Johnson & Johnson's Management Discusses Q1 2014 Results - Earnings Call Transcript

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Q1: 04-15-14 Earnings Summary

SEC *10-Q* *Analysis* *News*

EPS of $1.54 beats by $0.06 | Revenue of $18.11B (+ 3.5% Y/Y) beats by $110M

Johnson & Johnson (NYSE:JNJ)

Q1 2014 Results Earnings Conference Call

April 15, 2014 08:30 AM ET

Executives

Louise Mehrotra - VP of Investor Relations

Dominic Caruso - VP, Finance and CFO

Analysts

Mike Weinstein - JP Morgan

Matthew Dodds - Citigroup

Kristen Stewart - Deutsche Bank

Larry Biegelsen - Wells Fargo

Jami Rubin - Goldman Sachs

Glenn Novarro - RBC Capital Markets

Derrick Sung - Sanford Bernstein

Rick Wise - Stifel

Matt Miksic - Piper Jaffray

Jeff Holford - Jefferies

Danielle Antalffy - Leerink Partners

Josh Jennings - Cowen and Company

David Lewis - Morgan Stanley

Bob Hopkins - Bank of America

Damien Conover - Morningstar

Operator

Good morning and welcome to the Johnson & Johnson First Quarter 2014 Earnings Conference Call. All participants will be in a listen-only mode until the question-and-answer session of the conference. This call is being recorded. If anyone has any objections, you may disconnect at this time. (Operator Instructions).

I would now like to turn the call over to Johnson & Johnson. You may begin.

Louise Mehrotra

Good morning and welcome. I'm Louise Mehrotra, Vice President of Investor Relations for Johnson & Johnson and it is my pleasure this morning to review our business results for the first quarter of 2014. Joining me on the call today is Dominic Caruso, Vice President, Finance and Chief Financial Officer. A few logistics before we get into the details.

This review is being made available via webcast accessible through the Investor Relations section of the Johnson & Johnson website. I'll begin by briefly reviewing first quarter results for the corporation and for our three business segments.

Following my remarks, Dominic will provide commentary on the results including some highlights for the quarter, a review of the income statement and guidance for 2014. We will then open the call to your questions. Included with the press release that was issued earlier this morning is a schedule of sales for key products and/or businesses to facilitate updating your model.

These schedules are available on the Johnson & Johnson website as is the press release. Also, please note that we will be using a brief presentation to complement today's commentary. The presentation is also available on our website.

Before we begin, let me remind you that some of the statements made during this review may be considered forward-looking statements. The 10-K for the fiscal year 2013 identifies certain factors that could cause the company's actual results to differ materially from those projected in any forward-looking statements made today.

The company does not undertake to update any forward-looking statements as a result of new information or future events or developments. The 10-K is available through the company and online.

During the review, non-GAAP financial measures are used to provide information pertinent to ongoing business performance. These non-GAAP financial measures should not be considered replacements for GAAP results. Tables reconciling these measures to the most comparable GAAP measures are available in the press release and on the Investor Relations section of the Johnson & Johnson website at investor.jnj.com.

A number of the products and compounds discussed today are being developed in collaboration with strategic partners or licensed from other companies. This slide lists acknowledgment of those relationships.

Now, I would like to review our results for the first quarter of 2014. Worldwide sales to customers were $18.1 billion for the first quarter of 2014, up 3.5%. On an operational basis, sales were up 5.3% and currency had a negative impact of 1.8%.

In the U.S., sales were up 2.2%. In regions outside the U.S., our operational growth was 7.9%, while the effect of currency exchange rates negatively impacted our reported results by 3.4%.

On an operational basis Asia Pacific, Africa region grew 10.3%, the western hemisphere, excluding the U.S., grew by 7.1% and Europe grew 6.6%. The success of new product launches and continued growth of key products made strong contributions to the results in all regions.

Turning now to earnings, our earnings were $4.7 billion, up 35.2% compared with the 2013 results. Earnings per share were $1.64 versus $1.22 a year ago. As referenced in the table reconciling non-GAAP measures, 2014 first quarter net earnings were adjusted to exclude a net gain of approximately $300 million for after tax special items. First quarter 2013 net earnings included a net charge of approximately $600 million for after tax special items. Dominic will discuss special items in his remarks.

