vs. urologists), who prescribe more in the post-chemo setting; 3) inclusion of supportive care products likely understates Zytiga's share.

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Valuation Range: \$95.00 to \$96.00

Our forward valuation range of \$95-96 equals approximately 16.5x our 2014 EPS estimate and is mainly based on a sum-of-the-parts analysis. Risks include delays to pipeline products, additional product recalls and unexpected deterioration in the industry.

Investment Thesis:

We believe JNJ's business is starting to turn the corner from many of the challenges of 2011 and expect the pipeline to deliver accelerating growth.

Please see page 7 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 06/27/13 unless otherwise stated.

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EPS	2012A	2013E		2014E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	\$1.37	\$1.44 A	NC	NE	
Q2 (June)	1.30	1.38	NC	NE	
Q3 (Sep.)	1.25	1.32	NC	NE	
Q4 (Dec.)	1.19	1.30	NC	NE	
FY	\$5.10	\$5.43	NC	\$5.71	NC
CY	\$5.10	\$5.43		\$5.71	
FY P/E	17.0x	16.0x		15.2x	
Rev.(MM)	\$67,224	\$70,671		\$73,615	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, * = Company is on the Priority Stock List

Ticker	JNJ
Price (06/27/2013)	\$86.71
52-Week Range:	\$66-90
Shares Outstanding: (MM)	2,833.0
Market Cap.: (MM)	\$245,649.0
S&P 500:	1,613.20
Avg. Daily Vol.:	10,792,200
Dividend/Yield:	\$2.28/2.6%
LT Debt: (MM)	\$16,000.0
LT Debt/Total Cap.:	17.5%
ROE:	27.0%
3-5 Yr. Est. Growth Rate:	6.0%
CY 2013 Est. P/E-to-Growth:	2.7x
Last Reporting Date:	04/16/2013
	Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Larry Biegelsen, Senior Analyst

(212) 214-8015

larry.biegelsen@wellsfargo.com

Lei Huang, Associate Analyst

(212) 214-8039

lei.huang@wellsfargo.com

Kevin Strang, Associate Analyst

(212) 214-8042

kevin.strang@wellsfargo.com

Craig W. Bijou, Associate Analyst

(212) 214-8038

craig.w.bijou@wellsfargo.com

Together we'll go far



EXHIBIT 2256

EXHIBIT 9

Medical Technology

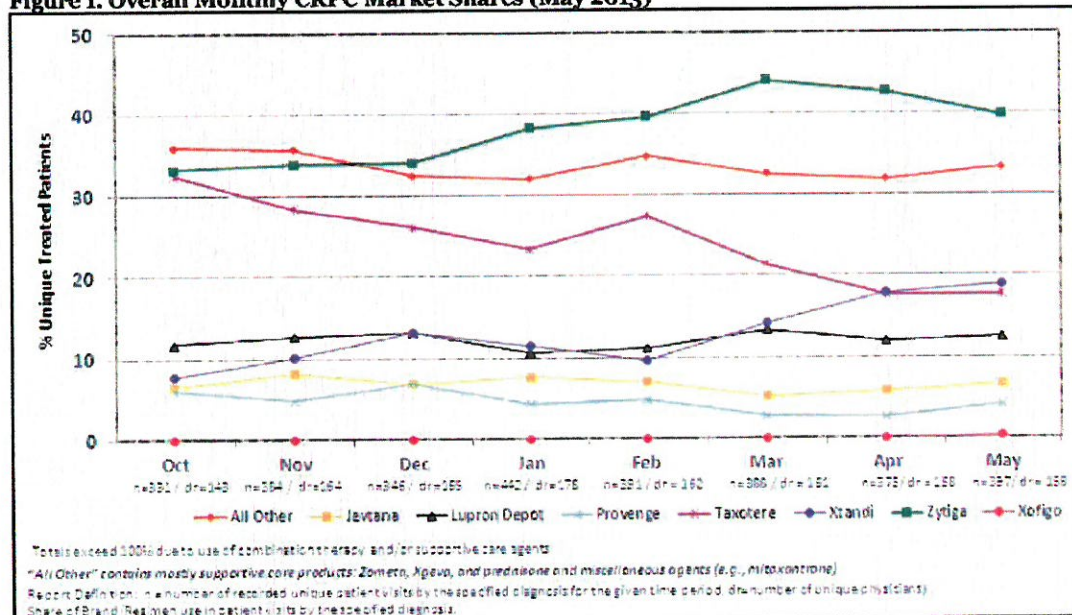
Company Description:

