Q4 2020 Earnings Call

Company Participants

- Alex Gorsky, Chairman and Chief Executive Officer
- Chris DelOrefice, Vice President, Investor Relations
- Joseph J. Wolk, Executive Vice President, Chief Financial Officer

Other Participants

- Bob Hopkins, Analyst
- Chris Schott, Analyst
- Danielle Antalffy, Analyst
- David Lewis, Analyst
- Joanne Wuensch, Analyst
- Larry Biegelsen, Analyst
- Louise Chen, Analyst
- Matt Miksic, Analyst
- Terence Flynn, Analyst

Presentation

Operator

Good morning. Welcome to Johnson & Johnson's Fourth Quarter 2020 Earnings Conference Call. Good morning. Welcome to Johnson & Johnson's Fourth Quarter 2020 Earnings Conference Call. All participants will be in listen-only mode until the question-and-answer session of the conference. This call is being recorded. (Operator Instructions) I would now like to turn the call over to Johnson & Johnson. You may begin.

Chris DelOrefice {BIO 20730104 <GO>}

Good morning. This is Chris DelOrefice, Vice President of Investor Relations for Johnson & Johnson. Welcome to our company's review of business results for the fourth quarter and full year of 2020, and our financial outlook for 2021.

Joining me on today's call are Alex Gorsky, Chairman of the Board of Directors and Chief Executive Officer; and Joe Wolk, Executive Vice President 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, where you can also find additional materials, including today's presentation and associated schedules.

Please note that today's presentation includes forward-looking statements. We encourage you to review the cautionary statement included in today's presentation, which identifies certain risks and factors that may cause the company's actual results to differ materially from those projected. In particular, there is significant uncertainty about the duration and contemplated impact of the COVID-19 pandemic. This means the results could change at any time and the contemplated impact of COVID-19 on the company's business results and outlook is a best estimate based on the information available as of today's date. The further description of these risks, uncertainties and other factors can be found in our SEC filings, including our 2019 Form 10-K and subsequent Form 10-Qs, along with reconciliations of the non-GAAP financial measures utilized for today's discussion to the most comparable GAAP measures are also available at investor.jnj.com. Several of the products and compounds discussed today are being developed in collaboration with strategic partners or license from other companies. This slide acknowledges those relationships.

Moving to today's agenda. Alex will provide perspective on our overall results and business highlights for the year. I will review the fourth quarter sales and P&L results for the corporation and the three business segments. Joe will conclude by providing insights about our cash position, capital allocation deployment and our guidance for 2021. The remaining time will be available for your questions.

We anticipate the webcast will last up to 90 minutes. I will now turn the call over to Alex to share our overall results and business highlights.

Alex Gorsky {BIO 16239711 <GO>}

Thank you, Chris, and thank you, everyone, for taking time to join us today to discuss our full-year 2020 results and outlook for 2021. At the start of last year, no one could have imagined just how drastically our lives were about the change because of the virus that would impact billions of people around the world. By any measure, 2020 was a year dominated by uncertainty. And the pandemic also helped to clarify both our priorities and our values. And within Johnson & Johnson, it is illustrated the power importance of Our Credo in guiding our actions to meet the needs of all our stakeholders. But because of COVID-19, we now have a deeper appreciation on just how pivotal food health is to our safety, security and prosperity as a society. We have a profound respect and gratitude for all the doctors, nurses and hospital staff serving on the front lines of care, for the everyday heroism of the essential workers we show every day to keep the world's critical infrastructure up and running. And expectation of the company's can and should help drive positive change in the society on higher than ever.

As the world's largest and most broadly based global health care company, Johnson & Johnson was built for times like these. We've been leading to the world's biggest public health challenges for over a century, and today our diversified businesses touched so many parts of people's lives. We have both the ability and the responsibility to act when the COVID-19 upright turned into a global pandemic.

Within weeks of the DNA sequencing of the COVID-19 virus, Johnson Scientists were working 24/7 to identify the most promising lead candidate for a vaccine. I'm proud of the progress of our COVID-19 vaccine candidates and the fact that we moved so quickly while maintaining the highest level of science and safety standards. This is truly a remarkable accomplishment and a testament to the ingenuity and determination of our vaccine and supply chain teams. We look forward to sharing further details from our Phase 3 study by early next week.

Additionally, I'm just as proud of the ways each of my Johnson & Johnson colleagues have gone above and beyond the call of duty to provide uninterrupted access to our medicines, embrace radically new ways of working and use the full breadth and depth of our expertise to deliver on important medicines and products to patients and consumers and support health care systems that have been overwhelmed by the pandemic.

The fact that we've been able, not just for whether this crisis, but bring our broad-based capabilities to support this crisis and deliver on our shorter-term top and bottom-line business goals, while increasing our investments and innovation to record levels. It's a remarkable testament to our purpose-driven culture and core strengths have characterized our company for over a century, execution, innovation and people.

Our relentless focus on excellence in execution is key to meeting the needs of all our stakeholders today and tomorrow. The performance of our business in 2020 reflects the continued confidence from patients, physicians, customers and consumers in our life saving medicines and products.

Our Pharmaceuticals business performed well above market yet pipeline submissions and approvals are on track and exceeded patient enrollment in clinical trials compared to 2019. Our Consumer Health business also performed above market for the year in our Medical Devices business demonstrated resiliency and agility, leading to a strong second half recovery. Our unparalleled scientific expertise allowed us to create life-enhancing innovation.

Our R&D colleagues across Johnson & Johnson have continued to advance our robust pipeline of innovative and transformational new products. Of note, we initiated our US filing for our BCMA CAR-T and multiple myeloma in December. In addition, we filed amivantamab for the treatment of Exon 20 mutations in non-small cell lung cancer in the US and Europe.

Our Medical Devices business has made strong progress advancing our pipeline despite the pandemic achieving and even accelerating certain key milestones throughout the year. As you heard from Ashley, Dr. Moll and the team at the Medical Devices Update, November, we are developing an the end-to-end digital ecosystem across three robotics platforms and we achieved a significant milestone this month receiving FDA clearance for VELYS Robotic-Assisted Solution.

We believe the industry is just starting to unlock the full potential and benefits of robotic in digital technologies. Johnson & Johnson is well positioned to bring innovative, differentiated solutions to the surgery suite over the next 10, 20 and 30 years.

I'm also very proud of the great work from our supply chain colleagues to driving improvements and efficiencies over the past year. The Gartner even honored Johnson & Johnson with a Number 3 ranking across all industries on its annual 2020 supply chain top 25 Index. That's up five spots from our 2019 ranking. Gartner also awarded Johnson & Johnson the Number 1 spot on a 2020 healthcare supply chain top 25, citing our commitment to continuous improvement while putting innovation into practice, particularly in our response to the COVID-19 pandemic.

And finally, we are powered by our people, purpose and value system. More than 75 years since it was offered, Our Credo continues to guide all 135,000 members at Johnson & Johnson.

So with that in mind, I want to highlight a recent appointment to our Board of Directors that incredibly high on or awarded to one of our own directors.

In December, Johnson & Johnson appointed retired US Army Lieutenant General and Former US Army Surgeon General, Dr. Nadja West, to our Board of Directors. Dr. West's accomplished healthcare background in addition very deep strategic leadership experience are our strong additions to our Board of Directors.

In October, Johnson & Johnson Board Director, Dr. Jennifer Doudna along with our colleague Dr. Emmanuelle Charpentier was awarded the 2020 Nobel Prize in Chemistry for the revolutionary discovery of CRISPR-Cas9 gene-editing technology considered to be one of the most significant breakthroughs in molecular biology in the past decade. We are truly proud of our recognition for this incredible work.

