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## Johnson & Johnson's (JNJ) CEO Alex Gorsky on Q2 2014 Results - Earnings Call Transcript

Jul. 15, 2014 3:34 PM ET

by: SA Transcripts

Q2: 07-15-14 Earnings Summary



10-Q



Analysis



News

EPS of \$1.66 beats by \$0.11 | Revenue of \$ (- 100.0% Y/Y) misses by \$-18.94B

Johnson & Johnson (NYSE:JNJ)

Q2 2014 Earnings Conference Call

July 15, 2014 8:30 AM ET

### Executives

Louise Mehrotra - VP of IR

Alex Gorsky - Chairman of The Board of Directors and CEO

Joaquin Duato - Worldwide Chairman, Pharmaceuticals

Paul Stoffels - CSO, Johnson & Johnson and Worldwide Chairman, Pharmaceuticals

Dominic Caruso - VP, Finance and CFO

### Analysts

Matthew Dodds - Citigroup

Michael Weinstein - JP Morgan

Derrick Sung - Sanford Bernstein

Larry Biegelsen - Wells Fargo

Matt Miksic - Piper Jaffray

Josh Jennings - Cowen & Co.

Rick Wise - Stifel

Glenn Novarro - RBC Capital Markets

Bruce Nudell - Credit Suisse

David Lewis - Morgan Stanley

Kristen Stewart - Deutsche Bank

Jay Olson - Goldman Sachs

### **Operator**

Good morning, and welcome to the Johnson & Johnson Second 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 second quarter of 2014. Joining me on the call today are Alex Gorsky, Chairman of The Board of Directors and Chief Executive Officer; Joaquin Duato, Worldwide Chairman, Pharmaceuticals; Paul Stoffels, Chief Scientific Officer, Johnson & Johnson and Worldwide Chairman, Pharmaceuticals; 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 webcast accessible through the Investor Relations section of the Johnson & Johnson Web site. I'll begin by briefly reviewing second quarter results for the corporation and for our three business segments. Following my remarks, Alex will provide some additional commentary on the business and an update on our near term priorities. Next, Joaquin and Paul will provide an update on our pharmaceutical business, and lastly Dominic will review the income statement and provide 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 models. These schedules are available on the Johnson & Johnson Web site as is the press release. Please note we will be using 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 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 Web site at [investor.jnj.com](http://investor.jnj.com).

A number of products and compounds discussed today are being developed in collaboration with strategic partners or licensed from other companies. This slide lists the acknowledgment of those relationships, not otherwise referenced in today's presentations.

Now, I would like to review our results for the second quarter of 2014. Worldwide sales to customers were \$19.5 billion for the second quarter of 2014, up 9.1%. On an operational basis, sales were up 9.4% and currency had a negative impact of 0.3%. In the U.S., sales were up 14.9%. In regions outside the U.S., our operational growth was 5%, while the effect of currency exchange rates negatively impacted our reported results by 0.6%.

On an operational basis, the Western Hemisphere excluding the U.S., grew by 6.5%, Asia Pacific, Africa region grew 5.3% and Europe grew 4.1%. The success of new product launches and continued growth of key products made strong contributions to the results in all regions. Excluding the impact of divestitures net of acquisition, underlying organic operational growth was 10%.

Turning now to earnings; net earnings were \$4.3 billion and earnings per share were \$1.51 versus \$1.33 a year ago. As referenced in the table reconciling non-GAAP measures, 2014 second quarter net earnings were adjusted to exclude a charge of \$449 million for after tax special items. Second quarter 2013 net earnings were adjusted to

items in his remarks. Excluding special items for both periods, net earnings for the current quarter were \$4.8 billion and diluted earnings per share were \$1.66, representing increases of 11.3% and 12.2% respectively as compared to the same period in 2013.

Turning now to business segment highlights, please note percentages quoted represents operational sales change in comparison to the second 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 \$3.7 billion increased 3.6% with U.S. sales down 0.5%, while outside the U.S. sales grew 5.8%. Excluding the impact of net divestitures, worldwide growth was approximately 6% with U.S. growth of approximately 5%.