Excluding special items for both periods, net earnings for the current quarter were $4.4 billion and diluted earnings per share were $1.54, representing increases of 7.8% and 6.9% respectively as compared to the same period in 2013.

Turning now to business segment highlights, please note percentages quoted represent the operational sales change in comparison to the first quarter of 2013 unless otherwise stated and therefore exclude the translational impact of currency.

I will begin with the consumer segment. Worldwide consumer segment sales of $3.6 billion decreased 0.6% with U.S. sales down 2.9% while outside the U.S. sales grew 0.7%. Excluding the impact of divestitures net of acquisitions, both worldwide and U.S. growth were approximately 1%. Major drivers of the results were skin care and oral care offset by the divestiture of the North America women's health business.

Skin care results were driven by AVEENO and DABAO new product launches supported by robust marketing campaigns. Oral care results were driven by results for LISTERINE due to new product launches and successful marketing campaigns. OTC sales were negatively impacted by a weaker cold and flu season partially offset by strong sales of ZYRTEC with the U.S. launch of the Dissolve Tabs including sales related to the initial stocking.

Moving now to our pharmaceutical segment, worldwide net sales of $7.5 billion increased 12.2% with the U.S. up 7.7% and sales outside the U.S. up 16.9%. As a reminder, in the first quarter of 2013, U.S. results included a positive adjustment to previous estimates for managed Medicaid rebates under the Affordable Care Act related to new data received from the states. The most significant impacts from the adjustment were in immunology, neuroscience and PROCRIT. Excluding this item, 2014 worldwide sales were up over 15%.

In addition, in the early part of last year, the company made certain supply chain changes for REMICADE, resulting in sales to distributors previously recorded as U.S. export sales now being recorded as international sales. Adjusting the 2013 base to reflect this impact as well as the U.S. managed Medicaid adjustment, the first quarter 2013 U.S. pharmaceutical segment U.S. growth was over 19% and growth outside the U.S. was approximately 12%.

Pharmaceutical growth was driven in part by a recently launched hepatitis C product called OLYSIO in the U.S. and SOVRIAD in Japan, contributing over 5% to the worldwide pharmaceutical growth versus the first quarter of 2013. Other significant contributors to growth were ZYTIGA, XARELTO, STELARA, INVOKANA and INVEGA SUSTENNA or XEPLION partially offset by lower sales of CONCERTA and ACIPHEX due to generic competition.

The strong results for ZYTIGA in the U.S. were driven by increased market share in the combined metastatic, castrat-resistant prostate cancer market combined with estimated market growth of 10%. ZYTIGA has captured approximately 34% of that market.

The expansion of the label to chemo-naïve patients and continued progress and reimbursement drove the strong results outside the U.S. ZYTIGA is approved in more than 80 countries.

XARELTO sales doubled compared with the same quarter last year and grew nearly 18% on a sequential basis. Total prescription share or TRx at the end of the quarter in the U.S. oral anticoagulant market grew to 12.5% with cardiology TRx estimated at nearly 22%.

INVOKANA sales contributed 2.5 points to U.S. pharmaceutical gross rate, and at the end of the quarter achieved 2.1% TRx within the defined market of type 2 diabetes excluding insulin and metformin, up from 1.5% in the fourth quarter of 2013.

TRx with endocrinologists grew to 6.6% by the end of the quarter, up over 1% sequentially. Continued momentum and market share for STELARA complemented by strong market growth drove results in immunology while increased market share drove results for INVEGA, SUSTENNA or XEPLION.

I'll now review the medical devices and diagnostics segment results. Worldwide medical devices and diagnostics segment sales grew 1.8%. U.S. sales declined 1.6%, while sales outside the U.S. increased 4.6%. Growth was driven by orthopedics, specialty surgery, vision care and cardiovascular care, partially offset by lower sales in diabetes care and Ortho-Clinical Diagnostics. Lower price primarily related to competitive bidding continued to impact the diabetes care business in the U.S.

Orthopedic sales growth was driven trauma, knees and hips. Trauma was up 7% with the U.S. up 10%. In the U.S., strong market growth and the positive impact of the recovery from the prior year nail recall was partially offset by pricing pressure.

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