Q1 2019 Earnings Call

Company Participants

- Ashley McEvoy, Executive Vice President, Worldwide Chairman, Medical Devices
- Chris DelOrefice, Vice President of Investor Relations
- Jennifer Taubert, Executive Vice President, Worldwide Chairman, Pharmaceuticals
- Joseph J. Wolk, Executive Vice President, Chief Financial Officer
- Thibaut Mongon, Executive Vice President, Worldwide Chairman, Consumer

Other Participants

- Bob Hopkins, Analyst
- Christopher Schott, Analyst
- Danielle Antalffy, Analyst
- David Lewis, Analyst
- Geoff Meacham, Analyst
- Jayson Bedford, Analyst
- Joanne Wuensch, Analyst
- Josh Jennings, Analyst
- Lawrence Biegelsen, Analyst
- Vamil Divan, Analyst

Presentation

Operator

Good morning, and welcome to Johnson & Johnson's First Quarter 2019 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. 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.

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 first quarter of 2019. Joining me on today's call is Joe Wolk, Executive Vice President, Chief Financial Officer. Additionally, I'm pleased to be joined by the leaders of our business segments, who will participate in our Q&A session. Joining Joe and I here in New Brunswick are Ashley McEvoy, Executive Vice President, Worldwide Chairman, Medical Devices; Thibaut

Mongon, Executive Vice President, Worldwide Chairman, Consumer; Jennifer Taubert, Executive Vice President, Worldwide Chairman, Pharmaceuticals.

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 this cautionary statement regarding such statements included in today's presentation, as well as the Company's Form 10-K, which identifies certain factors that may cause the Company's actual results to differ materially from those projected. Our SEC filings, including our 2018 Form 10-K, 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 licensed from other companies. This slide acknowledges those relationships.

We've made some enhancements to the earnings materials we posted on our website today, including an updated press release format and some additional information in the presentation that we think you will find helpful. These enhanced materials will also allow us to streamline and focus our comments on today's call with the goal of providing more time for engagement with management during the Q&A session. We hope you'll find these changes useful, and as always we welcome any feedback, so we can continue to provide you with the information in the most effective manner.

Regarding today's agenda, Joe will first provide some perspective on our overall results for the first quarter. I will then review the sales and P&L results for the corporation and the three business segments. Joe will conclude by providing insights on our cash position, capital allocation deployment and our guidance for 2019, along with some considerations for the second quarter. The remaining time will be available for your questions and we anticipate the webcast will last about 75 minutes.

I'm now pleased to turn the call over to Joe wolk.

Joseph J. Wolk {BIO 19812977 <GO>}

Great, Chris. Good morning, everyone. Thank you for your interest in Johnson & Johnson. We are very pleased with our strong start to 2019, and are confident in the health of our business. As you've heard us consistently say, our goal is to deliver solid financial and operational performance, while also advancing innovation that will have an enduring impact on patients, caregivers, and consumers. During the first quarter, we demonstrated our ability to consistently deliver growth, while also executing on our long-term strategies. A few high-level comments about each of our segments prior to Chris providing additional franchise or product level sales insights. Our pharmaceutical business delivered strong growth across our immunology, oncology, neuroscience and pulmonary hypertension portfolios. The ongoing investments in our pipeline coupled with our strong

commercial execution around new product launches and line extensions enable us to more than offset erosion from biosimilars and generics.

As you've heard us say in previous quarters, our global pharmaceutical growth continues to be driven by volume, rather than price, and we did experience another quarter of negative price. We recently issued our 2018 Janssen US Transparency Report, which is now available on our website. We led the industry by publishing this annual report three years ago and we're proud to contribute to the information that healthcare providers, legislators and the general public can use to facilitate meaningful dialog on the topic of healthcare costs.

In our consumer segment, we remain focused on competitive growth. While we observe some broad market softness during the quarter, we are encouraged by our ability to garner share in key areas like OTC, where TYLENOL regained its status as the number one brand of analgesics, as well as NEUTROGENA and OGX within beauty.

In the medical device segment, we continue to make progress on our stated goal of improved performance, while continuing to enhance market-leading positions in many platforms. Additionally, in support of our long-term objectives for the segment, we are very excited about our recent acquisition of Auris Health, which will enhance our digital surgery capabilities. The strength of our first quarter results reinforce the confidence we have in our broad-based business. We continue to manage our portfolio with discipline and make investments across the enterprise that position us well to achieve long-term sustainable growth across three vital aspects of healthcare.

I'll now turn the call back to Chris to discuss first quarter sales drivers, as well as highlight notable line items in our P&L, before I return with some comments regarding our cash position and guidance.

Chris DelOrefice {BIO 20730104 <GO>}

Thank you, Joe. Worldwide sales were $20 billion for the first quarter of 2019, an increase of 0.1% versus the first quarter of 2018. Operational sales growth, which excludes the effect of translational currency, increased 3.9% as currency had a negative impact of 3.8 points. In the US, sales increased 1.8%. In regions outside the US, our reported growth declined by 1.7%. OUS operational sales growth was 6% with currency negatively impacting our reported OUS results by 7.7 points. Excluding the net impact of acquisitions and divestitures, adjusted operational sales growth was 5.5% worldwide, 3.1% in the US, and 7.9% outside the US.

Turning now to earnings. For the quarter, net earnings were $3.7 billion and diluted earnings per share was $1.39 versus diluted earnings per share of $1.60 a year ago. Excluding after-tax intangible asset amortization expense and special items for both periods, adjusted net earnings for the quarter were $5.7 billion and adjusted diluted earnings per share was $2.10, representing increases of 0.5% and 1.9% respectively, compared to the first quarter of 2018. On an operational basis, adjusted diluted earnings per share grew 5.8%.

Beginning with consumer, I will now comment on business segment sales performance for the first quarter, highlighting items to build upon the slides you have in front of you. Unless otherwise stated, percentages quoted represent the operational sales change in comparison to the first quarter of 2018, and therefore exclude the impact of currency translation. Worldwide consumer segment sales totaled $3.3 billion growing at 2.2%. The overall market growth in the categories we participate in slowed to slightly over 1%. Excluding the net impact of acquisitions and divestitures, adjusted operational sales growth was 0.7%. In addition to growing share in key brands such as TYLENOL and NEUTROGENA, consumer continues to grow share in the e-commerce channel, outpacing category growth rates in that channel with strong double-digit growth across all regions.

