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Johnson & Johnson's (JNJ) CEO Alex Gorsky Discusses Q2 2015 Results - Earnings Call Transcript

Jul. 14, 2015 6:42 PM ET 4 comments

by: SA Transcripts

Q2: 07-09-15 Earnings Summary



10-Q



Analysis



News

EPS of \$1.71 beats by \$0.03 | Revenue of \$17.79B (- 8.8% Y/Y) beats by \$30M

Johnson & Johnson (NYSE:JNJ)

Q2 2015 Earnings Conference Call

July 14, 2015 08:30 ET

Executives

Louise Mehrotra - Vice President, Investor Relations

Alex Gorsky - Chairman and Chief Executive Officer

Sandi Peterson - Group Worldwide Chairman

Dominic Caruso - Vice President, Finance and Chief Financial Officer

Analysts

Glenn Novarro - RBC Capital Markets

Kristen Stewart - Deutsche Bank

Mike Weinstein - JPMorgan

Larry Biegelsen - Wells Fargo

Jami Rubin - Goldman Sachs

Josh Jennings - Cowen & Company

Vamil Divan - Credit Suisse

Jayson Bedford - Raymond James

David Lewis - Morgan Stanley

Rick Wise - Stifel

Operator

Good morning and welcome to Johnson & Johnson's Second 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 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 2015.

Joining me on the call today are Alex Gorsky, Chairman of the Board of Directors and Chief Executive Officer, Sandi 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 via webcast accessible through the Investor Relations section of the Johnson & Johnson website at investor.jnj.com. I will begin by briefly reviewing second quarter for the corporation and for our three business segments. Alex will provide additional commentary on the business and our progress with regards to our near-term priorities. Next, Sandi will provide an update on our consumer and consumer medical device businesses. Lastly, Dominic will review the income statement and discuss guidance for 2015. We will then open the call to your questions. We expect the call to last approximately 90 minutes.

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 may be 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 statement 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.

Now, I would like to review results for the second quarter of 2015. Worldwide sales to customers were \$17.8 billion for the second quarter of 2015, down 8.8% versus second quarter 2014. On an operational basis, sales were down 0.9% and currency had a negative impact of 7.9%. In the U.S., sales were down 2.4%. In regions outside the U.S., our operational growth was 0.5%, while the effective currency exchange rates negatively impacted our reported results by 14.8%.

On an operational basis, the Asia Pacific Africa region grew by 2.2%, while Europe grew 1% and the Western Hemisphere, excluding the U.S., declined 4%. Growth in the U.S. and Japan was negatively impacted by hepatitis C competition. 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 1.7% worldwide, 0.6% in the U.S., and 2.7% outside the U.S. Additionally, excluding hepatitis C sales underlying operational growth was 5%.

Turning now to earnings, net earnings were \$4.5 billion and earnings per share were \$1.61 versus \$1.51 a year ago. As referenced in the table reconciling non-GAAP measures, 2015 second quarter net earnings were adjusted to exclude after-tax amortization expense of \$230 million and a charge of \$66 million for after-tax special items. 2014 second quarter net earnings were adjusted to exclude a charge of \$807

and special items for both periods, adjusted net earnings for the current quarter were \$4.8 billion and adjusted diluted earnings per share were \$1.71, representing decreases of 6.3% and 3.9% respectively as compared to the same period in 2014. Currency translation significantly impacted net earnings. On an operational basis, adjusted diluted earnings per share grew 6.7%.

Turning now to business segment highlights, please note percentages quoted represent operational sales change in comparison to the second quarter of 2014 unless otherwise stated and therefore exclude the impact of currency translation. I will begin with the consumer segment. Worldwide consumer segment sales of \$3.5 billion increased 2.3%, with U.S. sales up 2.7%, while outside the U.S. sales grew 2.1%. Excluding the net impact of acquisitions and divestitures, underlying operational growth was 3.1% worldwide, 2.9% in the U.S., and 3.2% outside the U.S. Growth was driven by OTC worldwide, Women's Health outside the U.S. and Oral Care.

