Q4 2019 Earnings Call

Company Participants

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

Other Participants

- Chris Schott, Analyst
- Danielle Antalffy, Analyst
- David Lewis, Analyst
- Josh Jennings, Analyst
- Kristen Stewart, Analyst
- Larry Biegelsen, Analyst
- Louise Chen, Analyst
- Matt Miksic, Analyst
- Terence Flynn, Analyst

Presentation

Operator

Good morning. Welcome to Johnson & Johnson's Fourth 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 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 business results for the fourth quarter and full year of 2019. 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, 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 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 and our most recent 10-Q 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.

Moving to today's agenda. I will review the fourth quarter sales and P&L results for the corporation and the three business segments. Alex will then provide some perspective on our overall results and business highlights for the year. Joe will conclude by providing insights about our cash position, capital allocation deployment and our guidance for 2020. The remaining time will be available for your questions. We anticipate the webcast will last up to 90 minutes.

Worldwide sales were $20.7 billion for the fourth quarter of 2019, an increase of 1.7% versus the fourth quarter of 2018. Operational sales growth, which excludes the effect of translational currency increased 2.6% as currency had a negative impact of 0.9 points. In the US, sales increased 1.4%, in regions outside the US, our reported growth was 2.1%. Operational sales growth outside the US was 4% with currency negatively impacting our reported OUS results by 1.9 points.

Excluding the net impact of acquisitions and divestitures, adjusted operational sales growth was 3.4% worldwide, 2.7% in the US, and 4.1% outside the US. For the full year 2019, consolidated sales were $82.1 billion, an increase of 0.6% compared to the full year of 2018. Operationally full year sales grew 2.8% with currency having a negative impact of 2.2 points. Sales growth in the US was 0.5%, in regions outside the US, our reported growth was 0.7%. Operational sales growth outside the US increased by 5.3% with currency negatively impacting our reported OUS results by 4.6 points. Excluding the net impact of acquisitions and divestitures, adjusted operational sales growth was 4.5% worldwide, 2.3% in the US, and 6.7% outside the US.

Turning now to earnings, for the quarter net earnings were $4 billion and diluted earnings per share was $1.50 versus diluted earnings per share of $1.12 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 $1.88 representing decreases of 6.4% and 4.6% respectively compared to the fourth quarter of 2018.

On an operational basis, adjusted diluted earnings per share declined 3%. Regarding the full year, 2019 net earnings were $15.1 billion and diluted earnings per share was $5.63. 2019 adjusted net earnings were $23.3 billion and adjusted diluted earnings per share was $8.68, up 4.5% and 6.1% respectively versus full year 2018. On an operational basis, adjusted diluted earnings per share grew 8.8%.

Beginning with Consumer, I will now comment on business segment sales performance for the fourth quarter, highlighting items that build upon the slide you have in front of you. Unless otherwise stated, percentages quoted represent the operational sales change in comparison to the fourth quarter of 2018 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 2019 sales by segment to assist you in updating your models.

Worldwide Consumer segment sales totaled $3.6 billion growing 2.1%. Excluding the net impact of acquisitions and divestitures, adjusted operational sales growth was 1.4% with growth in the US of 1.6% due primarily to strong performance in our OTC franchise. Growth outside of the US was 1.3%. Over-the-counter medicines grew globally almost 5% operationally and on an adjusted basis. In the US, OTC growth was around 10% and is growing share in multiple products such as Adult TYLENOL driven by Rapid Release Gels, PEPCID and ZARBEE's.

However, US growth was aided by about 200 basis points of stocking due to incremental distribution and trade promotion programs. The beauty franchise grew 4.3% or just under 1% when adjusted to exclude the impact of the acquisition of Dr. Ci Labo and the ROC divestiture. NEUTROGENA delivered strong performance globally with growth of 4% outside the US driven by anti-aging and cleansing innovation in EMEA, as well as hand and body moisture category strength in the Asia Pacific region. In the US share and market growth were largely offset by lapping of prior year new product pipeline builds and higher 2019 trade investment in NEUTROGENA.

Concluding the Consumer segment, Baby Care declined 9.3% globally or negative 7% when adjusted to exclude the impact of the Baby Center divestiture. This decline was primarily due to continued competitive pressures, as well as comparisons to prior year re-launch activities, most notably in the United States.

Moving on to our Pharmaceutical segment. Worldwide Pharmaceutical sales of $10.5 billion grew 4.4%, enabled by double-digit growth in nine key products. The segment delivered a seven consecutive quarter above $10 billion in revenue. Sales grew in the US about 4% and increased outside the US by almost 5%. Generic competition for ZYTIGA negatively impacted our worldwide and US growth by about 180 basis points and 310 basis points respectively.