The beauty franchise grew 3.6%, or almost 1% adjusted for the impact of the NIZORAL and RoC divestitures, along with the acquisition of DR. CI:LABO, including its portfolio of dermal cosmetic beauty products. Priority brands within the franchise continue to deliver strong performance with both OGX and MAUI MOISTURE, along with NEUTROGENA delivering above-market growth globally with sales growth of over 4%. NEUTROGENA in the US is growing share across all major categories, including facial cleansing and moisturizing treatment, acne treatment and sun protection, while OUS sales growth was strong across multiple regions driven by new launches. OGX and MAUI MOISTURE brands continue to experience strong growth in mature markets, in addition to benefiting from new market expansions.

Over-the-counter medicines grew 5.5% globally, or 3% when adjusting for the impact of the ZARBEE's acquisition, which continues to perform well. In the US, OTC share growth is well outpacing the category led by TYLENOL, which grew by over 15%, including 10% consumption growth driven by rapid release gel and TYLENOL arthritis products. The balance of growth was mainly associated with inventory builds as a result of the prior year supply constraints, driven by Hurricane Maria.

OUS grew almost 3% with strong sales in the Asia driven by the strong performance of NICORETTE Quickmist in our smoking cessation portfolio, MOTRIN for pediatric analgesics and Rhinocort for allergy. Growth was partially offset by declines in our upper respiratory brands due to soft, cold/cough flu season in Northern Europe and Russia.

Concluding the consumer segment, baby care declined 7.4% globally. US declines occurred primarily in AVEENO, driven by channel shifts and market softness, while the declines outside of the US are primarily due to retail destocking as the Johnson's baby relaunch expands into new markets. The Johnson's baby brand has been relaunched in four key markets and is growing in three of these markets; China, India and Canada. The US experienced a modest decline consistent with the overall market decline.

Moving onto our pharmaceutical segment. Worldwide pharmaceutical sales of $10.2 billion grew 7.9% enabled by double-digit growth in nine key products. Sales were aided by some one-time US pricing favorable adjustments worth almost 200 basis points worldwide. These were primarily driven by prior-period adjustments in the quarter for STELARA and INVOKANA, along with the prior year comparable for REMICADE that we

highlighted in the first quarter last year. Even when adjusting for these items, we delivered above market performance globally.

Sales increased in the US by 4.3% and outside the US by 12.2%. The aforementioned pricing adjustment impacted US growth by just over 300 basis points, reducing our US growth to approximately 1%. This slower growth was primarily driven by our first full quarter of generic competition for ZYTIGA. Our strong portfolio of products and commercial capabilities has enabled us to deliver global growth at competitive levels, despite significant biosimilar and generic headwinds.

Our oncology therapeutic area delivered another strong quarter with worldwide growth of 14.5%. DARZALEX continued its stellar performance growing about 51% globally. The US grew 33% and continues to benefit from strong market growth and a 4 point increase in US market share across all lines of therapy. Outside the US, DARZALEX grew 80% and is experiencing increased penetration and share gains across Latin America, the Asia-Pacific region and in the 40 EMEA countries, where it is commercially available with nine new markets added this quarter.

IMBRUVICA grew over 40% globally, driven largely by market share gains and strong market growth across multiple indications in the US and strong uptake outside the US in the European and Asia-Pacific markets. In the US, based on fourth quarter data across all indications and lines of therapy, IMBRUVICA gained approximately 2 points of market share and is the new patient and total patient share leader in chronic lymphocytic leukemia, which gained over 5 points of market share in line one therapy.

Worldwide ZYTIGA growth declined by about 15% with declines of 55% in the US driven by generic competition, which was partially offset by 21% growth outside the US. Strong sales growth in Europe and Asia were driven by market growth and share gains primarily from the expanded indication in metastatic high risk castration-sensitive prostate cancer based on the LATITUDE clinical trial.

In non-metastatic castration-resistant prostate cancer, we continue to be pleased with the launch progress ERLEADA, which gain 4 points of market share with the penetration of prescribers split evenly among urology and oncology practices. Further, we are very pleased to received approval for BALVERSA last week for the treatment of adults with locally or advanced metastatic urothelial cancer. BALVERSA is the first FGFR kinase inhibitor approved by the FDA.

Our immunology portfolio delivered global sales growth of just under 10% driven by continued strong performance in STELARA with operational growth of 36%, primarily from the Crohn's disease indication partially offset by continued erosion of REMICADE of 19%, due to increased discounts and modest share loss to alternative mechanisms of action and biosimilars. REMICADE has maintained approximately 92% of the infliximab volume share. The previously mentioned prior period pricing adjustments for REMICADE and STELARA had a favorable impact on their growth by about 400 basis points and 500 basis points, respectively, resulting in underlying global performance of a 23% decline in REMICADE and 31% growth of STELARA. We remain very pleased with the uptake of

STELARA in Crohn's disease, where market shares increased by approximately 8 points in the US, compared to the first quarter of 2018.

Lastly, sales for our recently launched treatment for psoriasis, TREMFYA totaled $217 million globally. TREMFYA is experiencing strong demand with over 31,000 patients on therapy and achieved a 6.9% share of the psoriasis market in the US, which is up 4 points from the first quarter 2018.

In neuroscience, our paliperidone long-acting portfolio performed well, growing 17% with higher market share driven by increased new patient starts and strong persistency. In addition SPRAVATO was approved by the FDA in March as the first new mechanism of action in decades for treatment-resistant depression. We are excited that more than 475 treatment centers have been certified as of first quarter and our first patient has been dosed. We did experience declining sales of 9.5% in our cardiovascular metabolism and other product portfolio primarily driven by declines in XARELTO, INVOKANA and biosimilar competition for PROCRIT. XARELTO continues to increase TRx share growth. However, this growth was offset by the increase in the legislative rate for the donut hole from 50% to 70% along with higher Medicare and donut hole utilization, resulting in an overall decline in XARELTO of 6% this quarter. We've seen a positive response to XARELTO's new 2.5 milligram vascular dose for the CAD and PAD indication and while we expect the penetration of this expanded patient population to occur over time, we are confident in the value this indication provides to patients.

Our total pulmonary hypertension portfolio grew by double-digits, increasing by about 15%. We realized strong growth in both of OPSUMIT and UPTRAVI growing by about 17% and 43% respectively on a global basis. Both benefited from further market penetration and increased share. As expected, TRACLEER is declining due to increased uses of OPSUMIT, as well as generic competition in Europe.

I'll now turn your attention to the medical devices segment. Worldwide medical devices sales were $6.5 billion, declining 1%, excluding the net impact of acquisitions and divestitures, primarily the divestiture of LifeScan adjusted operational sales growth was 4.3% worldwide an acceleration versus fourth quarter of 2018. The adjusted operational sales growth was driven by continued strong performance in interventional solutions, vision and advanced surgery.

