Johnson & Johnson's (JNJ) CEO Alex Gorsky on Q4 2014 Results - Earnings Call Transcript

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Q4: 01-20-15 Earnings Summary

SEC *10-K* *Analysis* *News*

EPS of $1.27 beats by $0.01 | Revenue of $18.25B (- 0.6% Y/Y) misses by $-310M

Johnson & Johnson (NYSE:JNJ)

Q4 2014 Earnings Conference Call

January 20, 2015 8:30 AM ET

Executives

Louise Mehrotra - VP, IR

Alex Gorsky - Chairman and CEO

Dominic Caruso - VP, Finance and CFO

Analysts

Lawrence Biegelsen - Wells Fargo

Derrick Sung - Sanford Bernstein

Mike Weinstein - JPMorgan

Glenn Novarro - RBC Capital Markets

Jeff Halford - Jefferies

Kristen Stewart - Deutsche Bank

David Lewis - Morgan Stanley

Rick Wise - Stifel Nicolaus

Vamil Divan - Credit Suisse

Danielle Antalffy - Leerink Partners

Operator

Good morning. And welcome to Johnson & Johnson's Fourth Quarter 2014 Earnings Conference Call. All participants will be able to listen-only 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 conference 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 fourth quarter and full year of 2014. Joining me on the call today, are Alex Gorsky, Chairman of the Board of Directors and Chief Executive Officer, and 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 a webcast accessible through the Investor Relations section of the Johnson & Johnson Web site at investor.jnj.com. I'll begin by briefly reviewing fourth quarter and full year results for the corporation and for our three business segments. Following my remarks, Alex will comment on the 2014 results and provide a strategic outlook for the Company. Then Dominic will provide some additional commentary on the business and review the income statement and provide guidance for 2015. We will then open the call to your questions. We expect the call to last approximately 90 minutes.

Included with the press release that was issued earlier this morning is the schedule of sales for key products and/or businesses to facilitate updating your models. These schedules are available on the Johnson & Johnson Web site, as is the press release. Please note, we will be using a presentation to complement today's commentary. The presentation is also available on our Web site.

Before we begin, let me remind you that some of the statements made during this review are or maybe considered forward-looking statements. The 10-K for the fiscal year 2013 and the Company's subsequent filings identify 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. Our SEC filings including the 10-K are available through the Company and on our Website.

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 and should be read together with GAAP results. Tables reconciling these measures to the most comparable GAAP measures are available in the schedules accompanying the press release and on the Investor Relations section of the Johnson & Johnson Web site. A number of the products and compounds discussed today are being developed in collaboration with strategic partners or license from other companies, this slide lists the acknowledgement of those relationships not otherwise referenced in today's presentations.

Now I would like to review our results for the fourth quarter of 2014. Worldwide sales to customers were $18.3 billion for the fourth quarter of 2014, down 0.6% versus the fourth quarter of 2013. On an operational basis, sales were up 3.9% and currency had a negative impact of 4.5%. In the U.S., sales were up 7.4%. In regions outside the U.S. our operational growth was 1.2%, while the effect of currency exchange rates negatively impacted our reported results by 7.9%. On an operational basis, the Western Hemisphere excluding the U.S. grew 3.9%, while both the Asia-Pacific and Africa region and Europe grew 0.6%. The success of new product launches and continued growth of key products in all regions was partially offset by divestitures, the most significant one being Ortho-Clinical Diagnostics, excluding the net impact of acquisitions and divestitures underlying operation of 0.7% worldwide, 10.7% in the U.S. and 3.6% outside the U.S.

Turning now to earnings, net earnings were $2.5 billion and earnings per share were $0.89 versus the $1.23 a year-ago. As referenced in the table reconciling non-GAAP measures, 2014 fourth quarter net earnings were adjusted to exclude a charge of $1.1 billion for after-tax special items. Fourth quarter 2013 net earnings were adjusted to exclude a net charge of $42 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 $3.6 billion and diluted earnings per share were $1.27, representing

Now turning to the financial highlights for the full year of 2014, consolidated sales to customers for the year of 2014 were $74.3 billion, an increase of 4.2% as compared to the same period a year ago. On an annual basis, sales grew 6.1% operationally and currency had a negative impact of 1.9%. Excluding the net impact of acquisitions and divestitures, underlying operational growth was approximately 8% worldwide, 11.6% in the U.S. and 5.1% outside the U.S.

Turning now to earnings, 2014 annual net earnings were $16.3 billion and earnings per share were $5.70. For the year, 2014 adjusted net earnings were $17.1 billion and adjusted earnings per share were $5.97, up 7.7% and 8.2% respectively versus the 2013 results. Free cash flow for the year was strong at $14.7 billion, up $900 million versus 2013.