Our strong portfolio of products and commercial capabilities has enabled us to deliver global growth at above market levels, despite significant biosimilar and generic headwinds. Our oncology portfolio delivered another strong quarter with worldwide growth of over 10%. DARZALEX continued its strong performance growing about 45%

globally. The US grew almost 38% with strong growth across all lines of therapy, driven by the new front line dedication for the multiple myeloma transplant in eligible population. The continued strong growth outside the US is driven by increased penetration and share gains. IMBRUVICA grew over 26% globally, driven largely by market share gains and strong market growth, primarily in the chronic lymphocytic leukemia indication in the US, along with strong uptake outside the US.

In the US, based on third quarter data, IMBRUVICA gained above 7 points of market share in CLL Line 1 therapy. Worldwide ZYTIGA growth declined by about 13% with declines of almost 45% in the US due to generic competition, which was partially offset by continued strong growth of almost 13% outside the US. We continue to be pleased with the launch progress of ERLEADA, which generated global sales of $116 million in Q4 and $332 million for the full year primarily in the United States. We continue to grow market share in non-metastatic castration-resistant prostate cancer gaining over 2 points in the US this quarter. Sales in the US reflects the first full quarter for the approved indication for patients with metastatic castration-sensitive prostate cancer. We are also pleased with the launch progress in EMEA, where ERLEADA is now available in 12 countries.

Our immunology therapeutic area delivered global sales growth of just over 6% driven by strong double-digit performance of STELARA and TREMFYA. Sales growth was partially offset by continued erosion of REMICADE of about 16% due to increased discounts and modest share loss in the US to alternative mechanisms of action and biosimilars. STELARA growth of almost 19% was primarily driven by the Crohn's disease indication where market share has increased by 6 points in the US versus the fourth quarter of 2018. In October, we received US FDA approval of STELARA for the treatment of adults with moderately to severely active ulcerative colitis.

SIMPONI/SIMPONI ARIA delivered sales growth of 7.6% driven by strong market growth in SIMPONI ARIA share gains in the US. TREMFYA grew over 55% and achieved an 8.3% share of the psoriasis market in the US, which is up about 2 points from the fourth quarter of 2018. In Neuroscience our paliperidone long-acting portfolio performed well growing 15% with higher market share driven by increased new patient starts and strong persistency. In addition, we continue to progress the launch of SPRAVATO, patient demand continues to build and the unmet need remains very high. New patient starts continue to steadily increase each month, with over 3,500 patients being treated to-date. Further, we are pleased to report that in December SPRAVATO was approved in Europe for adults with treatment resistant major depressive disorder.

In infectious diseases, our portfolio grew 9.6% led by strong growth of SYMTUZA and JULUCA for HIV, partially offset by cannibalization and increased generic competition in other products. In our cardiovascular metabolism and other product portfolio, we did experience declining sales of 9.5% primarily driven by declines in INVOKANA and biosimilar competition for PROCRIT. XARELTO was flat, with volume increases offset by rebates primarily due to an increase in the legislative rate for the donut hole from 50% to 70% along with higher Medicare and donut hole utilization.

In our total pulmonary hypertension portfolio, sales declined 6.2% as a result of the distributor model change in the US to realize efficiencies by leveraging our distribution capabilities. This change negatively impacted sales growth by about 800 basis points with sales growth of 2% when adjusting for this one-time impact. We continue to see strong share growth for OPSUMIT and UPTRAVI and when adjusting for the one-time distributor model impact, their worldwide sales were about 10% and 30% respectively. Portfolio growth was also impacted by declining sales in TRACLEER, as a result of continued generic competition.

I'll now turn your attention to the Medical Devices segment. Worldwide medical devices sales were $6.6 billion, growing 0.2%. Excluding the net impact of acquisitions and divestitures, primarily the divestiture of ASP, adjusted operational sales growth was 2.7% worldwide. One-time items negatively impacted growth in the quarter by about 70 basis points, largely related to a bleed down of the forward buying in Q3 in Japan, ahead of the consumption tax change, which primarily impacted our Vision business. The majority of this has sold through in Q4, with the remainder expected to occur in Q1 2020.

Additionally, on a year-on-year basis, we are pleased to report the Medical Devices has accelerated underlying sales growth worldwide by 130 basis points, with the second half of 2019 delivering 4% growth. Interventional Solutions grew over 13% globally, led by continued strength in our electrophysiology business achieving about 14% growth worldwide, and almost 16% for the year, continuing its trend of double-digit growth for the 11th consecutive year. Growth was strong in all regions driven by our newer product offerings in ablation and advanced catheters contributing to atrial fibrillation procedural market growth.