Interventional solutions grew about 18% globally, led by continued strength in our electrophysiology business achieving more than 18% growth worldwide, continuing its trend of double-digit growth. We continue to be the market leader in this underpenetrated market and gained a full point of market share in 2018. Our Q1 growth was driven by our newer product offerings in ablation and advanced catheters contributing to atrial fibrillation procedural market growth. Additionally, we realized robust growth in our CERENOVUS business with double-digit growth globally driven by new product innovation, including EmboTrap for the treatment of ischemic stroke as well as strong market growth.

Strong vision results of 5% were driven by contact lenses, which grew 6% globally on the strength of the daily disposables and astigmatism lenses in the OASYS family. At the end of the quarter, we were also excited to announce the availability of ACUVUE OASYS with TRANSITIONS LIGHT INTELLIGENT TECHNOLOGY for the US market. This first-of-its-kind photochromic contact lens was named one of Time Magazine's Best Inventions in 2018, and seamlessly adapts to changing light, delivering more effortless sight with less squinting from dawn to dusk.

Orthopedics continues to close the gap versus the market with operational sales growth of 0.8% globally, delivering its fifth straight quarter of sequential improvement. Hips grew 2.7%, which we expect to represent performance in line with the market in the US and share gains outside the US, primarily in the Asia-Pacific region, driven by our leadership position in the anterior approach and continued strong demand for our primary stem ACTIS. Trauma growth of over 1% globally was driven by market growth supported by strong adoption of newer innovation, such as our femoral recon nails. The US growth rate accelerated versus the fourth quarter of 2018 to 2.5%. We also experienced strong growth in Asia, however, we saw declines in EMEA, primarily driven by the timing of tender offers, which impacted our growth outside the US by approximately 150 basis points.

Spine declined 1%, however continues to improve overall performance with it's fourth straight quarter of improved adjusted operational results. We continue to see stabilization of performance driven by new products such as the VIPER PRIME System for minimally invasive surgery and EXPEDIUM VERSE our all-in-one poetical screw system for deformity.

Knees declined by almost 2% in the quarter. While US sales declined, we improved our performance for the fourth straight quarter, driven by uptake of the ATTUNE Revision System. Sales declines outside the US occurred in EMEA and were partially offset by continued growth in Asia and Latin America. Pricing pressure continued to impact all categories in orthopedics, but was relatively stable overall compared to the fourth quarter. For the quarter, US pure price was negative across all platforms by approximately negative 4% in spine, negative 3% in hips, negative 2.5% in trauma and negative 2% in knees.

We were very pleased with the results for the surgery business. The advanced surgery performance of almost 6% growth globally was led by biosurgery with growth of approximately 10% along with strong performance in endocutters at 5% and energy at over 3%. Biosurgery strength was driven by strong demand aided by new innovation such as SURGICEL Powder. Endocutters and energy performance is primarily driven by strong growth in the Asia-Pacific region fueled by continued adoption of newer innovation. In general surgery, wound closure grew 4% as Barb and Plus Sutures are experiencing strong adoption. Selling days did not have a significant impact on our global growth rates in the first quarter and we do not expect a significant impact in any subsequent quarter in 2019.

As a final comment regarding the US hospital setting, let me provide utilization trends for the fourth quarter of 2018. Hospital admissions increased by 1% with lab procedures up about 0.5%. Surgical procedures were slightly positive. Our preliminary estimates for the first quarter of 2019 indicate a slight declining trend in both hospital, admissions and lab

procedures with growth of 0.5% and flat respectively. Surgical procedures growth in the first quarter is expected to increase to close to 1.5%.

I would now provide some commentary on our earnings for the quarter. Regarding our consolidated statement of earnings for the first quarter of 2019, please direct your attention to the boxed section of the schedule. As referenced in the table of non-GAAP measures, the 2019 first quarter net earnings are adjusted to exclude intangible asset amortization expense and special items of $1.9 billion on an after-tax basis, primarily driven by intangible amortization of $0.8 billion and in IPR&D charge of $0.7 billion, which is related to the write-down of the IPR&D asset from the acquisition of Alios BioPharma. Excluding the net impact of those items, our adjusted earnings per share is $2.10, an increase of 1.9% versus the first quarter of 2018. Adjusted EPS on a constant currency basis was $2.18, up 5.8% versus the first quarter of 2018.

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. Both cost of products sold and selling, marketing and administrative margins for the quarter slightly improved primarily driven by favorable segment mix. We continue to invest in R&D at competitive levels and our investment in research and development this quarter as a percent of sales was 14.3%, which is higher than the first quarter 2018 by over 200 basis points. This increase was primarily driven by higher pharmaceutical milestone payments, including the $300 million milestone payment to argenx associated with our worldwide license and collaboration agreement as well as higher investments in our overall portfolio. Net interest expense was lower by $142 million as a result of higher rates of interest earned, as well as lower average debt balances.

Regarding taxes in the quarter, our tax rate of 15.2% includes adjustments relating to the Tax Cuts and Jobs Act that will be further highlighted in the tax footnote of the 10-Q. Excluding special items, the effective tax rate was 17.6% compared to 17.8% in the same period last year and is consistent with our expectations of the full year adjusted effective tax rate.

Let's now look at adjusted income before tax by segment. In the first quarter of 2019, our adjusted income before tax for the enterprise was consistent with the first quarter of 2018. Looking at the adjusted before tax income by segment Pharmaceutical margins decreased by 480 basis points, primarily driven by increased investments in R&D spend. Consumer margins improved by 700 basis points, primarily driven by the gain related to the Company's earlier investment CZ Holdings. Medical devices were essentially flat improving 30 basis points versus last year.

That concludes the sales and P&L highlights for Johnson & Johnson's first quarter 2019. For your reference, here's a slide summarizing notable developments occurring in the first quarter, some of which were mentioned in my comments. I would now turn the call back to Joe.

Joseph J. Wolk {BIO 19812977 <GO>}

Thanks, Chris. With respect to cash, at the end of the first quarter, we had approximately $14 billion of net debt, consisting of approximately $15 billion of cash and marketable securities and approximately $29 billion of debt. A few comments about how we allocated capital in the first quarter were once again we simultaneously executed across the four tenants of our strategy to create shareholder value. Reinvestment in our business continues to be a top priority at Johnson & Johnson. We invested $2.9 billion in R&D in the quarter, which represents a 230 basis point increase. This was primarily driven by milestone payments and other investments to advance assets in our pipeline.

In M&A, as we previously announced, we strengthened our consumer business with the acquisition of DR. CI:LABO. In addition to R&D and M&A spending, we also used cash in the quarter to continue returning value to shareholders in the form of dividends and buybacks. We paid a quarterly dividend of $0.90 per share, totaling $2.4 billion in the quarter. Our dividend will continue to be a key priority going forward. We also made progress on our share repurchase program in the first quarter with another $900 million of the total $5 billion authorization. We are now 36% complete.

