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Johnson & Johnson (JNJ) CEO Discusses Q2 2013 Results - Earnings Call Transcript

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Johnson & Johnson (NYSE:JNJ)

Q2 2013 Earnings Call

Jul 16, 2013, 8:30 am ET

Executives

Louise Mehrotra - Vice President, Investor Relations

Alex Gorsky - Chairman of the Board, Chief Executive Officer

Sandra Peterson - Group Worldwide Chairman

Dominic Caruso - Chief Financial Officer, Vice President - Finance

Analysts

Mike Weinstein - JPMorgan

Rajeev Jashnani - UBS

Matthew Dodds - Citigroup

Kristen Stewart - Deutsche Bank

Larry Biegelsen - Wells Fargo

Derrick Sung - Sanford Bernstein

Jami Rubin - Goldman Sachs

Danielle Antalffy - Leerink Swann

Tony Butler - Barclays Capital

Glenn Navarro - RBC Capital Markets

Matt Miksic - Piper Jaffray

Jeff Holford - Jefferies

Bob Hopkins - Bank of America Merrill Lynch

David Lewis - Morgan Stanley

Operator

Good morning, and welcome to the Johnson & Johnson second quarter 2013 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 will now turn the call over to Johnson & Johnson. You may begin.

Louise Mehrotra

Good morning and welcome. I am Louise Mehrotra, Vice President of Investor Relations for Johnson & Johnson and it is my pleasure this morning to review our business results for the second quarter of 2013. Joining me on the call today are Alex Gorsky, Chairman of the Board and Chief Executive Officer and Sandy Peterson, Group Worldwide Chairman 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 to a broader audience via a webcast accessible through the Investor Relations section of the Johnson & Johnson website. I will begin by briefly reviewing highlights of the second quarter for the corporation and highlights for our three business segments.

Following my remarks, Alex will provide some additional commentary on our results and an update on our near term priorities and Sandy will provide an update on our consumer business and our global supply chain. Please note, the presentation for the company's, Sandy's and Alex's remarks are available on our website. Dominic will provide some additional commentary on the financial results and guidance for 2013.

We will then open the call to your questions. We expect the call to last approximately one and a half hour. Included with the press release that was issued earlier this morning is the

These schedules are available on the Johnson & Johnson website as is the press release.

Before I get into the results, 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 2012 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.

Now, we would like to review our results for the second quarter of 2013. If you would refer to your copy of the press release, let's begin with the schedule titled, supplementary sales data by geographic area. Worldwide sales to customers were \$17.9 billion for the second quarter of 2013, up 8.5% as compared to the second quarter of 2012. On an operational basis, sales were up 10% and currency had a negative impact of 1.5%.

In the U.S., sales were up 8%. In regions outside the U.S., our operational growth was 11.8%, while the effect of currency exchange rates negatively impacted our recorded results by 2.8 points. Sales included the impact of the acquisition of Synthes, net of the divestiture of the DePuy trauma business. Excluding this impact, worldwide operational sales growth was 5.6%.

The western hemisphere, excluding the U.S. grew by 14% operationally while Europe grew 11.4% on an operational basis. Asia-Pacific, Africa region grew 11% operationally. The success of new product launches and Synthes sales made strong contributions to the results in all regions.

If you will now turn to the consolidated statement of earnings. Net earnings were \$3.8 billion compared to \$1.4 billion in the same period in 2012. Earnings per share were \$1.33 versus \$0.50 a year ago. Please direct your attention to the box section of the schedule where we have provided earnings adjusted to exclude special items. As a reference to the accompanying table reconciling non-GAAP measures, 2013 second quarter net earnings

were adjusted to exclude special items related to increases in litigation expense accrual, integration and transaction cost related to the acquisition of Synthes and cost associated with the DePuy ASR Hip program.

Second quarter 2012 net earnings included after-tax special items of approximately \$2.2 billion as shown in the accompanying reconciliation of non-GAAP financial measures. Excluding these special items for both periods, net earnings for the current quarter were \$4.3 billion and diluted earnings per share were \$1.48, representing increases of 17.7% and 13.8%, respectively, as compared to the same period in 2012.

I would now like to make some additional comments relative to the components leading to earnings before we move onto the segment highlights. For the second quarter of 2013, cost of goods sold at 30.7% was down 50 basis points from the same period last year, primarily due mix, lower cost associated with strong volume growth in our pharmaceutical business and cost improvement initiatives across all the businesses. This was partially offset by incremental amortization expense related to Synthes of approximately \$140 million, or 80 basis points and the impact of the medical device excise tax.

Second quarter selling, marketing and administrative expenses were 30.1% of sales consistent with our 2012 results. Our investment in research and development as a percent of sales was 10.9%, up 20 basis points due to milestone payments.

Interest expense net of interest income of \$101 million was down \$28 million versus the second quarter of 2012, due to a lower average debt level. Other expense, net of other income was \$172 million in the second quarter of 2013, compared to \$2 billion in the same period last year.

Excluding special items, other income net of other expense of \$394 million was \$220 million favorable compared to 2012, the gain on sale of the ECHELON investment is reflected in this amount.

Excluding special items, the effective tax rate was 20% in the second quarter of 2013, compared to 21.6% in the same period last year. Dominic will provide commentary on taxes in his remarks.

Turning now to business segment highlights, please refer to the supplementary sales schedule highlighting key products or businesses for the second quarter of 2013. I will begin with the consumer segment.

Worldwide consumer segment sales for the second quarter of 2013 of \$3.7 billion, increased 1.1% as compared to the same period, last year. On an operational basis, sales increased 1.7%, while the impact of currency was negative 0.6% U.S. sales were up 1%, while international sales grew 2% on an operational basis.

Excluding the impact of divestitures net of acquisitions operational growth was approximately 2.5%. Baby Care products increased on an operational basis by 3.1% when compared to the second quarter of 2012, primarily due to hair care and cleansers. Sales in the Oral Care business increased operationally 0.2%. Results were driven by strong international sales of LISTERINE, due to the continued success of new product launches partially offset by the impact of the divestiture of manual toothbrushes in North America.

Beginning this quarter, we are reporting OTC Pharmaceuticals separately and have moved Nutritionals to the other line. To assist in updating your models, a summary under the new format is included in the sales schedule that accompany the press release.

For the second quarter of 2013, sales for OTC pharmaceuticals increased 5.4% on an operational basis compared to the same period in 2012. U.S. sales were up 17.4% driven by strong growth in analgesics and other key brands as we continue to make progress in returning a reliable supply products to the marketplace.

International sales were up 0.9% operationally. Our Skin Care business was down 0.4% on an operational basis in the second quarter of 2013. Strong results for [renal] were offset by the impact of divestitures. Excluding divestitures, operational growth was approximately 1%.

Women's health grew 3.6% on an operational basis due to strong growth in women's sanitary protection products. Wound Care other sales decreased 4.3% on an operational basis, impacted by competitive pressures as well as a divestiture and nutritionals.

That completes the review of the Consumer segment, and I will now review highlights for the pharmaceutical segment.

Worldwide net sales for the second quarter of \$7 billion increased 11.7% versus the same period last year. On an operational basis, sales increased 12.9% with a negative currency impact of 1.2 points. Sales in the U.S. increased 9.1%, while sales outside the U.S. increased on an operational basis by 16.5%.

Now reviewing sales for major therapeutic areas. Immunology products were 17.6% operationally with sales in the U.S. up 7.3% and sales outside the U.S. up 51.5%.

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