Additionally, our CERENOVUS business delivered its sixth straight quarter of double-digit growth, driven by strong market growth and new product innovation including EMBOTRAP for the treatment of ischemic stroke. Vision grew 0.9% or 3% when adjusting for the negative impact of the Japan consumption tax forward buy I mentioned earlier. Growth was primarily driven by contact lenses, which grew 2.6% globally, were 5% adjusted for the bleed of the Japan consumption tax forward buy led by double-digit growth of daily disposables in the OASYS family.

For the year, contact lens grew almost 5%, which we expect to be in line with the overall market, representing the fourth consecutive year. The contact lens has grown at or above the market. In surgical vision, we saw continued strong OUS growth in the cataract business due to above-market performance in IOLs, primarily in Asia Pacific. This was offset by weak US performance due to competitive pressures and lower market growth in refractive surgery.

We continue to see positive momentum in Orthopedics delivering growth for the quarter of 1.2%. On an annual basis, each major platform accelerated versus the prior year. And adjusted growth for this franchise improved by 180 basis points. This progress reflects the continued execution of our innovation and commercial strategies aimed to improve performance. Hips grew 4.2% driven by our leadership position in the anterior approach. Continued strong demand of our primary stem ACTIS and enabling technologies such as the KINCISE surgical automated system and JointPoint navigation system.

Knees growth was 1.4% in the quarter, driven by strong performance of new innovation such as ATTUNE Revision, ATTUNE S+ and the ATTUNE Cementless rotating platform, which launched at the end of Q3. OUS growth of 3.2% was led by Asia Pacific. Additionally, the United States returned to growth this quarter. Trauma growth of 2.5% globally was driven by market growth supported by strong adoption of newer innovation, such as our Femoral Neck System.

Spine declined 5.8% with the US being the primary driver partially due to not repeating a one-time Q4 2018 favorable pricing related true up, which negatively impacted global growth by 250 basis points. Excluding this impact, performance for the quarter was in line with the full year. While we lost share in the quarter, we continue to see positive uptake of newer products and are pleased with the strong start of our newly launched SIMPONI Surgical System for use in posterior cervical spine procedures. Pricing pressure continue to impact all categories in Orthopedics. US pure price in spine declined about 3% after adjusting for last year's pricing related true up. Trauma price was consistent with the Q3 decline of 2%, price in hips and knees both improved compared to Q3 at negative 1% and flat respectively.

Moving to the results for the Surgery business. Advanced Surgery delivered global growth of over 3% led by biosurgery growth of about 4% with growth in all regions led by Asia Pacific share gains and market growth. However, growth in the quarter was tempered as SURGIFLO continued to ramp back up in the United States. Energy and Endocutters grew approximately 3% and 2% respectively with OUS growth driven by share gains and new products in the Asia-Pacific region, partially offset by competitive pressure in the United States.

Wound closure grew over 2% driven by continued strong market growth in China, as well as share gains in conventional and barbed sutures. As expected, selling days had an immaterial impact on our global growth rates in the fourth quarter. In 2020 selling days will negatively impact Q1 Medical Devices growth by over 50 basis points, with the majority being offset in Q2.

I will now provide some commentary on our earnings for the year. Please direct your attention to the box section at the bottom of the schedule. You will see we have provided our earnings adjusted to exclude intangible amortization expense and special items. As reported this morning, our adjusted EPS of $8.68 reflects reported growth of 6.1% and operational growth of 8.8% exceeding the high end of both our reported and operational adjusted EPS guidance range from October, driven by our strong performance. Consistent with our guidance, we did see a slight decline in adjusted pre-tax operating margins of 30 basis points, driven by investment in digital surgery in medical devices.

Moving to the next slide. Our full year 2019 adjusted income before tax for the Enterprise improved to 170 basis points versus 2018. Looking at the adjusted pre-tax income by segment, Medical Devices at 35.4% is higher than the previous year, primarily due to increased divestiture gains in 2019, partially offset by an increase in investments in digital surgery.

Pharmaceutical margins declined by 200 basis points to 40% driven by reduced divestiture gains and higher cost of products sold to the negative impact of currency. Consumer margins improved by 90 basis points to 21.4% driven by planned prioritization and spending reductions, partially offset by reduced divestiture gains in 2018.