Now let me provide a few comments on the updates to our guidance for 2019, which we noted in this morning's press release. Our first quarter results have elevated our confidence in our performance, strengthening the outlook for our operational sales growth. As a result, we are increasing our guidance by 50 basis points, reflecting full year adjusted operational sales growth of 2.5% to 3.5% and operational sales growth of 0.5% to 1.5%. The negative impact of translational currency, however, has increased, but we plan to absorb that impact with the strength of our operational sales outlook I just referenced. Therefore, our expectation for total reported sales in 2019 remains the same. As you know, we do not predict the impact of currency movements, but in light of my previous comments, our reported sales estimate for the year remains at minus 1.5% to minus 0.5%, utilizing an average euro spot rate of $1.12 versus the $1.14 referenced back in January.

Now turning to other guidance items that we have updated starting with other income and expense, which is the account where we record royalty income as well as gains and losses arising from items such as litigation, investments by our Development Corporation, divestitures, asset sales, and write-offs. We are increasing our full year expectations for other income, excluding special items by $400 million to a range of $2.4 billion to $2.7 billion for the year. Within other income, one of the largest items that we previously announced is the successful closing of the divestiture of the advanced sterilization products business, which has closed and will be reflected in the second quarter results.

All of these factors add to our confidence in the business and as a result, we are increasing the high-end of the range for adjusted operational EPS by $0.03 per share, and we're also tightening the range reflecting an increase of $0.05, bringing the midpoint to $8.78 per share. But again, we are not predicting the impact of currency movements, however, the estimated negative impact of currency on EPS increased $0.05, and is now estimated to be $0.20 for the year, resulting in adjusted EPS in the range of $8.53 to $8.63 per share. All other items of guidance remain consistent with what we provided in January.

The strength of our business reflected in the quarter makes us even more confident in the guidance we just provided and enables us to absorb the impact to EPS of incremental currency headwinds and our investment in Auris Health. Additionally, our higher level of expected other income provides the flexibility to deploy higher levels of investment to fortify and accelerate our pipelines as you saw in our elevated level of R&D spend in the first quarter.

In summary, in light of last year's 210 basis point improvement in operating margins and this year's EPS growth to sales growth ratio coupled with other capital deployment, Johnson & Johnson continues to create a compelling value proposition for investors. While we do not provide quarterly guidance as with last quarter, we'd like to provide you with a few qualitative factors to consider in your modeling. Here's what we know or expect for the second quarter of 2019. Our divestiture of our Advanced Sterilization Products business closed on April 1st, 2019. And as noted earlier, this comprises a large majority of the other income for 2019. Given that divestiture, we will have minimal Advanced Sterilization Product sales in the second quarter. We also expect that currency will still be a headwind in the second quarter, but not as significant as experienced in the first quarter. And finally, looking back, the second quarter of 2018 represented the highest sales quarter in the year. So you might anticipate a more challenging year-over-year comparison, particularly as we expect some of the generic and biosimilar erosion in our pharmaceutical segment to potentially accelerate.

That concludes our overview of the first quarter performance. As I mentioned earlier in the call, we are very pleased with our solid first quarter results, but we are also unrelenting in our pursuit of growth, meeting patient needs and driving value for Johnson & Johnson shareholders. Before I hand the call back over to Chris, let me take a moment to thank in advance Ashley, Jennifer and Thibaut for being part of this call and to welcome Thibaut to his first Johnson & Johnson earnings call. Thibaut is a seasoned global leader, who has lived and worked on five continents across all three segments of Johnson & Johnson's business and his 19 years at the Company. Prior to his new role, Thibaut served as a leader of the Johnson & Johnson consumer Asia-Pacific region. It's great to have you all here.

I'll now turn the call back over to Chris to initiate the Q&A portion.

Chris DelOrefice {BIO 20730104 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Your first question comes from Larry Biegelsen with Wells Fargo.

Q - Lawrence Biegelsen {BIO 7539249 <GO>}

Good morning, everyone. Thanks for taking the question. One for Ashley, and one for Joe. Ashley, can you talk about the Auris deal and your surgical robot. What's the plan for rolling out Monarch? How long do you think it will take to integrate new wave onto that platform? And I think the price paid, you know made some people feel it was a hedge for the Verb joint venture, because Auris also has a surgical robot in development. So can you confirm that you still plan to launch your surgical robot in 2020. And Joe, just I'll ask my second question upfront for you. The $2.4 billion to $2.7 billion in other income. Can you talk about how that might create a headwind to EPS growth in 2020? How you're thinking about that line item going forward? Thanks for taking the questions guys.

A - Chris DelOrefice {BIO 20730104 <GO>}

Go ahead, Ashley.

A - Ashley McEvoy {BIO 20108895 <GO>}

Okay, great. Thanks, Larry for the question. Also we're very pleased to welcome Auris to the J&J family to spend some time with them last week (inaudible) to really welcome Dr. Fred Moll, who many of you know, he is a true pioneer in the field of robotics. We view the acquisition of Auris as highly complementary to our Verb program as well as our orthopedics program in Orthotaxy. And what I am very excited about is the four revenue product of Monarch, you know all of us as a world leader in open surgery and a world leader in laparoscopic surgery. I'm pleased to share that we are now for revenue in endoluminal surgery and we plan to take advantage of the world class robotics expertise advanced instrumentation, our partnership with Verily of creating a connected experience and then clearly our very robust global infrastructure to have a very competitive value proposition in the field of digital surgery. Thanks for the question, Larry.

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

Great. Good morning, Larry. With respect to the other income number for this year that the new ranges, if you look at the upper end pretty much on par with what we experienced in 2015 and then in 2016, we had elevated sales growth and we were able to manage that. As we look towards 2020, we would have the same intentions in mind. So as we anniversary some of the generic or biosimilar erosion later this year that provides a tailwind into 2020's topline growth. Additionally, we have a number of I'd say, cost improvement initiatives throughout the organization. Most notably in supply chain we announced a little bit earlier, a partnership with Jebel [ph] that's going extremely well. And we use these funds really as a flexibility to invest.

So, we just spoke about Auris and the investment there, that would have been otherwise dilutive all things being equal, but we were able to absorb that with the strength of the first quarter and some of the other income proceeds that we think we're going to have throughout the course of 2019. So, it's not lost on us Larry, that we need to manage towards that and provide the consistency in terms of earnings growth that has become expected of Johnson & Johnson.

Q - Lawrence Biegelsen {BIO 7539249 <GO>}

Thanks for taking the question.