OTC sales growth was driven by worldwide analgesics, ZYRTEC in the U.S. and other upper respiratory products outside the U.S. Upper respiratory, including ZYRTEC sales, included a seasonal inventory build. In the U.S., adult analgesic market share was approximately 12%, up from approximately 11% a year ago, while U.S. pediatric share was nearly 44%, up from 39% a year ago. 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 \$7.9 billion increased 1% with U.S. sales down 1.5% and sales outside the U.S. up 3.8%. New competitors in hepatitis C significantly impacted sales results. Excluding sales of our hepatitis C products, OLYSIO and INCIVO, as well as the impact of acquisitions and divestitures, underlying growth worldwide U.S. and outside the U.S. was approximately 9.7%, 16.5% and 2.5% respectively. U.S. results included a positive adjustment to sales reserves for managed Medicaid rebates reflecting final data received. U.S. comparisons to second quarter 2014 were positively impacted by approximately 2% and worldwide by approximately 1%. The most significant impact from the managed Medicaid adjustment was through hormonal contraceptives. Significant contributors to growth were INVOKANA/INVOKAMET, IMBRUVICA, XARELTO, ZYTIGA, INVEGA SUSTENNA or XEPLION, CONCERTA and immunology products, STELARA and SIMPONI.

Strong momentum in market share increases drove results for INVOKANA/INVOKAMET. In the U.S., INVOKANA/INVOKAMET achieved 5.9% TRx within the defined market of

TRx with endocrinologists grew to 13.2% for the quarter and 5.2% in primary care, up 1.2% and 0.8% respectively on a sequential basis. INVOKANA/INVOKAMET remains the category leader in new to brand share with endocrinologists and has greater than 80% preferred access across commercial and Part D plans.

Strong patient uptake with new indications, approvals and demonstrated efficacy drove results for IMBRUVICA in the U.S. IMBRUVICA is the leader in both new and total patient regimen share in the second line CLL and MCL. Outside the U.S., results were driven primarily by Europe with strong patient uptake, particularly in Germany, France, and the UK.

XARELTO sales were up nearly 31% and total prescription share, or TRx, for the quarter in the U.S. anticoagulant market grew to 15.4%, up over 2 points from a year ago. TRx in primary care reached 12.4% and in cardiology, 23.7%. XARELTO is broadly reimbursed with over 90% of commercial and Medicare Part D patients covered at the lowest branded product co-pay. Strong growth of the combined metastatic castrate-resistant prostate cancer market, at nearly 12.5%, drove the results for ZYTIGA in the U.S. ZYTIGA's share was approximately 28.6% of that market, down approximately 1.7 points on a sequential basis due to increased competition.

As an update, during the quarter, we received several Paragraph IV notifications from generic manufacturers advising that they filed Abbreviated New Drug Applications with the FDA seeking approval to market a generic version of ZYTIGA in the U.S. before the expiration of the relevant patents listed in the orange book. The composition of matter patent is owned by our partner, BTG, and expires in December 2016 and the method of treatment patent is owned by Janssen Oncology Inc. and expires in August 2027. We are currently evaluating the notices.

Outside the U.S., ZYTIGA achieved very strong growth in Asia and Latin America, which was partly offset by lower sales in Europe due to increased competition. INVEGA SUSTENNA or XEPLION achieved strong results due primarily to increased market share while CONCERTA growth was primarily due to therapeutic equivalence reclassification of generic competitors. The results for immunology were driven by strong double digit market growth complemented by increased market share for STELARA and combined SIMPONI, SIMPONI ARIA. Growth was partially offset by lower REMICADE sales to our distributors reflecting the weakening of the euro and the loss of exclusivity in Europe as well as the reduction in inventory levels.

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