Our commitment to diversity, equity and inclusion in both our workforce and the communities on which we serve as always been an important part of our culture. However, the past year has also shown a spotlight on the fact that we can all do more.

To that end, I am proud of our race to Race to Health Equity platform launched in November. Our Race to Health Equity aims to help improve racial equity by eliminating health inequities for people of color in our $100 million commitment to invest in and promote health equity. I'm excited to be part of this progress and for Johnson & Johnson to play a part an impactful lasting change. And most importantly, the talented and committed people at Johnson & Johnson drive our success by putting the patients and consumers we serve around the world at the forefront of all we do. We think and rely on them to continue to innovate, execute and focus on our shared purpose to deliver better health for everyone, everywhere.

I look forward to addressing your questions during the Q&A portion of the webcast. Right now, I will turn the call over to Chris to share details related to our performance for the quarter. Thank you. Chris?

Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Alex. Now to recap the fourth quarter. Worldwide sales were $22.5 billion for the fourth quarter of 2020, an increase of 8.3% versus the fourth quarter of 2019. Operational sales growth, which excludes the effect of translational currency increased 7.1% as currency had a positive impact of 1.2 points.

In the US, sales increased 9.6%; in regions outside the US, our reported growth was 7%. Operational sales growth outside the US was 4.3%, with currency positively impacting our reported OUS results by 2.7 points. Excluding the net impact of acquisitions and divestitures, adjusted operational sales growth was 7.3% worldwide; 9.6% in the US and 4.8% outside the US.

As referenced on prior calls, I would like to remind everyone that our 2020 fiscal year included an additional week. Since this week occurred during a holiday period, it does not represent a full week of sales, but rather a few more shipping days with these additional shipping days adding approximately four points to the quarterly sales growth rate and one point to the annual growth rate. This can be roughly applied across all segments. The additional sales were more heavily skewed to the US. For the Enterprise, offsetting the sales benefit was the estimated negative impact of the COVID-19 pandemic. Lastly, while these few shipping days added to sales, we also had a full week's worth of operating costs. Therefore, the impact to earnings was negligible.

Turning now to earnings. For the quarter, net earnings were $1.7 billion and diluted earnings per share was $0.65 versus diluted earnings per share of $1.50 a year ago. Excluding after-tax intangible asset amortization expense and special items for both periods, adjusted net earnings for the quarter were $5 billion and adjusted diluted earnings per share was $1.86, representing decreases of 1.2% and 1.1%, respectively, compared to the fourth quarter of 2019. On an operational basis, adjusted diluted earnings per share declined 3.2%.

For the full year 2020, consolidated sales were $82.6 billion, an increase of 0.6% compared to the full year of 2019. Operationally, full year sales grew 1.2% with currency having a negative impact of 0.6 points. Sales growth in the US was 2.5%. In regions outside the US, our reported year-over-year change was negative 1.3%. Operational sales growth outside the US declined by 0.2% with currency negatively impacting our reported OUS results by 1.1 points. Excluding the net impact of acquisitions and divestitures, adjusted operational sales growth was 1.5% worldwide, 2.8% in the US, and 0.2% outside the US.

Net earnings for the full year 2020 were $14.7 billion and diluted earnings per share was $5.51 versus diluted earnings per share of $5.63 a year ago. 2020 adjusted net earnings were $21.4 billion and adjusted diluted earnings per share was $8.03 representing decreases of 8.1% and 7.5%, respectively, versus full year 2019. On an operational basis, adjusted diluted earnings per share decreased by 7.8%.

Beginning with Consumer Health, I will now comment on business segment sales performance for the fourth quarter, highlighting items that build upon the slides you have in front of you. Unless otherwise stated, percentages quoted represent the operational sales change in comparison to the fourth quarter of 2019, and therefore, exclude the impact of currency translation. While not part of the prepared remarks for today's call, we have provided additional commentary on our website for the full year 2020 sales by segment to assist you in updating our models.

Worldwide Consumer Health sales totaled $3.6 billion and grew 2% with growth in the US of 2.7% and 1.5% outside of the US. Consumer Health delivered strong above market growth due to our Oral Care, Wound Care and OUS Skin Health/Beauty businesses, partially offset by the negative impact of COVID-19, primarily in our OTC business and the SKU rationalization program, which predominantly impacted Baby and Skin Health/Beauty outside the US.

E-commerce growth continues to be strong across regions and franchises. Over-the-counter medicines had a decline of 1.5%. In the US, OTC sales were flat and OUS declined by 2.9%. Globally, results were negatively impacted by COVID-19 restrictions resulting in lower cough, cold and flu incidences impacting children's TYLENOL, global cough and cold and digestive products. Offsetting these declines was strong Adult TYLENOL market and share growth attributed to elevated demand driven by COVID-19, ZYRTEC share growth partially due to competitive out-of-stock and strong market growth in anti-smoking aids in EMEA. The skin health and beauty franchise experienced recovery with a 2.6% increase driven by strong performance of OGx due to share gains and OUS growth for Dr. CI LABO, partially offset by NEUTROGENA declines as retailers carry less inventory coupled with market declines, primarily in the makeup category due to fever use occasions driven by COVID-19 restrictions and SKU rationalization.

As consumers continue to focus on products related to personal health and hygiene, Oral Care grew by 12% on continued growth of LISTERINE mouthwash due to new flavor and product innovations and increased demand globally related to COVID-19. Wound Care grew 12.2%, primarily due to strong performance across NEOSPORIN and BAND-AID Brand Adhesive bandages in the US and Asia-Pacific. In the Baby franchise, we saw AVEENO baby strength offset by our planned SKU rationalization program, primarily outside the US.

Moving on to our Pharmaceutical segment. Worldwide Pharmaceutical sales of $12.3 billion, grew 14.6%, enabled by strength in all regions with US sales increasing by 15.3% and OUS sales increasing by 13.5%. The business realized double-digit growth in key products across our portfolio. Supporting growth in all therapeutic areas except for Cardiovascular/Metabolism/Other, which experienced a decline of 1%, primarily driven by continued biosimilar competition for PROCRIT. A strong portfolio of products and commercial capabilities has enabled us to deliver our ninth consecutive year of global adjusted operational growth at above market levels.

Our Oncology portfolio delivered another robust quarter with worldwide growth of 23.7%. DARZALEX continued its strong performance growing 49% led by share gains globally with the US market share up about four points across all lines of therapy. Furthermore, the US and European markets continue to exhibit increased adoption of the subcutaneous formulation launched in the second quarter as feedback continues to be very positive on the ease and reduced time to administer the new formulation. Also, we continue to advance the DARZALEX innovation pipeline with the recent US approval of DARZALEX FASPRO for the treatment of patients with newly diagnosed light chain amyloidosis.

IMBRUVICA grew 25.3% globally, mainly driven by market growth and our strong leadership position in all key indications. We continue to progress the development of IMBRUVICA and further differentiate us BTK inhibitor as evidenced by the robust data presentation at the American Society of Hematology Conference in December. ERLEADA continued its strong growth momentum with sales of just over $240 million in the quarter, driven by market share and penetration gains, especially in the metastatic indication. Our Immunology therapeutic area delivered global sales growth of 15.3%, driven by strong double-digit performance of STELARA and TREMFYA. STELARA grew 30.3%, driven by global demand increase in Crohn's Disease with over a five-point share increase in the US and continued growth in Ulcerative Colitis. TREMFYA grew 39.3% and is up about three points of share from the fourth quarter of 2019 in the psoriasis market in the US. TREMFYA continues to strengthen its leadership position as the most prescribed IL-23 inhibitor for the patients worldwide through its differentiated data package in both psoriasis and psoriatic arthritis. We also continue to advance TREMFYA's pipeline as evidenced by Phase II Crohn's Disease data that was presented earlier this year.