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

Great. Thank you, Larry.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Larry. Next question, please.

Operator

Your next question comes from David Lewis, Morgan Stanley.

Q - David Lewis {BIO 15161699 <GO>}

Good morning. Just a couple from me. Joe, I'll start with you, and then maybe one for Ashley. Joe, can you just -- want to talk about the guidance here for the year. You're raising guidance earlier in the year (inaudible) last year, so it's sort of an expression of kind of confidence in the year. So, what is driving sort of your confidence this early in the year to raise the guidance? And as you talked about the factors we should expect for 2019, what's changed your mind? Is pharma stronger, consumer little weaker, this broad themes across the segments, does that all still hold and what's providing the incremental confidence?

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

Great. Thanks Dave for the question. Yeah, we are much more confident at this point in the year than maybe we were a year ago, and certainly for the balance of 2019, what we thought would occur in January. If you recall in the January discussion that we had, we forecasted a range of $3 billion to $3.5 billion of generic biosimilar erosion, probably the higher end of that range just based on first quarter results has subsided a little bit. So it's probably closer to the $3 billion number. It's also though attributable to the strength of the core products. So DARZALEX, IMBRUVICA, just having tremendous impact on patients on the healthcare system overall and it's that's translating into good business for Johnson & Johnson.

With medical devices, I think we've gotten to that number with -- that begins with the four, which we've been striving for. And obviously we're looking for better performance moving forward, but we got there pretty quickly. If you think about where we were in the fourth quarter about 3.3%, I'll call it unadjusted, or adjusted growth leading up to 4.3%. That gives us a little bit more confidence. And we saw, while there is still more work to do in US orthopedics, a quarter of growth, which is a positive sign.

Q - David Lewis {BIO 15161699 <GO>}

Okay. Very helpful. And Ashley just on the devices, two questions here. First is sort of the Larry's question on Auris, when can the investor community expect to see a prototype platform? And can you just update us on any regulatory timelines either US or ex-US, can we still think about early 2020 as the first global approval in some market? And then another question is that (inaudible) Ortho performance is getting better, but the recon performance took a small step backward this particular quarter. How much of that do you

think is attributable to changes in market growth this quarter relative to share dynamics in the worldwide knee franchise? Thanks so much.

A - Ashley McEvoy {BIO 20108895 <GO>}

Sure. Thanks, David for the questions. With RS, the real value is that we actually, as I mentioned there first generation Monarch, we are for revenue in endoluminal. And we have a Lung Program at J&J, which is really about preventing, intercepting, and curing lung cancer, which is one of the top cancers. And a lot of it is because people get diagnosed at late stage where you have -- 18% have a five-year survival rate. So early detection, it makes a big deal for better outcomes. And so Monarch will be a really nice enabler of early diagnosis excising the very distal parts of the lung for better diagnosis.

And you can imagine to Larry's earlier question really we have an active development program of bringing in potential treatments like ablation or potential (inaudible) of the oncolytic viruses. So that's really generation one. And you mentioned another area that we're assessing obviously is digital surgery for broader indications in general surgery as well as in orthopedics. And again, I would say, we view the RS acquisition as highly complementary to our Verb program. I was at Verb just last week and I'm very pleased with how they're knocking down risk every day. They have completed all pre-clinical procedural developments for several procedures. They've engaged with hundreds of surgeons, they are engaging right now with notified bodies on the regulatory pathways. So I would say stay tuned. We're going to take the best insight from Dr. Fred Moll and really have him and assess both of these programs, and make sure that we have a highly differentiated value proposition at launch.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, David. Operator, next question please.

Operator

Your next question comes from Chris Schott, with JPMorgan.

Q - Christopher Schott {BIO 6299911 <GO>}

Great. Thanks very much for the questions. My first one is a broader one on the pharma market. Just based on your views on Medicare Part D reform and a potential shift away from drug rebates over time, I guess specifically, how do you think about the potential change to Part D, as it relates to J&J? And longer term, do you see the broader US market, including the commercial market, moving more towards a net pricing dynamic versus this current kind of gross price and rebate structure, as we think about, let's say the next three to five years? My second question was on TREMFYA. Just a little bit more color in terms of how you're seeing the competitive landscape in psoriasis shaping up as we think about IL-23s, IL-17s and the TNFs, as well as we think about -- how you're thinking about AbbVie's risankizumab launch later this year, as you think about your composition within the IL-23s? Thanks so much.

A - Jennifer Taubert {BIO 20108880 <GO>}

Hi Chris, this is Jennifer, and good morning everyone. The first piece -- the first part of your question, Chris was really around Medicare Part D and rebate reform. As we take a look at it, we are really supportive of rebate reform and finding ways to actually get those dollars in discounts, and rebates actually back to the patient. Out-of-pocket costs, as you know, are really one of the things that are causing a lot of pain in the marketplace right now. And so, we're supportive of the administration's efforts on rebate reform and we're taking a look at how we could actually implement that in a pretty rapid way. So it's going to depend on what ultimately comes out but we're looking at it closely and believe that we will be well poised to be able to move into the marketplace following sort of new market dynamics with rebate reform. We really look forward to patients being able to have more affordable, out-of-pocket costs.

In terms of TREMFYA, we had a really terrific quarter with TREMFYA with $217 million globally. As we've talked about the product, it's performing really well in the market, and all of our clinical data and comparative data continue to reinforce what we're seeing, this really being a true leading brand in psoriasis. So, as you recall, we've got head-to-head superiority versus Humira, we've got superiority versus STELARA in patients with our STELARA inadequate responders. And most recently, we've announced our data that show superior efficacy versus Cosentyx, a PASI 90 at 48 weeks. And so, we've really been able to demonstrate that the product performs not only rapidly for patients, but that it's got great durability as well, and both together are what's most important to both providers as well as to patients.

I think importantly as well, we now have data out through three years, demonstrating really consistency of effect and believe that that's going to be good for us whether we're competing versus the IL-17s, whether we're competing versus the old anti-TNFs, or whether we're competing against the upcoming IL-23s that are coming. So, we've got a very strong portfolio -- a strong portfolio of data there to help us to continue to succeed.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Chris. I appreciate the questions. Operator, next question please.

Operator

Your next question comes from the line of Joanne Wuensch with BMO Capital Markets.

Q - Joanne Wuensch {BIO 2379289 <GO>}

Thank you very much for taking the questions and good morning. I would like to turn just for a moment to expense items and the headwinds that you'll be seeing in the pharmaceutical business throughout the rest of the year. How should we think about the impact on gross margins?

