# Johnson & Johnson's (JNJ) Management on Q1 2015 Results - Earnings Call Transcript

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Q1: 04-12-15 Earnings Summary

SEC *10-Q* *Analysis* α *News*

EPS of $1.56 beats by $0.02 | Revenue of $17.37B (- 4.1% Y/Y) beats by $60M

Johnson & Johnson. (NYSE:JNJ)

Q1 2015 Results Earnings Conference Call

April 14, 2015, 08:30 AM ET

**Executives**

Louise Mehrotra - Vice President of Investor Relations

Dominic Caruso - Vice President, Finance and Chief Financial Officer

**Analysts**

Mike Weinstein - JPMorgan

Vamil Divan - Credit Suisse

Larry Biegelsen - Wells Fargo

Glenn Novarro - RBC Capital Markets.

David Lewis - Morgan Stanley

Rick Wise - Stifel

Josh Jenning - Cowen & Company

Jayson Bedford - Raymond James

**Operator**

Good morning. And welcome to Johnson & Johnson's First Quarter 2015 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 first quarter of 2015. 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 at investor.jnj.com. I'll begin by briefly reviewing first quarter for the corporation and for our three business segments. Then Dominic will provide some additional commentary on the business, 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 one hour.

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 website, 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 website.

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 2014 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 website. Please note our 2015 sales schedules, breakout sales for both IMBRUVICA and INVOKANA/INVOKAMET to assist in updating your models we have also provided the quarterly split for 2014 for those products on the sales schedule by product.

Now I would like to review our results for the first quarter of 2015. Worldwide sales to customers were $17.4 billion for the first quarter of 2015, down 4.1% versus the first quarter of 2014. On an operational basis, sales were up 3.1% and currency had a negative impact of 7.2%. In the U.S., sales were up 5.9%. In regions outside the U.S. our operational growth was 0.8%, while the effect of currency exchange rates negatively impacted our reported results by 13.2%.

On an operational basis, the Western Hemisphere excluding the U.S. grew by 9.9%, while Europe grew 0.3% and Asia Pacific Africa declined 3%. Growth in the U.S. and Japan was negatively impacted by hepatitis C completion or growth in all regions was impacted by divestitures, the most significant one being Ortho-Clinical Diagnostics. Excluding the net impact of acquisitions and divestitures underlying operational growth was 5.7% worldwide, 9.1% in the U.S. and 3% outside the U.S.

Turning now to earnings, net earnings were $4.3 billion and earnings per share were $1.53 versus $1.64 a year-ago. As referenced in the table reconciling non-GAAP measures, 2015 first quarter net earnings were adjusted to exclude after-tax amortization expense of $226 million and a net gain of $128 million for after-tax special items.

Dominic will discuss special items in his remarks. Excluding amortization expense and special items for both periods, adjusted net earnings for the current quarter were $4.4 billion and diluted earnings per share were $1.56, representing decreases of 5.9% and 4.3% respectively as compared to the same period in 2014. Currency translations significantly impacted net earnings. On an operational basis, adjusted net earnings grew 3.7%.

Turning now to business segment highlights. Please note percentages quoted represent operational sales change in comparison to the first quarter of 2014 unless otherwise segment.

Worldwide Consumer segment sales of $3.4 billion increased 3.4% with U.S. sales up 3.8%, while outside the U.S. sales grew 3.1%. Excluding the net impact of acquisitions and divestitures, underlying operational growth was 4.7% worldwide, 5.1% in the U.S. and 4.5% outside the U.S. Growth was driven by OTC worldwide, Skin Care, as well as Oral Care and Women's Health outside the U.S.

OTC sales growth was driven by analgesics, upper respiratory products outside the U.S. as well as new products and re-launches in Digestive Health, Anti-smoking aids and ROGAINE. In the U.S., adult analgesic market share was approximately 12% up from approximately 11% a year ago, while U.S. paediatric share was nearly 43%, up from nearly 38% a year ago.

In Skin Care seasonal inventory build and strong market growth drove results for NEUTROGENA and AVEENO. New product launches and successful marketing campaigns drove the results for LISTERINE in Oral Care and Women's Health products outside the U.S.

Moving now to our Pharmaceutical segment, worldwide sales of $7.7 billion increased 10.2% with U.S. sales up 16.9% and sales outside the U.S. up 3.7%, driven by both strong sales of new products, as well as core growth products. New competitors in Hepatitis C significantly impacted sales this quarter.

Excluding sales of Hepatitis C products, OLYSIO and INCIVO, underlying pharmaceutical growth worldwide U.S. and outside the U.S. was approximately 13%, 24% and 3% respectively. U.S. results include a positive adjustment for growth to net including managed Medicaid rebates. Significant contributors to growth were immunology products, STELARA and SIMPONI, SIMPONI ARIA as well as INVOKANA/INVOKAMET, XARELTO, IMBRUVICA, ZYTIGA, CONCERTA and INVEGA SUSTENNA or XEPLION.

The results for immunology were driven by strong double-digit market growth, complemented by increased market share for STELARA and combined SIMPONI, SIMPONI ARIA. Regarding REMICADE export and international sales, as a reminder the company made certain supply changes resulting in sales to distributors previously recorded as U.S. export sales being recorded as international sales. Combined international and export sales for REMICADE in the first quarter of 2015 were down approximately 2%. Strong growth in Canada was offset by lower sales to our distributors reflecting the weakening of the euro and the loss of exclusivity in Europe partially offset by

INVOKANA/INVOKAMET sales were up nearly 40% on a sequential basis. In the U.S. INVOKANA/INVOKAMET achieved 4.9% TRx within the defined market of Type 2 diabetes excluding insulin and Metformin, up from 4.2% in the fourth quarter of 2014. TRx with endocrinologist grew to 11.8% for the quarter, and 4.3% in primary care, up 1.5% and 0.7% respectively on a sequential basis.

INVOKANA/INVOKAMET remains the category-leader in new-to-brand share with endocrinologists at nearly 18% at the end of the quarter.

XARELTO sales were up 38% and total prescription share of TRx for the quarter in the U.S. anti coagulant market grew to 15%, up over 3 points from a year ago. TRx and primary care reached 12% and in cardiology 23.8% up on a sequential basis.

XARELTO is broadly reimbursed with over 90% of Commercial and Medicare Part D patients covered at the lowest co-pay for a branded product. Strong patient update with new indications approvals and demonstrated efficacy drove results for IMBRUVICA both in the U.S. and outside the U.S. primarily Europe with launches in Germany, France and the U.K.

Strong growth of the combined metastatic castrate resistant prostate cancer or mCRPC market at 12.5% drove the results for ZYTIGA in the U.S. ZYTIGA's share was approximately 30.3% of that market down approximately 1.2 points on a sequential basis due to increased competition.

During the quarter the FDA approved a label update for ZYTIGA plus prednisone noting significantly prolonged median overall survival compared to placebo plus prednisone, in chemo-naïve men with mCRPC.

Continued strong market uptake and additional country launches drove the strong results outside the U.S. ZYTIGA is approved in more than 95 countries. CONCERTA growth was primarily due to a therapeutic equivalent reclassification of generic competitors. 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 $6.3 billion decreased 4.6%. U.S. sales declined 6.1%, while sales outside the U.S declined 3.3%. Ortho-Clinical Diagnostics was divested mid-year 2014.

Excluding the net impact of acquisitions and divestures, underlying operational growth was 1.3% worldwide, with the U.S up 1.1% and growth of 1.5% outside the U.S. Growth

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