New Brunswick-based Johnson & Johnson, through its more than 250 operating companies, is the world's most comprehensive and broadly based manufacturer of health care products, as well as a provider of related services, for the consumer, pharmaceutical, and medical devices and diagnostics markets. The medical devices and diagnostics segment consists of a range of products including Cardiovascular Care, DePuy Synthes orthopedics, surgical and infection prevention products, LifeScan blood glucose monitoring and insulin delivery products, Ortho-Clinical Diagnostics products, and Vistakon disposable contact lenses. The company reported 2012 sales of \$67.2B, up 3% year-over-year.

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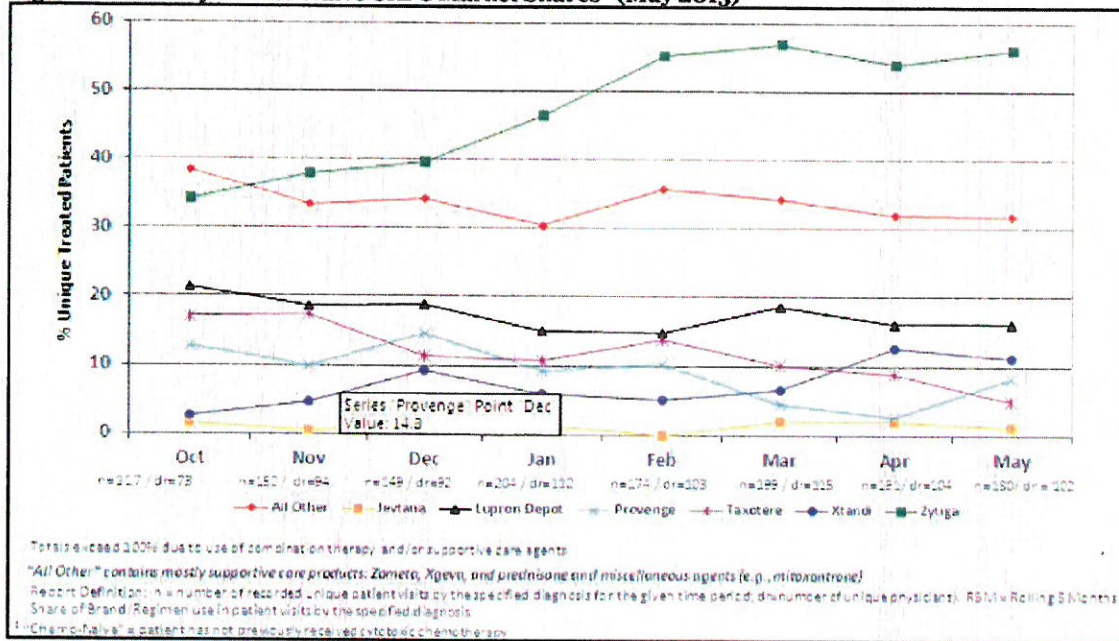
- IMS prescription (Rx) data shows continued rise in overall Zytiga demand.** Weekly TRx data still shows solid Zytiga uptake in the US, while NRx ramp following the Dec 2012 pre-chemo approval has flattened some (Figure 6). For the 4-week period ended 6/14/13, Zytiga TRx totaled 8,097, up 39% Y/Y, while 4-week NRx totaled 2,726, up 36% Y/Y. Note that NRx growth slowed in mid-Oct through early Dec (as low as mid-single digit Y/Y growth in Nov 2012) but had reaccelerated to close to 40% level following approval of the pre-chemo indication in mid-Dec 2012 (Figure 7). The 4Q12 slowdown suggests some impact from the launch of competitor MDVN's Xtandi. While IMS data does not break out pre- vs. post-chemo usage, we note that urologists now account for 5% of Zytiga NRx, up from 2% in December 2013. Continued uptick in urologist Rx should help Zytiga to further penetrate the pre-chemo segment.
- Update on JNJ's prostate cancer therapeutic franchise.** Zytiga has been one of JNJ's best new drug launches with global sales totaling nearly \$1B in its second year on the market. JNJ reported US Zytiga sales of \$161M (+61% Y/Y) in Q1 and we expect the positive momentum to continue through 2013, driven by pre-chemo uptake in the US and EU. Based on reported Q1 sales of key competing products, the global prostate cancer market grew 58% Y/Y (Figure 8). Looking ahead, JNJ expects final overall survival analysis from the Zytiga pre-chemo study to be completed in early 2014. If the data is positive and added to the label, we expect potential further boost to Zytiga's leadership in the prostate cancer market. Additionally, JNJ recently announced plans to acquire privately-held Aragon, whose leading asset ARN-509 is in Phase 2 for prostate cancer. JNJ will pay \$650M upon deal close (expected in 3Q13) and up to \$350M in milestone payments. We see the move as a positive for JNJ in its effort to enhance its successful Zytiga franchise, both in terms of the potential to expand the treatment spectrum and extend the life of the franchise beyond Zytiga's 2016 US patent expiration. ARN-509 is a second-generation androgen receptor signaling inhibitor with a mechanism of action that may be complimentary to current therapies like Zytiga and have broader utility vs. Zytiga (i.e. earlier and/or later line of treatment).