In Neuroscience our paliperidone long-acting portfolio performed well growing 9%, driven by market and share growth due to increased new patient starts and strong persistency. In 2020, we filed submissions in the US and EU for paliperidone palmitate 6-month formulation for the treatment of adults diagnosed with schizophrenia. And if approved, it will be the first and only long-acting injectable medication with a twice yearly dosing regimen.

Our total Pulmonary Hypertension portfolio achieved strong growth of 37.4% with OPSUMIT growth of 36.7% and UPTRAVI growth of 44.1%, both driven by market penetration and share growth as well as a one-time benefit of about 10 points each resulting from the US distributor model change we communicated in Q4 2019.

I'll now turn your attention to the Medical Devices segment. Worldwide Medical Devices sales were $6.6 billion, declining 2.2%. Excluding the net impact of acquisitions and divestitures, primarily the divestiture of ASP, adjusted operational sales decline was 1.5% worldwide. One-time items positively impacted the current quarter by about 200 basis points. The net benefit from these one-time items is comprised of the benefit of the extra shipping days associated with the 53rd week, partially offset by the anticipated inventory contractions in China across our portfolio and in our US contact lens business as communicated last quarter. Adjusting for the impact of these one-time items, Q4 results were in line with Q3 2020 performance.

COVID-19 remains a dynamic variable within the medical device market. In Q4, COVID-19 cases and hospitalizations reached their highest levels in certain parts of the world, while cases remained relatively stable and others. This did lead to some softening in recovery trends late in the quarter, however, impacts varied across geographies and procedure types.

Looking geographically, China, where COVID-19 cases have continue to remain more stable, delivered double-digit growth within the quarter. Excluding the benefit of the additional shipping days, the US declined low single-digits due to COVID-19-related restrictions occurring late in the quarter. Sales also declined in Europe, where some of the strictest restrictions were deployed to curve the increases in COVID-19 cases.

As we have noted previously, health care systems continued to demonstrate the resiliency and dedication to treating both COVID-19 and non-COVID 19 patients, resulting in significantly less disruption during this recent surge of cases versus the impacts seen earlier this year.

Interventional Solutions continued to demonstrate strong performance delivering another quarter of double-digit growth. Electrophysiology grew 12.7% globally, led by market recovery and share gains from new products. So our (inaudible) returned to double-digit growth with strong sales in China. Worldwide Orthopaedics declined 5.3% versus prior year, driven by the negative impact of COVID-19 while procedures seem to be more elective in nature. Worldwide Trauma delivered growth of 3.6% globally. US growth of 10% for the quarter reflects market recovery as well as success of our new products such as the Cannulated Compression Headless Screws.

Declines of about 6% outside the US reflects slower procedural volumes due to COVID-19 restrictions as well as contractions in inventory in China worth around 400 basis points. Worldwide Hips declined 2.7%, primarily due to the impact of COVID-19 on the market. US declined 0.7% versus prior year and continues to benefit from our leadership position in the Anterior approach and strong demand for the ACTIS stem and enabling technologies helping to partially offset the negative COVID-19 impact.

We continue to introduce innovation in this space. And in December, we entered the modular dual mobility market with the first implant of clinical dual mobility, which is planned for a full US market launch this year. Views [ph] declined 13.9% globally as we continue to see procedures in this space highly impacted by COVID-19, especially revision procedures, where we have a higher share than primary.

The 20.6% decline outside of the US reflects the impacts of COVID-19 on procedures, especially in markets like the UK and India, where we hold higher share positions. We are very excited about the FDA clearance of our VELYS Orthopedic Robotic System and bringing this to the US market in 2021. The combinations of the differentiated robotic system with our two new platforms are expected to drive enhanced performance in this segment.

Worldwide decline in Spine of 7.1% reflects the impact of COVID-19 on the market as well as inventory reductions in China impacting global performance by about 350 basis points. Offsetting this decline is the growth we continue to see from the success of recent launches of new products such as Symfony and CONDUIT. For the quarter, US price remain consistent with historical levels down low-single digits.

Moving to the results for the Surgery business. Advanced Surgery returned to growth with a 2% increase versus prior year led by strong performance in US Biosurgery, which grew 12.1% in the quarter. US Biosurgery growth is due to the strength of SURGIFLO and the continued recovery from the previously disclosed 2019 stop shipment.

Endocutters delivered 1.6% growth, mainly driven by the success of new products in China offsetting impacts from COVID-19. Energy declined by 3.1%, reflecting the negative impact of COVID-19 and competitive pressures in the US, partially offset by the strength of new products outside the US. This month we received FDA 510(k) clearances for both the Enseal X1 Curved and Straight Jaw Tissue Sealer instruments, which will further strengthen our portfolio of Advanced Energy devices.

Global Wound Closure grew by 1.5% through the strength of STRATAFIX barbed suture and PRINEO topical skin adhesive products in both the US and OUS markets. Inventory dynamics in the quarter added about 350 basis points to the US growth of 8.2%, and negatively impacted the OUS decline of 2.9% by about 150 basis points. The Vision business declined 6.6% globally. US contact lens declined 7.1%. However, after adjusting for the impact of both the additional shipping days this quarter and the impact of the anticipated channel inventory correction communicated last quarter worth about nine points. The underlying US contact lens business grew and continues to deliver competitive performance.

While Surgical Vision declined 10.1% globally, this represents an improvement from Q3 where the business declined 16.4% with the most notable improvement in the US. This improvement is due to both improvements in the cataract and refractive markets as well as new products like TECNIS Toric II IOL for Astigmatism

Now, regarding our consolidated statement of earnings for the fourth quarter of 2020, please direct your attention to the box section of the schedule. You will see we have provided our earnings adjusted to exclude intangible amortization expense and special items. As reported earlier, our adjusted EPS of $1.86 reflects a reported decrease of 1.1% and an operational decrease of 3.2%. I'd like to now highlight a few noteworthy items that have changed on the statement of earnings compared to the same quarter last year.

Cost of products sold deleveraged slightly, primarily driven by COVID-19 period costs and fixed cost impacting the Medical Device business, partially offset by favorable enterprise portfolio mix and portfolio mix within the pharmaceutical business. Selling, marketing and administrative margins improved for the quarter as a result of favorable segment mix and expense leveraging in the Pharmaceutical and Consumer businesses, partially offset by the negative COVID-19 impact on Medical Devices sales. We continue to invest in research and development at competitive levels investing 17.9% of sales this quarter. This was higher than the fourth quarter of 2019 by 230 basis points, driven by portfolio progression, including the COVID-19 vaccine in the Pharmaceutical business. The other income and expense lines showed net expense of $2.4 billion in the fourth quarter of 2020 compared to net expense of $16 million last year. This was primarily driven by higher litigation expenses related to a Missouri Supreme Court verdict on talc in the fourth quarter of 2020, which was previously disclosed in our November 3rd, 8-K filing and we intend to seek review of that decision by the United States Supreme Court.

Regarding taxes in the quarter, our effective tax rate decreased from 4.9% in the fourth quarter of 2019 to a 5.5% benefit in the fourth quarter of 2020. This decline was primarily driven by the tax benefit associated with the fourth quarter 2020 litigation expenses. Excluding special items, the effective tax rate was 11.4% versus 10.7% in the same period last year. I encourage you to review our 10-K for further details on specific tax matters.