Major drivers of the results were over-the-counter products, skin care, baby care, as well as international sales of oral care and feminine protection products, partially offset by the divestiture of the North American Sanitary Protection business.

OTC sales were strong due to analgesic growth of nearly 17% worldwide and nearly 25% in the U.S., driven by market share gains as we continue to return products to the shelves. Upper respiratory products, digestive health and antismoking products also made strong contributions to the results.

Skin care results were driven by share gains for both NEUTROGENA and AVEENO with new product launches supported by robust marketing campaigns, category growth, as well as an increase in trade inventory levels. Baby care results were driven by strong sales across the number of categories. International oral care results were driven by strong results for LISTERINE due to new product launches and successful marketing campaigns.

Moving now to our Pharmaceutical segment. Worldwide sales of \$8.5 billion increased 21.1% with U.S. up 36.6% and sales outside the U.S. up 6.9% driven by both strong sales of new products as well as core growth products. A major driver was our recently launched hepatitis C product called OLYSIO in the U.S. and EU and SOVRIAD in Japan. Excluding sales of the hepatitis C products, OLYSIO and INCIVO, underlying growth worldwide, U.S. and outside the U.S. was approximately 10.5%, 15% and 6.5% respectively.

Other significant contributors to growth were immunology products; STELARA, REMICADE and SIMPONI, SIMPONI ARIA, as well as XARELTO, ZYTIGA, INVEGA SUSTENNA/XEPLION, INVOKANA, PREZISTA and recently launched IMBRUVICA. Partially offsetting the growth were lower sales of ACIPHEX and CONCERTA due to

The strong results for immunology were driven by double-digit market growth complemented by increased market share for STELARA and SIMPONI. We continue to be the U.S. market leader in immunology. XARELTO sales were up over 90% compared with the same quarter last year and grew over 13% on a sequential basis. Total prescription share or TRx for the quarter in the U.S. anti-coagulant market grew to over 13% with cardiology TRx estimated at over 23%.

The strong results for ZYTIGA in the U.S. were driven by increased market share in the combined metastatic castrate-resistant prostate cancer market and estimated market growth of nearly 11.5%. ZYTIGA has captured approximately 34% of that market. Continued strong market uptick and progress on reimbursement drove the strong results outside the U.S.

ZYTIGA is approved in more than 90 countries. Increased market share drove results for INVEGA SUSTENNA/XEPLION and PREZISTA. INVOKANA sales contributed over 2.5 points to the U.S. pharmaceutical growth rate and for the quarter achieved 2.3% TRx within the defined market of type 2 diabetes excluding insulin and metformin, up from 1.8% in the first quarter of 2014. TRx with endocrinologists grew to 7% for the quarter, up approximately 1% sequentially.

I'll now review the Medical Devices and Diagnostic segment results. Worldwide Medical Devices and Diagnostic segment sales of \$7.2 billion increased 0.9%. U.S. sales declined 1.4%, while sales outside the U.S. increased 2.6%. Growth was driven by orthopedics, cardiovascular care and specialty surgery, partially offset by lower sales in diabetes care, vision care and diagnostics. Lower price primarily related to competitive bidding continue to impact the diabetes care business in the U.S., while reversal of the noted customer inventory build from the first quarter and competitive pricing dynamics impacted growth for vision care.

Excluding OCD and diabetes care, worldwide growth was approximately 2%. Orthopedic sales growth was driven by trauma and hips. Trauma was up 7% worldwide with sales outside the U.S. up 11% due to a successful tender offer as a result of our comprehensive portfolio offering. Hips growth of 5% worldwide was driven by strong volume growth, partially offset by continued pricing pressure. Primary stem platform sales were a major contributor to the results. Knees worldwide increased 1% with the U.S. flat and 4% growth outside the U.S. Increased sales due to the successful launch of ATTUNE were partially offset by price pressures across the region and softness in the U.S. market.

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