Now, regarding our consolidated statement of earnings for the fourth 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 fourth quarter net earnings are adjusted to exclude intangible asset amortization expense and special items of $1 billion on an after-tax basis, primarily driven by intangible amortization of $1 billion. Excluding the impact of those items, our adjusted earnings per share is $1.88, a decrease of 4.6% versus the fourth quarter 2018. Adjusted EPS on a constant currency basis was $1.91, down 3% versus fourth quarter 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. Cost of products sold delevered slightly primarily driven by an increase in amortization expense, partially offset by favorable segment mix. Selling, marketing and administrative margins for the quarter improved as a result of planned prioritization in the consumer business and favorable segment mix, partially offset by increased investment in the medical devices business.

R&D investment was consistent year-over-year with slightly lower milestone payments in the Pharmaceutical business, offset by increased investment in digital solutions in the Medical Device business. Net interest expense was lower by $50 million, primarily driven by the positive effect of net investment hedging arrangements, partially offset by reduced interest income resulting from lower rates of interest earned on cash balances. The change in the other income and expense line was primarily driven by lower litigation expense, higher unrealized gains on securities, partially offset by lower gains from divestitures.

Regarding taxes in the quarter, our effective tax rate was 4.9% compared to the fourth quarter of 2018 tax rate of 2.6%. The current quarter includes an estimated tax expense for the transition provisions of Swiss tax reform, partially offset by reorganization of certain foreign subsidiaries and additional impacts of recently issued regulations associated with US tax reform. We encourage you to reference our 10-K for further details on this, and other specific tax matters. Excluding special items, the effective tax rate was 10.7% relatively consistent with the same period last year which was 11.1%.

Now looking at adjusted income before tax. In the fourth quarter of 2019, our adjusted income before tax for the Enterprise as a percentage of sales decreased from 29.6% to 27.1% in the fourth quarter of 2019, primarily driven by the impact of divestiture gains in Q4 of last year. The following are the main drivers of adjusted income before tax by segment. Medical devices declined by 830 basis points, driven by the LifeScan divestiture gain reported in Q4 2018, as well as an increased investment in robotics and digital solutions in 2019. Consumer margins declined by 280 basis points, primarily driven by the divestiture of ROC in Q4 2018. The slight increase in Pharmaceutical margins of 30 basis points was primarily driven by reduced milestone payments.

That concludes the sales and P&L highlights for Johnson & Johnson's fourth quarter 2019. For your reference here is a slide summarizing notable developments occurring in the fourth quarter, some of which were mentioned in my comments.

I'm now pleased to turn the call over to Alex Gorsky.

Alex Gorsky {BIO 16239711 <GO>}

Thank you, Chris and thanks to all of you for joining us today. We're very pleased to be highlighting our fourth quarter and full year performance. We delivered strong revenue and earnings growth in 2019 exceeding the financial performance metrics that we set at the beginning of the year. Now we accomplished this while also making strategic investments that advanced the pipeline of opportunities and innovation across all three of our business segments. And as we faced a variety of challenges from debates about the healthcare system in our country to uncertainty with global trade, to today's litigious environment to name a few.

Now I'm very proud that despite the challenges, we still remain focused and delivered on our Credo commitments and responsibilities to our patients, employees, communities and shareholders, ultimately driving our purpose to advance health for humanity. And I'm confident that we are well positioned to build on this momentum and solid foundation as we move into 2020 and beyond. We remain focused on the long-term, a mindset we've maintained for more than a century. A mindset that is directly linked to our focused execution, our relentless pursuit of innovation, our talented and passionate people, our culture of caring for the world and our unwavering focus on value creation for all our stakeholders.

In fact, I'm proud to highlight that 2019 marked our 36th consecutive year of adjusted operational earnings growth for Johnson & Johnson. Now this performance is indicative of the strength of our broad-based business and we remain focused on driving the next generation of innovation across our entire portfolio in new markets, in markets where we have greater opportunity to compete, and in the markets where we lead, which include our 26 platforms that each deliver a $1 billion or more in sales annually.

In Pharmaceuticals, our strong track record of success continued again in 2019 as our Pharma segment outpaced the market growing operationally at 5.8%, which more than offset the loss of exclusivity due to biosimilar competition and generic erosion, as well as new competitive entrants and other market pressures. Now, it's important to note that our robust growth can be attributed to volume not price. And our sales growth is a reflection of the increased number of patients we're reaching with our transformational medicines for unmet needs.

This strong growth, not only enabled us to deliver life saving and life changing medicines to people around the globe, but it also enabled us to become the third largest pharmaceutical company in the world, retained our number one leadership position in the US and be recognized as the number one pharmaceutical company on Fortune Magazine's annual Most Admired Companies list.