Let's now look at adjusted income before tax by segment. In the fourth quarter of 2020, our adjusted income before tax for the Enterprise as a percentage of sales decreased from 27.1% to 24.9%, primarily driven by the COVID-19 impact this quarter. The following are the main drivers of adjusted income before tax by segment. Medical Devices declined by 900 basis points, driven by COVID-19 impacts on the business, including fixed cost deleveraging associated with sales declines.

Consumer margins improved by 430 basis points, primarily driven by portfolio and investment optimization, including execution of our SKU rationalization program. The decline in Pharmaceutical margins of 90 basis points was primarily driven by investment in R&D associated with portfolio progression, including the COVID-19 vaccine.

This slide provides our full year consolidated statement of earnings. Please direct your attention to the box section at the bottom of the schedule where, again, you will see we have provided our earnings, adjusted to exclude intangible amortization expense and special items.

As reported today, our full-year 2020 adjusted EPS of $8.03 reflects a reported decrease of 7.5% and an operational decrease of 7.8%. The decline is primarily related to COVID-19 impacts realized predominantly in our Medical Device business along with increased R&D investment, including the investment associated with our COVID-19 vaccine candidate.

Moving to the next slide. Our full-year 2020 adjusted income before tax for the Enterprise decreased by 360 basis points versus 2019. Looking at the adjusted pre-tax income by segment, Medical Devices declined from 35.4% in the previous year to 17%, primarily driven by COVID-19 impacts on the business including fixed cost deleveraging associated with sales declines. 2019 also includes approximately $2 billion related to the divestiture of the Advanced Sterilization Products business.

Pharmaceutical margins improved by 200 basis points to 42%, driven by favorable product mix and sales, marketing and administrative expense leveraging. Consumer margins improved by 240 basis points to 23.8%, driven by portfolio and investment optimization, including the execution of our SKU rationalization program.

Moving on to important developments. For your reference, here is a slide summarizing notable developments occurring in the fourth quarter, some of which were mentioned in my comments. For your planning purposes, we plan to host a business review featuring our Pharmaceutical business on November 18th of this year. The format and location will be announced at a later date. But we hope that you're able to join us for this event where we look forward to sharing the details about our robust pipeline and differentiated capabilities that give us the confidence in our ability to sustain growth in Pharmaceuticals at above market levels.

That concludes the sales and P&L highlights for Johnson & Johnson's Fourth quarter and full year 2020. I'm now pleased to turn the call over to Joe Wolk.

Joseph J. Wolk {BIO 19812977 <GO>}

Thank you, Chris, and thanks to everyone joining today's call. As you heard Johnson & Johnson's results reflect the strength and resilience of an agile broad-based business predicated on innovation despite unique challenges throughout 2020. The unwavering commitment of our 135,000 global colleagues was on full display, delivering trusted, lifesaving, life-enhancing products to patients and consumers around the world. Their efforts resulted in sound shareholder returns, while advancing value-creating opportunities that benefit all of our stakeholders now and over the long term.

Alex stated on this call and really throughout 2020 that Johnson & Johnson is built for times like this. Our disciplined, long-term focus deals of financial strength that affords us the ability to quickly act to address the COVID-19 pandemic in many ways, most notably on our ongoing vaccine development, but to also continue investing in innovative solutions to better the future of healthcare even when short-term uncertainty exists.

I'm very pleased today to share our financial guidance for 2021, which reflects these principles. But first let me review our cash position and capital allocation priorities. We generated free cash flow for the year of $20 billion, surpassing last year's record high. We did benefit by having our fiscal year end lapse into 2021, as Chris noted, and we are now planning for payment related to the anticipated final opioid litigation agreement in principle in 2021 versus the previous planned 2020 payment.

In terms of our cash position, at the end of 2020, we had approximately $10 billion of net debt comprised of approximately $25 billion of cash and marketable securities and approximately $35 billion of debt. One element of our business that we're particularly proud of despite the challenges of 2020 offered, we maintained our long-term approach to drive growth and value creation across the enterprise.

From an innovation standpoint, the development of a safe and effective COVID-19 vaccine was certainly a top priority throughout the year. Yet, as I said earlier, we continue to make other strategic investments that fortified our pipeline and further enhanced our competitive advantage even during the pandemic. Our level of R&D investment reached an all time high of $12.1 billion, $800 million more than our 2019 R&D investment.

On the transaction front, we continue to evaluate opportunities that strategically complement our portfolio and our scientific expertise or commercial capabilities can create unique value. Over the course of 2020, we invested over $7 billion in such opportunities. As discussed on our third quarter earnings call in October, we acquired Momenta Pharmaceuticals and a lead therapeutic candidate nipocalimab, which is in Phase II and Phase III clinical development for the treatment of rare, auto antibody driven diseases. We believe nipocalimab encompasses a pipeline and a product opportunity that can treat a broad range of devastating auto antibody-driven diseases.

In December, we expanded our retina pipeline by acquiring the rights to Hemera Biosciences' investigational gene therapy, HMR59, a one-time outpatient intravitreal injection to help preserve vision in patients with geographic atrophy, a severe form of age-related macular degeneration where currently there are no other approved therapies. And as shareholders in Johnson & Johnson have come to expect, we continue to prioritize our dividend by announcing last April a 6.3% increase. This translated in returning $10.5 billion to investors in 2020, approximately 50% of our free cash flow.

Let's now turn to our full-year 2021 guidance. Given our full-year 2020 performance in this unprecedented environment and the underlying strength of our broad-based business, we are well positioned to continue delivering long-term value to our stakeholders. We continue to monitor and work with healthcare systems around the globe as they balance surges in COVID-19 cases with treatment for non COVID-19 patients. I would be remiss if I didn't acknowledge the tremendous efforts of healthcare providers around the world that have society in a much better place today with improved treatment protocols and resource allocation compared to the start of the pandemic. We are also encouraged by the recent availability of COVID-19 vaccines that will provide added reassurance to people in need of medical procedures. From a macroeconomic perspective our outlook assumes stabilizing employment levels and a reduction in social restrictions as the year progresses. From a legislative standpoint, we are not assuming significant changes in current tax policy and consistent with the past four years on our Pharmaceuticals business, we expect net price decreases at similar levels. We will continue to focus on providing access to more patients for our innovative products resulting in growth being volume driven.

So let's get into the details for full year 2021 guidance for you to consider in updating your models. I'd like to note upfront that our guidance excludes the financial impact from the potential distribution of our COVID-19 vaccine candidate. As Alex noted, we remain committed to provide a safe and effective vaccine.

Being in the final stages of a robust 45,000-person-study, analytics will be completed and we plan to report out the results by early next week. Therefore, it would be premature to speculate, we will let the science play out. Once we have the data, obtain regulatory authorization and finalized agreements to supply, we will provide financial updates as warranted, likely during our first quarter earnings call in April.

Starting with sales, we expect adjusted operational sales growth for the full year 2021 of between 8.0% and 9.5%. This adjusted operational sales growth is on a constant currency basis, reflecting how we manage our business performance. We estimate the negative impact from net acquisitions and divestitures of approximately 50 basis points, and as such are comfortable with your models reflecting operational sales growth in the range of 7.5% to 9.0% or $88.8 billion to $90.0 billion.

As you know, we do not predict the impact of currency movement. But for some context, utilizing the euro spot rate relative to the US dollar as of last week at 1.21, there is an estimated positive impact of foreign currency translation of approximately 200 basis points, resulting in an estimated reported sales growth of between 9.5% and 11.0% or 10.3% at the midpoint compared to 2020, or $90.5 billion to $91.7 billion.