Turning now to business segment highlights. Please note percentages quoted represent operational sales change in comparison to the fourth quarter of 2013, unless otherwise stated and therefore exclude the currency translation impact. I'll begin with the Consumer segment. Worldwide Consumer segment sales of $3.6 billion increased 0.9% with U.S. sales up 2.5%, while outside the U.S. sales grew 0.1%. Excluding the net impact of acquisitions and divestiture, underlying operational growth was 2.1% worldwide, 4.9% in the U.S. and 0.7% outside the U.S. Growth was driven by OTC worldwide, U.S. Skin Care, as well as Oral Care and Women's Health outside the U.S. This growth was partially offset by lower sales of Baby Care and Skin Care outside the U.S., due to competitive pressures and prior-year inventory stocking.

OTC sales growth was driven by analgesics and upper respiratory products. Upper respiratory grew 8% worldwide driven by sales growth outside the U.S. Analgesic growth was 16% with growth in the U.S. of 24% driven by share gains, as well as trade inventory build related to the re-launch of products. In the U.S., adult analgesic market share was 11%, up from approximately 9.5% a year ago, while U.S. pediatric share was nearly 42%, up from 34% a year ago. New product launches and successful marketing campaigns drove the results for NEUTROGENA and AVEENO in U.S. Skin Care, as well as LISTERINE in Oral Care and Women's Health products outside the U.S.

Moving now to our Pharmaceutical segment, worldwide sales of $8 billion increased 13.9% with U.S. sales up 22.7% and sales outside the U.S. up 5.8%, driven by strong sales of new products, as well as core growth products. A major driver was our Hepatitis C product, OLYSIO. Excluding sales of Hepatitis C products, OLYSIO and INCIVO, underlying growth worldwide U.S. and outside the U.S. was approximately 11%, 16% and

7% respectively. Other significant contributors to growth were immunology products, STELARA and SIMPONI, SIMPONI ARIA as well as XARELTO, INVOKANA, ZYTIGA, INVEGA SUSTENNA or XEPLION and recently launched IMBRUVICA.

Net revenue recorded from IMBRUVICA in the fourth quarter was $92 million worldwide, with $64 million in the U.S. On a full year basis, net revenue was $200 million worldwide, with $144 million in the U.S. The results for immunology were driven by strong double-digit market growth, complemented by increased market share for STELARA and combined SIMPONI, SIMPONI ARIA. U.S. export sales of REMICADE were down due to timing of shipments to our distribution partners. XARELTO sales were up 58% and total prescription share or TRx for the quarter in the U.S. anticoagulant market grew to 15%, up approximately 0.5 point from last quarter and up over 4.5 points from a year-ago. Cardiology TRx estimated at 23.5% was up over 4.5 points from a year-ago.

INVOKANA/INVOKAMET sales were approximately $200 million in the quarter, with over $190 million in the U.S. contributing approximately 3.5% to the U.S. pharmaceutical growth rate. In U.S. INVOKANA/INVOKAMET achieved 4.1% TRx within the defined market of Type 2 diabetes excluding insulin and metformin, up from 3.3% in the third quarter of 2014. TRx in endocrinologist grew to 10% for the quarter, up approximately 1% sequentially. INVOKANA/INVOKAMET was the category-leader in new-to-brand share with endocrinologists reaching over 19% at the end of the quarter.

Strong growth of the combined metastatic castrate resistant prostate cancer market at over 15% drove the results for ZYTIGA in the U.S. ZYTIGA’s share was approximately 31% of that market down approximately two points on a sequential basis due to increased competition. Continued strong market uptake and additional country launches drove the strong results outside the U.S. ZYTIGA is approved in more than 95 countries. INVEGA, SUSTENNA or XEPLION, achieved strong result in all regions due primarily to increased market share.

I’ll now review the Medical Devices segment results. Worldwide Medical Devices segment sales of $6.6 billion decreased 4.7%. U.S. sales declined 7.7%, while sales outside the U.S declined 2.3%. Ortho-Clinical Diagnostics was divested mid-year 2014. Excluding the net impact of acquisitions and divestures, underlying operational growth was 1.5% at worldwide, with the U.S down 1% and growth of 3.5% outside the U.S. Growth was driven by orthopedics and cardiovascular care products, partially offset by lower sales in vision care. Competitive pricing dynamics negatively impacted growth for vision care in the U.S. This was partially offset by growth outside the U.S with strong results in emerging market.

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