Figure 1. Overall Monthly CRPC Market Shares (May 2013)



Source: Symphony Health Solutions

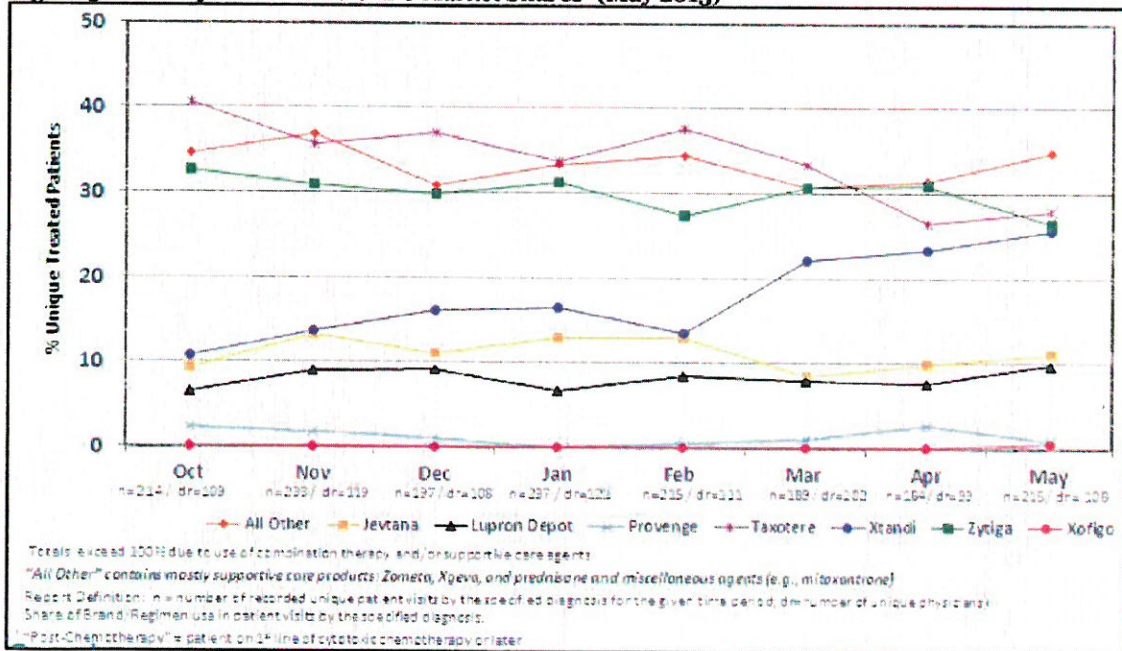
Figure 2. Monthly Chemo-Naïve CRPC Market Shares² (May 2013)



Source: Symphony Health Solutions

Note: In 1Q13, Xtandi received NCCN (National Comprehensive Cancer Network) compendium listing for pre-chemo setting, which facilitates reimbursement for off-label use, and helped to boost the drug's pre-chemo share in recent months.