Let's now turn to earnings per share. This slide illustrates the components of our 2021 EPS guidance. Roughly half of our EPS growth is attributed to the robust operational sales growth and the other half is attributable to strong net income margin improvement, driven by expected operating margin improvement of more than 200 basis points versus 2020. The medical device COVID-19 recovery and other cost improvement initiatives are planned to more than offset or continued investment to accelerate our business and further strengthened our pipeline of new products for the long term.

As a reminder, included in our 2021 guidance as the dilution from the recent acquisition of Momenta, negatively impacting EPS by about $0.15 or $0.10 versus 2020. Considering these items results in adjusted operational EPS in a range of $9.25 to $9.45 or $9.35 at the midpoint, reflecting a 16.4% year-over-year increase. While not predicting the impact of currency movements, assuming recent exchange rates, our reported adjusted EPS would be positively impacted by approximately $0.15 per share, resulting in adjusted reported earnings per share of $9.50 at the midpoint, reflecting growth of 18.3% versus the prior year.

Continuing with EPS guidance, this slide provides a summary of what I just shared along with some additional P&L items, to give you more insight into the drivers of our full year guidance. Beginning with other income and expense, the line on the P&L, where we record royalty income as well as gains and losses related to the items such as investments by our Johnson & Johnson Development Corporation, litigation and write-offs.

As I discussed on previous earnings calls, we will continue to be rigorous regarding portfolio management. But going forward, we will not include the impact of significant divestiture gains and adjusted EPS. Given those considerations, we would be comfortable with your models for 2021 reflecting net other income and expense, excluding special items as net income ranging from between $600 million and $700 million. We continue to actively evaluate external value creating opportunities, but for purposes of your financial models, we are not assuming any major acquisitions or other major uses of cash at this time. Therefore, we are comfortable with you modeling net interest expense of between $150 million and $250 million. We are also projecting a higher effective tax rate for 2021 in the range of 16.5% to 17.5% or a midpoint of 17% due to beneficial one-time items in 2020 related to the close out of audits in several jurisdictions that will not repeat in 2021.

Let me spend a few minutes providing some qualitative context about 2021 although not intended to specifically provide segment or quarterly guidance. Given variability that occurred due primarily to COVID related dynamics, this slide, while not to scale and meant to be illustrative, offers some perspectives on the quarterly phasing across our businesses. From a sales perspective, as Chris noted earlier, we've benefited from additional selling days in 2020 that will not repeat in 2021. That should be applied to both the full year and the fourth quarter for the enterprise and by segment.

I'll address each segment starting with Pharmaceuticals where we anticipate another strong year of above market growth. Throughout 2020, we saw COVID-19-driven fluctuations and most pronounced was the first quarter went as we noted, we benefited from longer-script operations. We continue to invest in COVID-19 vaccine development impacting the first quarter while we pursue authorization. For 2021, we expect more balanced quarter-to-quarter growth. Lastly, while we expect to continue to face pricing pressures and the ongoing negative impact of generic and biosimilar competition, we do not expect any significant new generic or biosimilar entrance in 2021.

Turning to our Medical Devices segment as mentioned earlier, we observed instances of non-emergency procedure postponements late in the fourth quarter, but health care systems continue to meet the needs of both COVID and non-COVID patients, resulting in less COVID-19 market disruption as we progressed through 2020. While macro market dynamics such as vaccine deployment, unemployment and health care coverage remain fluid, we are anticipating some moderate procedural disruption to carry into the first quarter, but expect continued medical device market improvement throughout 2021 fluctuating by quarter.

As you heard during our medical device update in November, our core platforms continue to strengthen, driven by enhanced execution and improved cadence of innovation and fill in critical portfolio gaps, including and most notably advancing our future digital surgery offerings. We believe the combination of the expected market recovery and the actions taken to strengthen our device business positions us to drive revenue growth each quarter versus 2020 with some continued headwinds due to COVID-19 tempering growth in the first quarter and the highest growth rate expected in the second quarter, given the significant market disruption realized in the second quarter of 2020.

Our Consumer Health segment yielded solid performance throughout the pandemic, resulting in above market growth, but as noted on our third quarter earnings call, that performance is likely to yield negative COVID-related sales comparisons in the first quarter of 2021, primarily in over-the-counter products. We also plan that our continued SKU rationalization program will have a negative impact on sales in the first half of 2021, while we continue progressing our margin expansion. For the second half, we would anticipate more normalized growth as consumers return to more typical usage patterns for products in areas like Skin Health/Beauty. Therefore although not linear, for the full year, we anticipate growing competitively with the markets in which we compete.

We are confident in the strength of our broad-based business and its underlying fundamentals. We are positioned to deliver meaningful value to all of our stakeholders, not just in 2021, but over the long term.

Alex and I look forward to addressing your questions. So I'm now pleased to turn the call back over to Chris to initiate the Q&A session. Chris?

Chris DelOrefice {BIO 20730104 <GO>}

Thank you, Joe. We will now move to the Q&A portion of the webcast. Operator, can you please provide instructions for those on the line wishing to ask a question?

Questions And Answers

Operator

(Operator Instructions) And your first question is from Terence Flynn with Goldman Sachs.

Q - Terence Flynn {BIO 15030404 <GO>}

Hi, good morning. Thanks again for all the work you're doing to combat the pandemic and looking forward to the vaccine data next week. I was just wondering, with respect to the vaccine trial, if you can remind us what percentage of participants were enrolled in South Africa and Brazil? And if you're gathering sequencing data from these participants that become infected. And when you report the data, are you going to break out results by geography? And hence will you have any insight in terms of the vaccine efficacy against some of this new variance? Thank you.

A - Alex Gorsky {BIO 16239711 <GO>}

Hey, Terence. This is Alex. Thank you very much for your question. Look but -- maybe, before I answer your question, let me just back up for a higher level and once again know what I think has been -- just been the tremendous contributions in performance of 150,000 approximate associates around the world, 50,000 of whom have been going to work every day in our factories, in our laboratories to ensure the products and services could continue to flow to patients and hospital systems around the world let alone the important work that we're doing on the vaccine. (Inaudible) just think it's very important to reflect on the tremendous impact that COVID-19 has had around the world.

You've heard some of the numbers that we mentioned earlier today, whether it's almost 100 million cases around the world, let alone 2 million deaths globally, or right here in the United States almost 25 million people and over 400,000 deaths. That's taken a tremendous costs on certainly families, individuals, businesses, our economy are just so many different aspects of our life that all the more important for us to be doing everything we can to make a difference during this pandemic.

Last but not least, I'm just very proud of the performance that we had not only in the fourth quarter but throughout 2020. If you look at the various segments in almost each of our sectors, all of our major platforms, what you saw is us ending the year in a better position than where we started. And that wasn't only for what I would call the near-term financial performance when we saw things like market share gains and position improvements, but also if you look at the investment that we made in research and development and sales and marketing, preparing for the future, not only 2021, but that and beyond. Again, we think we're well positioned and stronger as we finish the year that even when we began.

Now getting back to your specific question, regarding the breakouts, we're going to have much more information in the coming days. We think it's very important to follow the data, to follow the science. At that time, we think it will be more appropriate to provide you with all of the various cuts of the data that we anticipate having. Consistent with the statements that we made from the very beginning, we want to ensure that we've got a very robust program not only geographically, but also by ethnicity, gender, as well as a number of other different parameters, all as part of an effort to give us the best possible understanding of the efficacy and safety profile of our vaccine.

So stay tuned. As Joe alluded to in his earlier comments, and Chris, we expect to have these results in the coming days. And our scientists Dr. Mathai Mammen, Dr. Paul Stoffels, and others will be providing much more detail once we have those results. Thank you.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks Terence. Appreciate the question. Bob, next question please.