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

Joanne, this is Joe. First I'm going to say nice job on TV this morning. You did great. What I'll say with expense, I will go to our guidance where we said we will see slight improvement. We will always look for opportunities to invest, but I think slight

improvement is where we're targeting for this year. Remember last year, we improved about 210 basis points on operating margins. And then given the current EPS growth rate to sales growth ratio, we think that's extremely healthy. So we're going to look for areas to invest, while we have these other cost initiatives. I would say closer to their infancy, the supply chain one that I mentioned in my earlier reply, it's just getting started, we'll start to see the impact of that in 2020 and beyond.

Q - Joanne Wuensch {BIO 2379289 <GO>}

Terrific. And as my second question, I just want to drill down a little bit more on knees because that one seems to be one of the components in orthopedics that's lagging somewhat and we have not just one but two neurorobotic knee systems on the market, how do we think about that turning before your own system arrives at the end of next year? Thanks.

A - Ashley McEvoy {BIO 20108895 <GO>}

Thanks, Joanne. This is Ashley. Thanks for the question. And David, forgive me, I wasn't answering these. But I would say that we consider our performance in knees as stabilizing. We posted a 2% decline in the quarter, it was down about 2% in the United States, which is pretty consistent with prior quarters. We did experience a decline OUS predominantly driven by EMEA, which included really due to predominantly one-timers. So we would say stable. What we're committed to do is really get the news out about ATTUNE's knee performance. We've got five-year data now for registries. So we're getting the news out of the Congress is, I think you saw that in Las Vegas, our ATTUNE revision is performing quite well. It's up 10% and we plan to launch our cementless offering later this year. And then clearly, I think if you were in Las Vegas, you saw a peek at our robotics offering at the AAOS, and that combination we believe is what will eventually get us to above market performance. In the interim, we will be challenged until we get our cementless out there, we get our robot out there.

Q - Joanne Wuensch {BIO 2379289 <GO>}

Thank you.

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

Thanks, Ashley. Maybe just to build on Ashley's comment. We would have experienced positive growth OUS. The comp she referenced was worth little over 250 basis points just to put that in context for you. Next question please.

Operator

Your next question comes from Bob Hopkins with Bank of America Merrill Lynch.

Q - Bob Hopkins {BIO 2150525 <GO>}

Thanks, and good morning. Just two quick questions. First Joe, I just wanted to clarify the guidance increase on revenue growth of 50 basis points. Is that basically the net -- what you just talked about with the $3 billion to $3.5 billion headwind being a little bit better,

strong core pharma growth, and then obviously also the price increase in pharma that you talked about. Are those the things that are different in the quarter -- in the guidance?

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

So Bob, I would say that's largely it. I'm not sure you referenced to a price increase, we actually experienced a price decrease again in the quarter overall, other than the PPA adjustment that Chris referenced in his commentary. So it is a stronger outlook with respect to the pharma group driven by the core portfolio as well as those products not being as impacted as quickly with respect to generics and biosimilar erosion. It's a medical device, it's probably a tick stronger than we thought back in January. And then in consumer, we're continuing to monitor. Again, we feel very good about the share levels that we attained. But we do think there might be a slight market contraction, maybe Thibaut you can speak to that for with a few words.

A - Thibaut Mongon {BIO 20973347 <GO>}

Absolutely. Joe, we see -- we saw in the first quarter contraction of the market compared to what we experienced in the second half of 2018. Looking into 2019, we expect the market to be down a little bit, but our estimate for the full year growth of the markets in which we compete is around 2% for the full year.

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

And just maybe put some further context around those numbers, Bob, it was about 1.1% growth in the quarter for the categories in which we compete. The second half of last year was close to the 2.5% to 2.7%. So we did see a deceleration. We'll see if it's temporary or something that's much more sustainable. Do you have another question, Bob?

Q - Bob Hopkins {BIO 2150525 <GO>}

Thanks. Yeah, just one quick one. And thank you for that color. One question on vision care, which sort of stood out as a positive result in the quarter. I'm just curious with the better contact lens growth in Q1, in your view, more market-related or market share-related, and I'm just wondering if you could provide any color on the new contact lens that you're referring to in terms of just putting in perspective for us of how meaningful maybe an increase in growth that could drive for that franchise. Thank you.

A - Ashley McEvoy {BIO 20108895 <GO>}

Sure, thanks Bob said. It's Ashley. We have to get you to try our new OASYS TRANSITIONS with light management, a lot of our baseball players in opening season have started to use that but we're pleased with our performance in contact lens. As I mentioned, 6%. It's had about three years of consistent above-market performance. Very strong OUS performance as well in contact lens and really innovation has been driving that. So the market has been healthy. We've been performing a bit above the market. So, we've been gaining market share in our contact lens business and really emerging markets is driving that as well as innovation and meaningful innovation in some of the developed markets.

And I think we just shared that we just completed Phase 3 trials for our allergy, our drug-eluting contact lens within antihistamine. So we expect that to come to market in 2020.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Bob. Appreciate the question. Next question please.

Operator

Next question is from the line of Danielle Antalffy with SVB Leerink.

Q - Danielle Antalffy {BIO 16104603 <GO>}

Hi, good morning guys. Thanks so much for taking the question. I just wanted to follow up on some of the questions around the updated guidance. I mean you came -- it seems like the momentum was sustained versus Q4, and that's with a full quarter of ZYTIGA and I understand Joe what you said about there are some things that got a little bit better, some things that both maybe incrementally a little bit worse, i.e., on the consumer side. But it feels like -- and I appreciate comps get harder as we move through the year, but it looks like the guidance suggests still a meaningful step down on that operational adjusted sales growth number.

And so, I guess I'm just pushing a little bit, it sounds like -- is it right to read your updated guidance as you're updating partially for the outperformance that we saw in Q1, but maybe this gives you a little bit more confidence in the potential upside, because again the deceleration suggested from hereafter what was a pretty strong Q1, I would argue is pretty significant. So just trying to get a little bit more from you on what's reflected there?

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

Okay, Danielle. So we are more confident than what we were in January, that should be clear with the guidance. In terms of further confidence, we'll see how the year unfolds, some things that we haven't mentioned yet is one, ZYTIGA. While we held on a pretty good for a small molecule in the first quarter given usual erosion rates, we do expected that to accelerate. And recall that's going to be a comparison against a brand that was growing throughout 2018. You also have TRACLEER and VELCADE that will probably see generics in the coming months and PROCRIT has had some activity in terms of erosion, but the competitor or the generic entry there had some manufacturing issues, which have now been remediated as we understand. So we're taking all those into account in the guidance we're providing today.