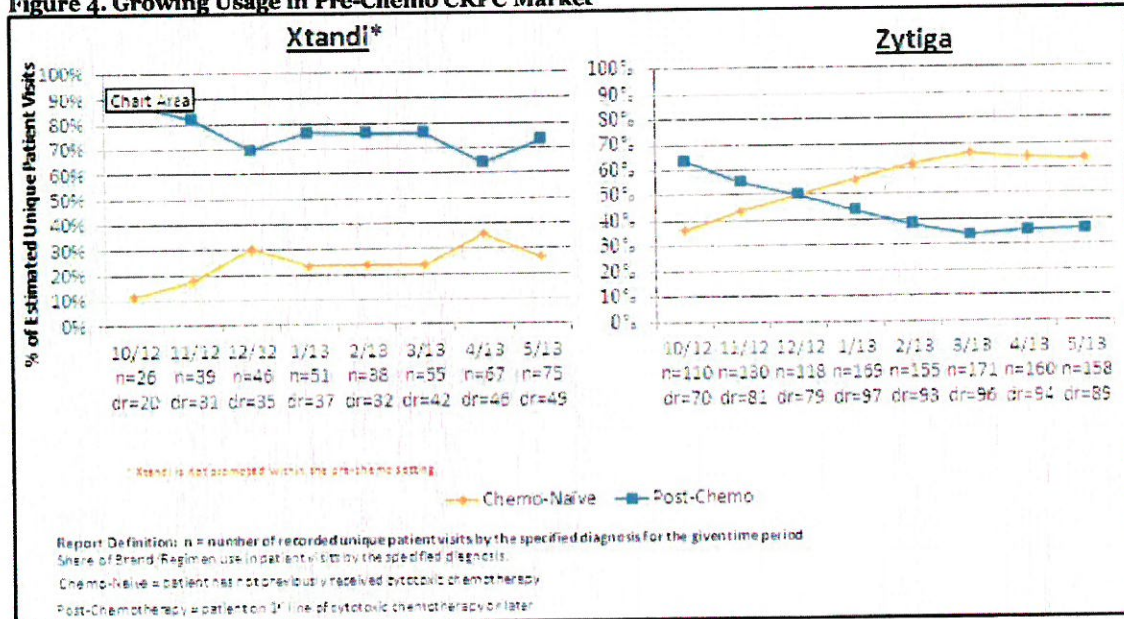
Figure 3. Monthly Post-Chemo CRPC Market Shares¹ (May 2013)



Source: Symphony Health Solutions

Medical Technology

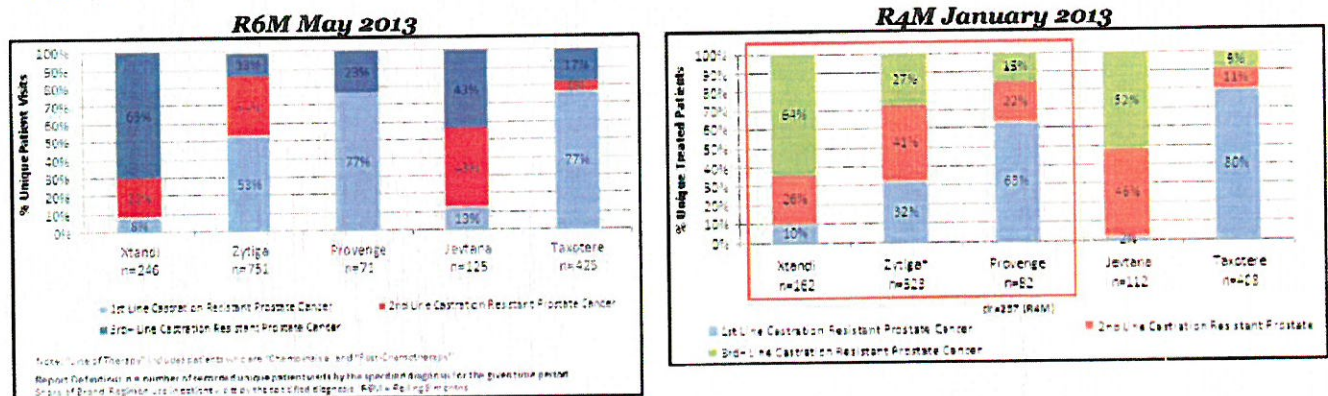
Figure 4. Growing Usage in Pre-Chemo CRPC Market