Operator

Your next question comes from Larry Biegelsen with Wells Fargo.

Q - Larry Biegelsen {BIO 7539249 <GO>}

Good morning. Thanks for taking the question. One more -- one on the vaccine, and then one financial question. So Alex or Joe, I heard Joe's comments on CNBC about your expectations for the vaccine to be robust. What do you think you need to show to be competitive is 70% to the floor? And Joe, do you still expect to produce 1 billion doses in 2021? And just lastly, I know you said the -- you're not going to give any financial guidance until, I think your next call. But since the data is coming next week, any color on pricing and margins during and after the pandemic? Thanks guys.

A - Alex Gorsky {BIO 16239711 <GO>}

Hey, Larry. Thank you very much for your question. As I mentioned earlier, I think it would be inappropriate for us to speculate in any significant way given the proximity of that we are today versus when we expect the results. What we said from the very beginning is that we put a lot of work and thought and very strong science and review into the selection of our lead candidate into Phase 1 and 2a results, particularly those that we're recently published. We are hopeful that's a good precursor to the kind of efficacy and safety that we'll see in larger population, of course. Until we see this final data, we won't know for certain, but look, we remain optimistic, and we're going to remain very diligent as we go through this final review.

I'll hand it over to Joe take the second part of that question.

A - Joseph J. Wolk {BIO 19812977 <GO>}

Sure. Good morning, Larry, and thanks for the question. Well, I would say with respect to supply, consistent with the comments that were made earlier, we intend to meet all of the firm order commitments that we have whether that beats the United States to the European Union or to developing countries through the Gavi organization. And right now we're well on track to do that. As Alex alluded to, there's still some fluidity with respect to timelines. And I think what we're seeing, happening with a little bit confusion is people are trying to parse this down into weeks. I think the definitive statement here is that we are very comfortable in meeting our commitments to those respective countries organizations that I just outlined. In terms of financial implications and pricing, as you can imagine, once countries get a chance to see the data, we're in active negotiations for other countries and other organizations. And the volume will impact the selling price. So it's somewhat of a fluid situation. And that's why we're kind of projecting or leading folks to think about the April first quarter earnings call as a good time when many of those pieces will be in place and we can give you some credible information to bank on for the balance of 2021.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Larry. Appreciate the question. Rob, next question please.

Operator

Your next question comes from David Lewis with Morgan Stanley.

Q - David Lewis {BIO 15161699 <GO>}

Good morning, and thanks for taking the question. I guess just -- maybe just two quick ones here for me. The one would just be in general. As you think about new variance in the marketplace and the need for a booster, I wonder if you just comment on number one, when can we expect the dual dose data? And what are your thoughts about the booster relative to the mRNA based platforms? And then I guess just on earnings strength for next year, '21, Joe, just I know the 200 basis points of year-over-year margin expansion just seems like given the earnings upside relative to consensus estimates. You are probably going to a margin number that is maybe closer to 300 basis points of your and in your upside versus too. So just give us any sense of what's driving margin strength, some of that's Medical Device recovery, I'm sure some of that's Pharma strength as well? It will be super helpful, just give us a sense of the earnings momentum into 21. Thanks so much.

A - Alex Gorsky {BIO 16239711 <GO>}

Hey, David. This is Alex. I'll take the first part and then let Joe take the second one. Look we, as I mentioned earlier, we're continuing to pull together all of our data. We're enrolling as we speak in the dual-dose information. We would expect that to have that in the back end of this year. And again, as we -- just as we try to be very transparent and very thorough and -- in the disclosure that we're releasing, we certainly will plan to follow that course with that trial as well. And I think, we'll get that information as soon as we can. Regarding some of the variance, obviously, we're watching that closely based upon some of the regional, the geographical differences that we're seeing. And look, our scientists are all ready, anticipating as you heard from some of the other companies about what our potential scenarios to ensure that we're prepared. But look, I think it starts with taking a look at the data that we currently have, that we should have shortly. And I think Dr. Paul Stoffels and Dr. Mathai Mammen -- once we have that, we'll be able to give a much more comprehensive review on exactly how we think our vaccine will work against the current strains and variance and our plans for the future. Joe?

A - Joseph J. Wolk {BIO 19812977 <GO>}

Good morning, David. With respect to kind of the earnings outlook and specifically the operating margins, you're correct. And not to get cued, but the words were actually greater than 200 basis points. So that could gravitate upward. We certainly want to keep the flexibility that we've had even during 2021 and all that uncertainty to continue to invest in innovative ideas that really fortify not just this year, but well beyond.

In terms of some of the programs we have that are improving our operating margins, I'd point you to the consumer SKU rationalization, that is certainly something that will have an impact on consumer sales in the first half of the year, but again with this objective of improving profit margins. And that team has done a great job under Thibaut' leadership with respect to improving the margin profile over the last two years. You may also recall a few years back, we made significant investments in our supply chain infrastructure, those -- some of those are starting to pay off in 2021 as well. And then like it or not, we are working differently and there are efficiencies that correlate to some of this working differently. I'm not suggesting that we found a steady state in terms of the balance between virtual work and work in the office, but there are some efficiencies that are being realized that I think will actually sustain long-term as we move forward. So those are some of the factors that are going into our bullish call of above 200 basis points margin improvement.

A - Chris DelOrefice {BIO 20730104 <GO>}

Great. Thanks, David. Appreciate the question. Rob, next question please.

Operator

Your next question is from Louise Chen with Cantor Fitzgerald.

Q - Louise Chen {BIO 6990156 <GO>}

Hi, thanks for taking my questions. So, just curious if you could comment on the durability of our vaccine versus the other vaccines that are in development or at least your goals for durability you did highlight that in your Phase 1-2 data? And the second question is just as Biden rules are and his health care policies, are there any big moving parts that you see as potential pushes and pulls to the healthcare industry? Thank you.

A - Alex Gorsky {BIO 16239711 <GO>}

Hey, Louise -- Alex. Thanks again for your question. Regarding durability, again, we're going to have to see how some of the early data and some of the preclinical work that we have done plays out in the actual large scale trials. We're certainly hopeful that you're going to see a durable and sustainable and patent response, particularly from our vector approach. We have seen that in other programs that we run. So we're hopeful that we'll see it here, but we would expect that to play out. We are pleased with not only the antibody response that we saw, but also some of the cellular level response would be in T-cells. But again more information will be available, once we have our other final results.

Secondly, more broadly about health care. I do think that, and we do feel that COVID-19 has had a very profound effect on health care systems both near term and short -- and longer term. I think in the near term, what we've learned is frankly the importance of innovation and science. I mean, if you reflect back on where we were just 11 or 12 months ago, at the beginning of COVID-19 and where we are now in the number, not only of very innovative vaccine candidates, but therapeutics and the differences that they made. If you take a look at the way hospital protocols very rapidly and quickly started using data sciences and information to better understand what was going on with patients entering, those facilities, how they should be treated, what led to better outcomes, how that's impacted the reduction in morbidity, I think clearly another example. Third, we've seen a rapid expansion in telehealth. And that's in primary care offices, but also specialty offices. The way that companies, like ours, actually communicate and engage and educate physicians and healthcare systems. We would see that lasting for some time as well. And clearly on the Public Health side, we think that's also a very important dynamic for us to consider going forward. I mean I think it's clear from this that the world now has a much better understanding of the importance of well-established, well-funded global public health programs without which we're at significant risk around the world, whether it's our economies, a society, just as a number of different levels.

