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Johnson & Johnson (JNJ) Q3 2014 Results - Earnings Call Transcript

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by: SA Transcripts

Q3: 10-14-14 Earnings Summary



10-Q



Analysis



News

EPS of \$1.5 beats by \$0.06 | Revenue of \$18.47B (+ 5.1% Y/Y) beats by \$90M

Johnson & Johnson (NYSE:JNJ)

Q3 2014 Results Earnings Conference Call

October 14, 2014 8:30 AM ET

Executives

Louise Mehrotra - Vice President, Investor Relations

Dominic Caruso - Vice President, Finance and CFO

Analysts

Mike Weinstein - JPMorgan

Larry Biegelsen - Wells Fargo

Jami Rubin - Goldman Sachs

Glenn Novarro - RBC Capital Markets

Derrick Sung - Sanford Bernstein

Vamil Divan - Credit Suisse

Kristen Stewart - Deutsche Bank

Bob Hopkins - Bank of America

Matt Miksic - Piper Jaffray

Josh Jennings - Cowen & Co.

David Lewis - Morgan Stanley

Operator

Good morning. And welcome to Johnson & Johnson's Third 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 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 third quarter of 2014. 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 third quarter results for the corporation and for our three business segments. Following my remarks, Dominic will provide some additional commentary on the business, review the income statement and provide guidance for 2014. 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 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. 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 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

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 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.

Now, I would like to review our results for the third quarter of 2014. Worldwide sales to customers were \$18.5 billion for the third quarter of 2014, up 5.1%. On an operational basis, sales were up 5.8% and currency had a negative impact of 0.7%. In the U.S., sales were up 11.6%. In regions outside the U.S., our operational growth was 1%, while the effect of currency exchange rates negatively impacted our reported results by 1.3%.

On an operational basis, the Western Hemisphere excluding the U.S. grew by 3.5%, Asia Pacific, Africa region grew 2% and Europe declined 0.8%. 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 impact of divestitures, underlying operational growth was approximately 9%.

Turning now to earnings, net earnings were \$4.7 billion and earnings per share were \$1.66 versus \$1.04 a year ago. As referenced in the table reconciling non-GAAP measures, 2014 third quarter net earnings were adjusted to exclude a net gain of \$457 million for after tax special items. Third quarter 2013 net earnings were adjusted to exclude a charge of \$937 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 \$4.3 billion and diluted earnings per share were \$1.50, representing increases of 9.5% and 10.3%, 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 third quarter of 2013 unless otherwise stated and therefore, exclude the currency translational impact. I'll begin with the Consumer segment.

Worldwide Consumer segment sales of \$3.6 billion increased 0.3% with U.S. sales down 4.2%, while outside the U.S. sales grew 2.6%. Excluding the impact of divestitures, worldwide growth was approximately 2.5% with U.S. growth of approximately 1.5% and growth outside the U.S. were approximately 3%.

Major drivers of the results were over-the-counter and oral care products offset by the divestiture of the North American Sanitary Protection business. OTC sales growth was driven by upper respiratory products and analgesics. Upper respiratory products grew 10% worldwide driven by sales growth outside the U.S., which included an early seasonal inventory build.

Analgesic growth was 7% in U.S. driven by market share gains, partially offset by comparisons to the third quarter 2013 trade inventory build related to the re-launch of the products.

In the U.S. adult analgesic market share was approximately 11%, up from 8.5% a year ago, while U.S. pediatric share was over 40%, up from 26% a year ago. 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 \$8.3 billion increased 18.7%, with U.S. sales up 33.1% and sales outside the U.S. up 4.1%, 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 hepatitis C products, OLYSIO and INCIVO, underlying growth worldwide, U.S. and outside the U.S. was approximately 8%, 14% and 1.5%, respectively.

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

The results for immunology were driven by strong double-digit market growth complemented by increased market share for STELARA and SIMPONI, SIMPONI ARIA. We continue to be the U.S. market leader in immunology.

XARELTO sales were up 68%, compared with the same quarter last year and grew 14.5% on a sequential basis. Total prescription share or TRx for the quarter in the U.S. anticoagulant market grew to over 14.5%, with cardiology TRx estimated at 23.5%.

INVOKANA sales contributed over three and a half points to the U.S. pharmaceutical growth rate and for the quarter achieved 3.2% TRx within the defined market of type II diabetes excluding insulin and metformin, up from 2.4% in the second quarter of 2014. TRx with endocrinologists grew to 9.2% for the quarter, up approximately 1.5% sequentially.

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 11%. ZYTIGA has captured approximately 33.5% of that market. Continued strong market uptick and additional country launches drove the strong results outside the U.S. ZYTIGA is approved in more than 90 countries.

I will now review the Medical Devices and Diagnostic segment results. Worldwide Medical Devices and Diagnostic segment sales of \$6.6 billion decreased 4.6%. U.S. sales declined 6.5%, while sales outside the U.S. declined 2.8%. Excluding the impact of the OCD divestiture, worldwide growth was 1.6% while U.S. growth was 0.6% and growth outside the U.S. was 2.4%. Growth was driven by orthopedics and cardiovascular care, partially offset by lower sales in vision care and surgical care. Competitive pricing dynamics impacted growth for vision care.

In surgical care, the success of the ECHELONFLEX Powered ENDOPATH Stapler outside the U.S. was offset by lower sales of women's health and urology products, coupled with U.S. pricing pressure. Orthopedic sales growth was driven by trauma, sports medicine, knees and hips. Trauma was up 3% worldwide due to market growth and new product launches, while the successful launch of MONOVISC, coupled with the continued strong growth for ORTHOVISC drove results for sports medicine.

Hip growth of 4% worldwide was driven by strong volume growth, partially offset by continued pricing pressure. Primary stem platform sales were major contributors to the results. Knees worldwide increased 5% due to the successful launch of ATTUNE, partially offset by pricing pressure across the regions. Cardiovascular growth was driven by an 18% worldwide increase in our BioSense Webster business due to strong growth of the ThermoCool SmartTouch catheter.

That concludes the segment highlights for Johnson & Johnson's third quarter of 2014. It is

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