Q - Danielle Antalffy {BIO 16104603 <GO>}

Can I -- a quick follow-up on the consumer side of things, just wondering it seems like Q1 tends to be and maybe on this remembering but it seems like Q1 tends to has been a little bit weak for you guys in the past. Is there some dynamic in the market that has changed that causes a softer Q1 versus the back half of the year? It sounds like you're calling out market contraction versus anything J&J specific. Any color there? Thanks so much.

A - Thibaut Mongon {BIO 20973347 <GO>}

Thank you for the question Danielle. It's true that each quarter is different in the consumer business due to macro factors and also the seasonality of our business. So our Q1 results can be affected for example by the season in cold and flu segments. This year, we saw a soft cold and flu seasons in some parts of the world and that can have an impact on the quarter. That's what happened in Q1 for example. So yes, macro and seasonal effects have an impact on the quarter-to-quarter performance.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Danielle. I appreciate the questions. Operator, next question please.

Operator

Your next question is from Josh Jennings with Cowen & Company.

Q - Josh Jennings {BIO 16451037 <GO>}

Hi, good morning. Thanks for taking the questions. Two for Jennifer. Just first on esketamine, thanks for some of the details on the prepared remarks by Chris, I wonder if you could give any incremental color. I think you mentioned 475 centers already certified first dose to patient provided in the commercial setting. Anything else you can help share and maybe just to start with just as a one trigger. So I mean how should we think about the centers or certification ramp going over the course of 2019 and into 2020? Any other color you can share?

And then the second question is just on cardiovascular and other. XARELTO, I appreciate the details on the donut hole and the decline in Q1, but there are some positive things on the horizon there, including the filing for prevention of DVT in medically ill patients, but just -- what's the outlook there for XARELTO in terms of returning to growth? And then lastly, in the same category, INVOKANA, any expectations in terms of whether the CREDENCE data can turn that franchise around? Thanks for taking the questions.

A - Ashley McEvoy {BIO 20108895 <GO>}

Thanks, good morning. So yeah, we received approval and launched SPRAVATO, which is esketamine in the first quarter and that was following the breakthrough therapy designations. And so, it was approved for the treatment of treatment-resistant depression, along with an oral antidepressant in patients who've tried two or more antidepressant therapies in that current episode. The product is also available with a REMS program as anticipated. And as part of that REMS program, it requires that we do certify the sites, and then we also enroll patients in the REMS program prior to administration. So the interest in SPRAVATO has been really high and that is across insurance plans, providers, as well as patients. And actually, a quick update, I know we spoke about the 465-center certification earlier today, but the number -- I just got some new numbers. It's actually up as high as 800 sites that have now been certified and are approved to begin treating patients.

Importantly, we've actually got a number of patients who have actually been dosed with the product and some that actually have had multiple doses successfully. So we believe

that we're off to a very, very strong start with SPRAVATO and that it is going to be an important growth driver for us. The sites because of the REMS program are an important component that's where the patients will need to go for treatment and right now that number up is high as 800 sites already certified. We're well on track with our plans for the year there. So, looking forward to being able to hopefully treat a large number of patients with SPRAVATO to help them with their treatment-resistant depression. So early days still. We realize that it's only been on the market a few weeks, but we're very encouraged by the signs that we're seeing.

If we then move over to XARELTO. So, XARELTO, both TRxs and share grew in the first quarter, but unfortunately that growth was offset by the increase in donut hole expenses that moved from 50% to 70% and also a greater percentage of patients that were in Medicare and Medicaid, which are the most heavily discounted channels. If I give you a little bit more of the dynamics and what's going on underneath all of that and hopefully reasons for belief of success of the asset going forward, the CAD, PAD launch is going very well, and the launches is really consistent or even better than launch benchmarks that we had such as products like Entresto or Brilinta that have been proven to be very successful in the market. We are seeing very positive response to the 2.5 milligram vascular dose that we launched and we do really expect this to be a significant contributor for us going forward. As a reminder, there is about 13 million patients that have CAD, PAD. While we're starting in a subset, there is extraordinary need for a product like XARELTO in patients that have CAD, PAD. Additionally, we filed for medically ill. We filed an sNDA at the end of December based on our MARINER and MAGELLAN trials and look forward to hopefully getting approval and being able to launch that indication in the US in 2019.

And then last on INVOKANA. INVOKANA, we just recently reported the results of our CREDENCE study, showing that the product significantly reduces the risk of renal failure in patients with Type 2 diabetes and chronic kidney disease. This is a 30% reduction of the risk of progression to end-stage kidney disease, which is things like dialysis, transplant, doubling of serum creatinine or renal or cardiovascular death. So really, really robust results. There are also further secondary endpoints that were extraordinarily positive in that study. We plan to work with the regulators to get an indication along those lines and then to also work with payers to see if we've got the opportunity to enhance our formulary positions and get this product available for more patients. You know we've been limited because of some of the safety labeling for the product and that that's impacted it. We're hopeful that the CREDENCE data and bringing that forward is another opportunity for patients will help work to try to shift that balance and perceptions around the benefit risk profile.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks Josh. Appreciate the questions. Next question please.

Operator

Next question comes from Geoff Meacham with Barclays.

Q - Geoff Meacham {BIO 21252662 <GO>}

Good morning everyone. Thanks for the question. Just have a few. In PAH, we're coming up on two years post closing Actelion. So just curious, when you think about the UPTRAVI trajectory, are there commercial drivers, say geographically your share that are notable for the next year or so. And maybe how is that different than your original expectations. And then, Joe, in pharma this year, you talked about the headwinds from generics and biosimilars. The new launches may take some time to change the growth profile back to what you guys view as an above-market, so you maybe at a higher level, would you view 2019 as a trough or is there a risk that you think deceleration in pharma could persist going into 2020? Thank you.

A - Jennifer Taubert {BIO 20108880 <GO>}

I'll go ahead and start off on Actelion. So, our total pulmonary hypertension portfolio grew by double-digits in the first quarter. So increase of 15%, but if you go a little bit deeper on that, together OPSUMIT and UPTRAVI delivered over $500 million in sales and OPSUMIT had growth of 17% and UPTRAVI had growth of 43%. So, we do think that UPTRAVI is a significant driver for that business for us going forward. And also, as we anticipated when we did the deal originally, the strong growth that we're seeing with UPTRAVI is really coming from a few different areas, continued share gains, but also greater market penetration and earlier use.

I believe as we put our commercial capabilities across these assets and with UPTRAVI being the newest one, we continue to get approval and get not only registration but access to reimbursement for the asset globally, which is having a lift, we're selling the product in as really the first oral PRA and really trying to drive earlier and earlier usage in the PAH treatment continuum, because we believe the best thing for patients is more aggressive treatment and earlier on in the therapy. And so, it's really showing in the results that we've seen and with that 43% growth.