Source: Symphony Health Solutions

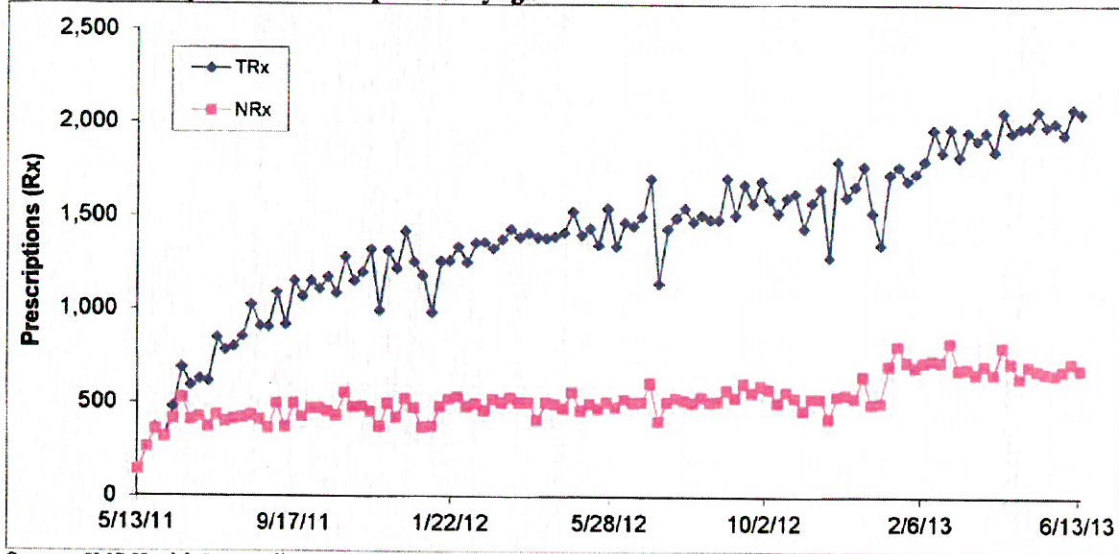
* Although not promoted in pre-chemo setting, Xtandi received NCCN (National Comprehensive Cancer Network) compendium listing for pre-chemo setting in Q1, which facilitates reimbursement for off-label use.

Figure 5. CRPC Line of Therapy By Brand



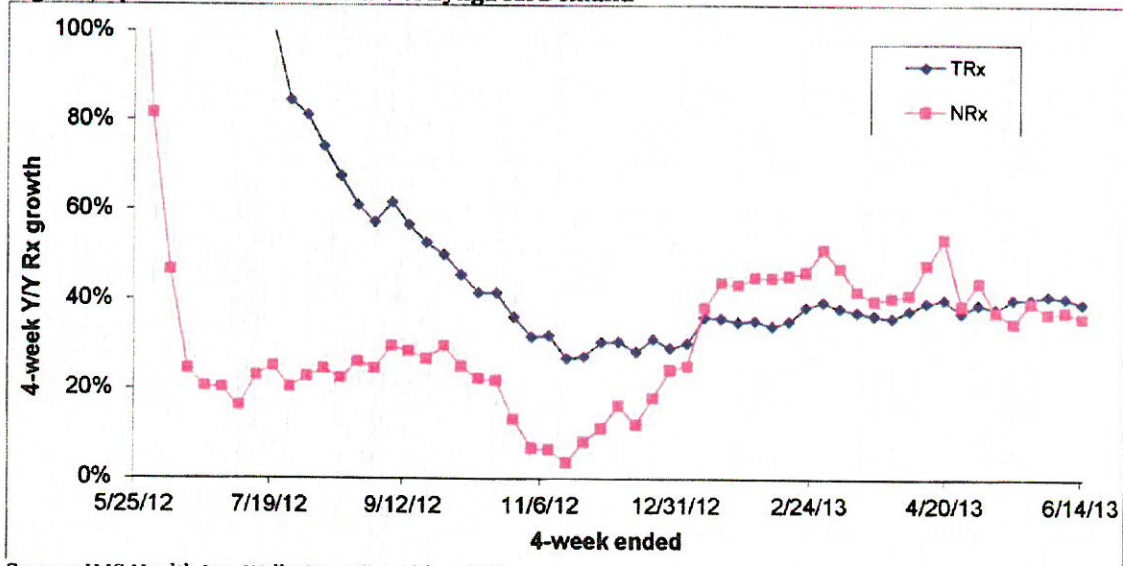
Source for both charts: Symphony Health Solutions

Figure 6. Weekly TRx and NRx Uptake of Zytiga



Source: IMS Health Inc, Wells Fargo Securities, LLC

Figure 7. 4-Week Growth Run Rate of Zytiga Rx Demand



Source: IMS Health Inc, Wells Fargo Securities, LLC

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