So those are perhaps some of the longer-term trends. And last but not least, I'd like to do a -- just a shot-out for the partnership and collaboration that we've seen with, not only within industry and across industry, but also with regulators around the world. And it's certainly our hope that we can take some of that and apply it to other advancements whether it's cures for cancer, neuroscience other conditions. If we can take some of those same paradigms and accelerations and apply them there, that would be great news, not only for patients, certainly in health care systems, but for the industry as well.

A - Joseph J. Wolk {BIO 19812977 <GO>}

Hey Louise, maybe just one other comment to build upon Alex's commentary. You've referenced towards the end of your question about the new administration and what kind of policies they may have around health care, what I would say is we've been around for 135 years. That's I think 24 different administrations from both Republicans and Democrats. We're going to continue to do what we do best and that's innovate. And if I look at our Pharmaceutical portfolio, the great performance that they delivered in 2020 was once again that was for the fourth consecutive year price decreases overall in the portfolio.

So we're seeing the benefit of innovation, whether it be for the COVID-19 vaccine or other solutions in immunology, oncology, pulmonary hypertension and neuroscience, and so that's what we're going to be focused on. And by the way, Louise, I just got to comment, you did a really nice job on the news program this morning. That was outstanding work by you.

A - Alex Gorsky {BIO 16239711 <GO>}

And Louise, I may just add one other point. That is -- we actually look forward to working with the new administration on issues related to health care. Clearly the pandemic we feel will shape the perspective in terms of the prioritization around access, around innovation, and frankly, using this as an opportunity to improve the overall healthcare system. Thank you.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks Louise. Appreciate the questions. Rob, next question please.

Operator

Your next question is from Chris Schott with JPMorgan.

Q - Chris Schott {BIO 6299911 <GO>}

Great. Thanks so much for the questions. Just on 2021 device sales, can you just help us quantify or provide more color around how much of an impact COVID will still be having on sales versus what you consider to be, I guess, normalized levels? I'm trying to get a sense of how close to normalize -- is 2021 as we maybe think about 2022 and beyond is another step-up in sales, we need to be thinking about in that timeframe?

My second quick one is just on STELARA. The products obviously generating very healthy growth despite increased competition in the psoriasis spaces. Maybe a little bit more color there in terms of the sustainability of growth you see as we just think about that franchise evolving over time? Thank you.

A - Alex Gorsky {BIO 16239711 <GO>}

Chris, look, overall, we remain very confident in the long-term prospects around the Medical Devices market. And I think we saw very good signs of that actually over the course of 2020 where, we saw the Medical Devices market drop anywhere from 38% to up to 70% depending on which category you're looking at to return to mid single-digit drops in the third quarter as we went through the rest of the year. As Joe and, I believe, Chris alluded to earlier in some of their commentary, we would expect to see continued impact, certainly in the first quarter of 2021, although, the early signs were encouraged by what we're seeing in hospital's ability to manage through some of the current patient demands. There are certainly regions and hospitals around the world, not alone in the United States, where you see a tremendous strain on the systems. But overall, we're seeing hospital volumes decreased no more than about 10% or 15% in areas such as, for example, in the UK, a couple of other places in Europe. But overall the resiliency and the ability of the hospital systems that continue with elective surgeries has improved quite significantly. And as you -- as I'm sure you would project, if we look at second quarter in particular, the year-on-year comparison should return. As we look at our team's performance and consider 2021, we're actually looking at 2019 as more of a benchmark to -- and to use that as an indicator more of a baseline or normal would be. But again, we would expect to continue to see expansion over the course of 2021. And beyond that, again see a return to a market that was growing in the mid single-digits previously, and we would expect that to continue going forward as well.

Q - Chris Schott {BIO 6299911 <GO>}

There is also question about STELARA.

A - Alex Gorsky {BIO 16239711 <GO>}

Yeah. Regarding STELARA, look, we remain very upbeat on the overall performance of STELARA. I mean if you look at performance in the fourth quarter, it was about 30% growth for the full year. We are looking a 20% growth. And what's really important to remember about STELARA is just the diversity of indications now that we have with that and compound especially in GI conditions, where we think it's particularly differentiated and unique both in terms of its efficacy, and now a very robust safety profile as well based upon the years of experience. It is a competitive category. There are a number of new agents. But we also know that this is an area of significant unmet medical need, again, particularly in the Crohn's space, and the rest of the GI category. And so we think there remains really good opportunity for us to continue to not only maintain, but grow our position.

A - Joseph J. Wolk {BIO 19812977 <GO>}

And Chris, if you look at where the growth is coming from for STELARA, in recent quarters, it has been in the GI indications that Alex as noted, where we're really seeing nice growth and uptake in Psoriasis and TREMFYA. You're right, it's a competitive market space. But we're seeing some switches out of STELARA to TREMFYA and then TREMFYA is picking up new scripts on its own for Psoriasis play.

A - Alex Gorsky {BIO 16239711 <GO>}

And just for context, the share growth in Crohn's and STELARA was over five points quarter-over-quarter. So seeing great progress there.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Chris. Appreciate the questions. Rob, next question please.

Operator

Your next question comes from Joanne Wuensch with Citi.

Q - Joanne Wuensch {BIO 2379289 <GO>}

Good morning, everybody. Two questions in Medical Devices land. With the VELYS approval, can you sort of give us an update on how you're thinking about rolling that out? And whether or not those plans change in the current environment? And then in Vision Care, there are a couple of different pushes and pulls going on both in Contact Lenses as well as in Vision Surgery. Can you tease that out a little bit as we think about SKU rationalization versus competitive pressures?

A - Alex Gorsky {BIO 16239711 <GO>}

Sure. And good to hear from you Joanne. Regarding VELYS, look, we're very excited about the approval with the FDA. As we were able to share with you during our Innovation Day with our Medical Devices Group, if we look at the flexibility, the accuracy, the reduced footprint that it provides the surgeon and surgical teams, we think that it just has tremendous potential. Again, this is a market that is still -- we think has significant opportunity for growth in terms of penetration. We also think it will be a nice complement to our ATTUNE fixed bearing cement-less knee. And remember, we also have plans to expand VELYS significantly beyond just the replacement, but to other areas as well.

So when you combine that we think it will be very competitive. And more importantly, we think it will be a great new option for physicians, for orthopedic surgeons and ultimately for patients and their families. I'm not going to get into all of the launch plans, but what I would tell you is the team has got an aggressive agenda lined up. And they're completing all the other associated testing as we speak, but we look forward to launching that over the course of 2021, and again, expanding our overall position.

Regarding Vision Care, you're right, there are a lot of dynamics that we certainly saw in the past year, in the Contact Lens market significant contraction, as well as in the Surgery market. We believe that our position overall in the Contact Lens has continued to strengthen. And we did see improvement as we went quarter-to-quarter and ended the year. And we think we'll be well positioned as we enter 2021. We've also made a number of changes regarding our surgical business. We're excited in 2021 about the TECNIS Symfony launch with a depth of focus lens. It's got improved near term focus. And we have also have a TECNIS Synergy IOL, the first-in-class product combining a number of different technologies to really deliver a great range with high contrast. We expect that in '21. So again we remain very confident and optimistic about the potential in -- overall, in our Vision Care business.

A - Joseph J. Wolk {BIO 19812977 <GO>}

Joanne, just a couple of small bills. In Contact Lens, as we have noted in the prior quarter, if you remember, in the US, there was double-digit growth. And some of those were some of the retail dynamics as it related to inventory and stocking that you've noted, adjusting for that Contact Lens did grow, as worth almost nine points. And we do view our growth is still competitive versus the market. And then on the Surgical side is actually good. We did see some recovery in the market there. So it's good to see the trend. While we're still declining, it's improving sequentially. And we remain optimistic, including the innovation that Alex mentioned.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks Joanne. Rob, next question please.

