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Johnson & Johnson CEO Discusses Q4 2013 Results - Earnings Call Transcript

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Q4: 01-20-14 Earnings Summary



10-K



Analysis



News

EPS of \$1.24 beats by \$0.04 | Revenue of \$18.4B (+ 4.8% Y/Y) beats by \$450M

Johnson & Johnson (NYSE:JNJ)

Q4 2013 Results Earnings Call

January 21, 2014, 8:30.m. ET

Executives

Louise Mehrotra – VP, IR

Alex Gorsky - Chairman of the Board and CEO

Dominic Caruso – VP, Finance and CFO

Analysts

Matthew Dodd - Citigroup

Mike Weinstein - JPMorgan

Larry Biegelsen - Wells Fargo

Rick Weiss - Stifel Nicolaus

Bruce Nudell - Credit Suisse

Derrick Sung - Sanford Bernstein

Tony Butler - Barclays Capital

David Lewis - Morgan Stanley

Kristen Stewart - Deutsche Bank

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 2013.

Joining me on the podium today are Alex Gorsky, Chairman of the Board 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 to a broader audience via a webcast accessible through the Investor Relations section of the Johnson & Johnson website. I'll begin by briefly reviewing highlights of the fourth quarter and full year of 2013 for the corporation and highlights for our three business segments.

Following my remarks, Alex will comment on the 2013 results and provide a strategic outlook for the company. Dominic will then provide some additional commentary on financial results and guidance for 2014. We will then open the meeting to your questions. We expect the meeting to conclude at approximately 10:15.

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 models. These schedules are available on the Johnson & Johnson website as is the press release. Also, please note that the presentation of today's remarks is available on our website.

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 or 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 compounds and products discussed today are being developed in collaboration with strategic partners or licensed from other companies. This slide acknowledges those relationships.

Now I would like to review our results for the fourth 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 \$18.4 billion for the fourth quarter of 2013, up 4.5% as compared to the fourth quarter of 2012. On an operational basis, sales were up 6.3% and currency had a negative impact of 1.8%.

In the U.S., sales were up 7.4% and in regions outside the U.S., our operational growth was 5.6%, while the effect of currency exchange rates negatively impacted our reported results by 3.2%.

The Asia Pacific/Africa region grew 7% operationally. Both Europe and the western hemisphere, excluding the U.S., grew by 4.8% operationally. The success of new product launches made strong contributions to the results in all regions.

If you'll now turn to the consolidated statement of earnings, net earnings were \$3.5 billion, up 37.1% compared with the 2012 results. Earnings per share were \$1.23 versus \$0.91 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 referenced in the accompanying table reconciling non-GAAP measures, 2013 fourth quarter net earnings were adjusted to exclude a net charge of \$42 million for after tax special items. Fourth quarter 2012 net earnings included a net charge of \$809 million for after tax special items. Dominic will discuss special items in his remarks.

Excluding these special items for both periods, net earnings for the current quarter were \$3.6 billion and diluted earnings per share were \$1.24, representing increases of 5.5% and 4.2% 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 on to the segment highlights. For the fourth quarter of 2013, cost of goods sold at 32.5% was 170 basis points less than the same period last year. In the prior year, we recorded an inventory step up charge related to the Synthes acquisition that increased cost of goods sold by 130 basis points.

This charge was treated as a special item. Excluding the impact of this prior year inventory step up charge, cost of goods sold was 40 basis points lower than fourth quarter 2012, primarily due to positive mix lower costs associated with strong volume growth in our pharmaceuticals business, and cost improvement initiatives across many of our businesses.

This was partially offset by costs associated with the agreement with Vertex for Incivo related to royalties that was announced in the fourth quarter, inventory adjustments and the impact of the medical device excise tax.

Fourth quarter sales and marketing and administrative expenses were 32.2% of sales, in line with the fourth quarter of 2012. Our investment in research and development as a percentage of sales was 13.1%, down 20 basis points due to timing of milestone payments in the pharmaceuticals business.

Interest expense, net of interest income of \$116 million, was up \$27 million versus the fourth quarter of 2012, due in part to a higher average debt level. Other expense, net of other income, was \$868 million in the fourth quarter of 2013, compared to \$319 million in the same period last year. Excluding special items, other expense net of other income of \$47 million compares to \$420 million of other income net of other expense. 2012 included a higher level of gains on divestitures.

Excluding special items, the effective tax rate was 8.9% in the fourth quarter of 2013, compared to 18% in the same period last year. Dominic will provide some commentary on taxes in his remarks.

Now turning to the consolidated statement of earnings for the full year of 2013, consolidated sales to customers for the year 2013 were \$71.3 billion, an increase of 6.1% as compared to the same period a year ago. On an annual basis, sales grew 7.7% operationally and currency had a negative impact of 1.6%. Synthes, net of the impact of the divestiture of the legacy DePuy trauma business, contributed 2.5 points to the worldwide operational sales growth.

On the consolidated statement of earnings, I'd like to draw your attention to the box section. For the year, 2013 adjusted net earnings were \$15.9 billion, and adjusted earnings per share were \$5.52, up 10.7% and 8.2% respectively, versus the 2012 results.

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

Worldwide consumer segment sales for the fourth quarter of 2013 of \$3.8 billion increased 2.8% as compared to the same period last year. On an operational basis, sales increased 4.4%, while the impact of currency was negative 1.6%. U.S. sales were up 5%, while international sales grew 4.1% on an operational basis.

Excluding the impact of divestitures net of acquisitions, operational growth was approximately 6%, driven by strong U.S. growth of nearly 10%. Baby care products increased on an operational basis by 6.2% when compared to the fourth quarter of 2012. Strong operational growth of 7.1% outside the U.S. drove the results, due to double digit growth of hair care and baby cleansers, complemented by the impact of the Elsker products acquired earlier this year.

Sales in the oral care business increased 2.3% operationally. Excluding the impact of the divestiture of manual toothbrushes in North America, fourth quarter operational sales grew approximately 4.5%, led by strong growth of 8.6% outside the U.S. with Listerine new product launches and new marketing campaigns.

For the fourth quarter of 2013, sales for OTC pharmaceuticals increased 6.6% on an operational basis, compared to the same period in 2012. U.S. sales were up 21.6%, driven by strong growth in analgesics and other key brands as we continue to make progress in returning a reliable cup of products to the marketplace.

Our skincare business grew 9.5% on an operational basis in the fourth quarter of 2013. Very strong results for Neutrogena and [unintelligible] with new product launches supported by robust marketing campaigns drove results in the quarter.

Women's health declined 11.5% on an operational basis, due primarily to the impact of the divestiture of the North America sanitary protection business. Women's care other sales increased 2.6% on an operational basis, due to strong growth for BAND-AID brands.

That completes our review of the consumer segment, and I'll now review highlights for our pharmaceuticals segment. Worldwide net sales for the fourth quarter of \$7.3 billion

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