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

Great. Thanks, Jennifer. And to Geoff, to answer your second question in terms of a trough, I would say 2019 is when we would expect the largest impact from generic or biosimilar erosion. That's why we were so specific in January to outline that impact. We will continue to see great core growth. If you look in immunology, STELARA still has market opportunities within Crohn's disease, as well as some other indications. TREMFYA most patients on psoriasis are still not treated with a biologic. So, we've got a great opportunity there.

Oncology will still be significant with IMBRUVICA and DARZALEX. I remember outside the US, we still have ZYTIGA exclusivity. So, we're in good shape there. The Actelion assets that Jennifer just referenced and then the XARELTO indications. So I would say 2019 as a trough and once we anniversary some of these patent losses, we should be even stronger than we were in the first quarter and back to that well above market projection for pharmaceutical.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Geoff, appreciate the question. Next question please.

Operator

Next question is from the line of Vamil Divan of Credit Suisse.

Q - Vamil Divan {BIO 15748296 <GO>}

Hi. Great, thanks for taking my questions. So just a couple if I could, one high level one on pharma and following up on that Chris's earlier question around rebate reform and I guess just a question I'm getting I think investors are also wondering about how to think about the actual list prices if the Safe Harbor is removed from Part D. So is it safe to assume that the list price will come down to where net prices currently are, or is it possible that list prices may end up at a higher price than where the net prices currently are in the market?

And then my second question, just a specific one, I apologize if I missed this in your prepared remarks, but in terms of REMICADE and the biosimilar impact, can you just share what percentage of the infliximab market you still have with the brand? Thanks.

A - Chris DelOrefice {BIO 20730104 <GO>}

You look that up as you start with the first question.

A - Ashley McEvoy {BIO 20108895 <GO>}

Okay. I was going to say on the REMICADE one and I've got that one. So we are continuing to see erosion of REMICADE as expected. But if we take a look, our team has been really competing in the marketplace to try to ensure that patients who would like to stay on REMICADE have the access and the availability to do so. And right now, we've been able to retain about 92% of the volume share for infliximab, but obviously, albeit at a lower and a very competitive price in the market.

In terms of rebate reform, I think we're going to have to wait and see what ultimately is going to come forward in terms of the rebate rule. There are some options that could include patients essentially having some of that rebate flow through at the pharmacy. There's others that would require essentially or that would involve lowering list prices going forward. I think it's really important as you think about our business, 100% of our growth and the robust growth that we've seen not only in this first quarter, but also last year before is due to volume, not due to price. So, however we move forward with whatever type of rebate reform, we do believe it's going to be positive for patients, help patient out-of-pocket costs and that is J&J and based on our business model, we're going to be really well poised to succeed in that environment. So I mentioned earlier, we're working through a number of different scenarios and we'll have to see what ultimately comes forward but we believe that we're really well positioned to be able to continue to succeed in that environment.

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

Yeah Vamil, just to put a number to around that. So last year, our US pharmaceutical business had $21 billion in discounts. We experienced a net price decrease of 6.8%, yet we still had 8% growth. Unfortunately, those increased discounts aren't getting to the

patients who go to the pharmacy on a monthly basis, they're experiencing elevated co-pays from what they had at least three or five years ago and even more recently. So that's where the system really needs to be fixed, but that should not have an impact on really how we drive our growth and that's through innovation of unmet medical needs.

Q - Vamil Divan {BIO 15748296 <GO>}

Okay, thank you.

A - Chris DelOrefice {BIO 20730104 <GO>}

Great. Thank you, Vamil, appreciate the question. Operator, we have time for one last question.

Operator

Yes, sir. Next question will be coming from Jayson Bedford with Raymond James.

Q - Jayson Bedford {BIO 5141602 <GO>}

Good morning. Thanks for taking the questions. Just a couple. On med devices, in response to an earlier question, Joe, you mentioned that you're looking for better performance going forward. Just for context, is the baseline now the 1Q growth of 4.3% or is your comment related to 3.2% growth in '18?

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

So yes, I guess I think is a quick answer to that one, Jayson. Actually smiling at me. We want to see better performance. It's really benchmark or anchored in our statement last year at our Medical Device and Analyst Day where we want to be at or above market by 2020. You've seen a consistent trajectory each and every quarter. So whether we're going to say 4.3% is now the new bar, we'll have to see how the quarters play out, but we're really looking at that 2020 horizon to make sure that we're at market performance or better.

A - Ashley McEvoy {BIO 20108895 <GO>}

And I would just add, Jayson, to the question is to say listen quarters aren't necessarily always linear, but consistent with what we did in '18 of improving year-over-year growth acceleration, that's absolutely what we are trying to achieve in 2019.

Q - Jayson Bedford {BIO 5141602 <GO>}

Okay, that's helpful. Just on consumer, obviously a bit more of a challenging quarter, looks like your expectation for market growth is down about 100 basis points. I appreciate the seasonal dynamics, but what do you think is the source of the softness? Is it geographic in nature? Is there a price dynamic? Just a little more color there. Thanks.

A - Thibaut Mongon {BIO 20973347 <GO>}

Yeah, thank you for the question. We see a deceleration in the first quarter. As I said, some of that is related to the seasonality and the structure of our portfolio. If you look at our OTC business, while we are very pleased with our performance overall for the quarter, we saw some softness due to the cold and flu season in Russia and Western Europe. If you look at beauty, we see some deceleration in the market, but we continue to outperform the market in important geographies for us like the United States.

Baby is another category where we saw some deceleration in this winter, which affects our winter-related products. So it's really a seasonality. We also see some impact of destocking in some retailers and some geographies. So I would say it's broadly based across geographies. Having said that, we expect the softness expected -- seen in Q1 to rebound in the balance of the year to hit our projected growth for the markets where we compete of, 2% for the year.

A - Chris DelOrefice {BIO 20730104 <GO>}

Great, thank you, Jayson. Appreciate the question and thanks to everyone for your questions and your continued interest in our Company. Apologies to those we couldn't get to because of time, but don't hesitate to reach out to Investor Relations team as needed. And I do want to remind you that our pharmaceutical business review in New Brunswick is on May 15 and we look forward to seeing all of you there.

I will now turn the call back to Joe for some brief closing remarks.

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

Thank you, Chris. And thanks to all of you who participated in or listened to today's webcast. We hope you enjoyed the expanded management Q&A panel, and that you sense the confidence we have in our 2019 outlook, which should set us up well for even better performance in 2020 and beyond. As Chris referenced, we look forward to seeing many of you at our pharmaceutical business review day. Have a great day.

Operator

Thank you. This concludes today's Johnson & Johnson's first quarter 2019 earnings conference call. You may now disconnect.