Operator

Your next question is from Matt Miksic with Credit Suisse.

Q - Matt Miksic {BIO 6990080 <GO>}

Good morning. Thanks for taking the question. So just a couple of follow-ups on Med Devices. You made some great progress in 2020 closing the gap in digital surgery and abdominal surgery orthopedics and along. And I'm just curious sort of following on to Joanne's question around the VELYS rollout is. How to think about this -- you had a recovery in volumes, generally in the markets -- some of these end markets and then you've got sort of the benefit of these new digital surgery sort of launches and is that. Do we see that in the back half of the year? Do we start to see ortho this year and Ottava, maybe the following year. If you could just maybe lay out the cadence for both the topline and any investments that those entail for Med Devices that will be super helpful.

A - Alex Gorsky {BIO 16239711 <GO>}

Sure, Matt, and thank you very much. Look, we were, I think it's important to put perhaps some additional perspective on. If we really go back to 2017 or I believe the growth rate of our medical device division was about 1.5. And if you look at the expansion as we went through 2019 to where it was growing at almost a 4% rate. And as we've articulated a number of times, our goal is to grow at or faster than the markets where we compete. We believe the markets where we compete overall in Surgery and Orthopedics and Vision Care and others cardiovascular are in the 4% to 5% range. And that's the goal for our businesses. As we, of course, with 2019 or 2020, excuse me, and the effect of COVID, that has a very significant impact. But again here too, if we normalize out our trends for third and fourth quarter, we think that overall those quarters were pretty consistent down about 3.5%, after you pull everything else out. And will put us on a good rate as we mentioned earlier over the course of 2021 and beyond.

Regarding VELYS, as I mentioned earlier, we think it does offer a number of unique advantages. We think it can enhance the surgeon's ability to really personalized total knee arthroscopic. At the same time, it has certain features that will make it easier for use potentially in the operating room. And again, we think it's going to be a great complement to not only our ATTUNE system, but further down the line to our hip procedures and others as well. We do feel that the overall knee market will recover in 2021. It will take place over the course of the year as hospitals are able to continue to get their capacity back, as patients get increasingly confident of their knee market was, perhaps hit more than others, just because many of those procedures can be delayed, perhaps, versus a hip procedure. But we would expect that to return over the course of this year as we see the pandemic dealt with in a more effective way. And things hopefully return to a more normal state. And by the way we think the outlook for that longer-term given some of the pent-up demand that we're likely to see will be quite significant. As you saw in our review, back in November, we're very excited about Ottava. We truly think it's going to offer a next generation digital robotic surgery. As you just mentioned the team made great progress over the last 12 months, as we brought the various technologies together. We continue to do the build-outs. And we remain on track with all the timelines that we have previously committed to. And we're confident that -- here too HER-2 [ph] is a market that we think is very -- has very low penetration, less than 5% or 10%, certainly on a global basis more so in certain categories here in the United States. But whether it's penetration or the ability just to expand those kind of options to surgeons here in the United States, around the world based upon the technology that we'll be bringing, we think it will offer a significant upside on the timelines that you just mentioned.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Matt. I appreciate the question. Rob, next question please.

Operator

Your next question is from Danielle Antalffy with SVB Leerink.

Q - Danielle Antalffy {BIO 16104603 <GO>}

Hi, good morning everyone. Thanks so much for taking the question. I just have a quick COVID question, and I'm sorry if I missed this. Alex, I feel like you did allude to this in response to Matt's question. But over the last few quarters you had given pretty detailed numbers around the COVID impact. Is there any way you could give that for this quarter? Just to get a sense of sort of what the normalized growth rate actually would have been -- were not for the COVID resurgence. Thanks so much.

A - Joseph J. Wolk {BIO 19812977 <GO>}

Yeah. Thanks, Danielle. I can take that one. Yeah, we were able to do that in Q1 because there was an early impact. And then what we did was as we provided guidance throughout the year, we kind of gave you a range of expected impact by quarter based on what our original guidance would have been at the beginning of the year. If you look at what we shared in Q4, ahead of this earnings, we had anticipated that we could be anywhere from down 10% or flat versus our original thinking, which would have contemplated some growth year-over-year, plus a 53rd week. If you look at where we landed, we basically landed at the low end of that range given some of the additional softness that the market experienced in the December timeframe where procedures were probably down more around that 10% range. So overall, in line with expectations, but more towards the low end given some of the surgeries we saw at the very end.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Danielle. I appreciate the question. Rob, last question please.

Operator

Hey, yes. Last question will be coming from Bob Hopkins with Bank of America.

Q - Bob Hopkins {BIO 2150525 <GO>}

Thank you very much. Just one quick one. I appreciate the comment that globally, in Q4 Medical Devices revenue declines were really no worse than Q3 when you adjust out the one-timer. Is that pretty impressive given the headlines? I was wondering if you could give us a sense to what happened to device growth, maybe in the United States in Q4 relative to Q3, again, net of those one-timers? And also on the US, if we think about 2021, is it too aggressive to assume that in the back half of 2021 based on everything you're seeing today that we might be able to approach normal levels of surgical procedure volumes in the United States? Appreciate the comments. Thank you.

A - Alex Gorsky {BIO 16239711 <GO>}

Hey, Bob. Thank you very much. What we saw in North America in Q4 was it down just about or -- excuse me, up about 2%. And again there were regions around the country where we saw a differential impact. But I think it's fair to say that we were pleased to see the ability of the majority of systems in the United States be able to continue to provide elective procedures even in spite of some of the later surges where we saw even more significant impacts were in Europe and LatAm during that period. And because of our stronger positions in certain places in Europe that had a differential impact on us. And again, so, as hopefully we see improving trends with the virus in Europe, over the course of 2021, we would expect to see that return. And so -- regarding your questions on volumes in the back end, look, it's hard to predict based upon where we currently are. As we said earlier, we think the most significant impact this year will be certainly in Q1 as we continue to deal with some of the ongoing surge. We would expect the year-on-year comparisons to change pretty significantly in Q2 and Q3. And again assuming much improved vaccine distribution, better overall control of COVID-19, we would then expect to see volumes come back to more normalized levels as we finish the year. But obviously, there's a lot of moving parts, there is a lot of assumptions, a lot of dynamics that we'll have to watch closely. But our current plans would take those kind of projections in the consideration.

A - Chris DelOrefice {BIO 20730104 <GO>}

Great. Thanks Bob. I appreciate the question. Thanks everyone for your questions and your continued interest in our company. Apologies to those who we couldn't get to because of time, but don't hesitate to reach out to the Investor Relations team as needed.

I'll now turn the call back to Alex for some brief closing remarks.

A - Alex Gorsky {BIO 16239711 <GO>}

Well, thank you everyone for your comments, for your questions and for your ongoing interest, trust and confidence in Johnson & Johnson. It's likely an overused term at this point, but 2020 was a remarkable year on just so many different fronts. And I want to again end where I started by acknowledging the tremendous toll that this is taken on patients, on families, on the hospital systems around the world. But also give credit to healthcare systems and our employees who have worked so hard to continue to support the same through this challenging period. We're proud of our performance. We think we're positioned very well as we embark on 2021. And we look forward to keeping you updated as we go through the year and gain more information and insights.

Thank you very much everybody.

A - Joseph J. Wolk {BIO 19812977 <GO>}

Thank you.

Operator

This concludes today's Johnson & Johnson's fourth quarter 2020 earnings conference call. You may now disconnect.