Our Pharma investments in R&D continue to fuel exceptional growth as well. We achieved double-digit growth for 10 key products and delivered strong performance across all regions, including in both developed and emerging markets. We're very proud and excited that we gained approval and launched two new transformational medicines, SPRAVATO for treatment resistant depression and BALVERSA for metastatic urothelial cancer. We also continue to maximize the value in our market brand, submitting numerous filings and receiving approvals for line extensions for key brands including STELARA, DARZALEX and ERLEADA, many with peak sales potential that is greater than $500 million.

And we continue to expand our portfolio with strategic licensing and acquisition of new assets and platforms including, cusatuzumab from Argenx, an investigational antibody for the treatment of acute myeloid leukemia and high risk myelodysplastic syndromes. A gene regulation platform MeiraGTx and bermekimab from XBiotech, Inc. and anti-IL-1 alpha in Phase II development to treat atopic dermatitis and hidradenitis suppurativa. With this industry-leading pipeline, our commercial capabilities and robust R&D productivity, I'm confident that we are well positioned to continue delivering sustained long-term above market growth in 2020 and beyond.

Now 2019 marked a year of significant transformation for the Consumer Health business. We reestablished our brand and purpose and made strategic decisions that over time will accelerate growth, reduce complexity and improve operating margins. Fueled by science based, professionally endorsed brands and strong consumer insights we placed a concerted focus throughout 2019 on establishing a clear plan and path to achieve benchmark profitability in 2020 and this segment is already well on its way, delivering 90 basis points of adjusted pre-tax margin improvement for the year.

Additionally, we successfully integrated the acquisitions of ZARBEE's, Inc. a leader in naturally based over-the-counter remedies and the Dr. Ci Labo line of dermal cosmetics skincare products, strengthening our position in these higher growth categories. Our US consumer business continues to grow above the market in our priority areas of beauty and OTC delivered solid operational growth for the year.

I'm also pleased to share that Medical Devices accelerated growth again in 2019. As a result of our relentless focus on execution, innovation and portfolio management, our underlying growth was just under 4%. Now improved performance was driven by electrophysiology, achieving its 11th consecutive year of double-digit growth. Contact lens, which delivered growth at or above the market for the fourth straight year. Energy and Endocutters businesses growing mid-single digits, and improved performance in orthopedics with each major platform accelerating compared to 2018.

During the year, we also fortified our commitment and accelerated our entry into one of the fastest growing healthcare categories in exciting transformative fields of medicine, digital surgery. Consistent with our historical pioneering spirit in Medical Devices, we are focused on the next frontier of surgery. The acquisition of Auris Health, Inc., a developer of robotic technologies currently in lung cancer accelerated our entry into robotics as part of a digital surgery ecosystem designed to make medical interventions smarter, less invasive and more personalized to elevate the standard of care. Additionally, just last month, we announced an agreement to acquire the remaining stake in Verb Surgical to further strengthen our ecosystem.

Now, we also successfully launched critical products across each franchise throughout 2019, including the ATTUNE Cementless Knee System. Our first of its kind ACUVUE OASYS contact lenses with Transitions Light Intelligent Technology. The industry's first powered circular stapler Echelon and the Vizigo steerable sheath in our market leading Electrophysiology business. Our team continues to focus on improving our cadence of innovation, as well as our portfolio optimization, which included the completion of the Advanced Sterilization products divestiture and the execution of more than 50 acquisitions or strategic partnerships that we expect will further augment our future growth. We are committed to building upon this momentum in 2020, and I'm pleased to share that we will be hosting our Medical Device Business Review Day on May 13 to highlight the strategies that we believe will drive further growth and provide additional insights into the team's plans in digital surgery.

Looking ahead, across all three business segments, we know we've got more work to do. But we are committed to continuing to deliver above-market growth in our Pharmaceutical business, broadening the reach of our consumer business, and meeting the full potential of our Medical Devices business. And one of the most critical factors in achieving the goals of all of our business strategies is sustaining our investment in innovation. Once again in 2019, we achieved record levels of investment, investing more than $11 billion in Research and Development. And across all industries, we remain one of the top 10 global companies that invest at the highest levels in R&D and innovation.

Across Johnson & Johnson, we recognize the powerful impact of technology, innovation and health breakthroughs have in creating meaningful change in people's lives and establishing a competitive differentiation within the industry. Now, I would be remiss if I did not acknowledge that all of these many accomplishments would not have been possible without the efforts, passion and engagement of our approximately 132,000 global Johnson & Johnson colleagues, who continue to demonstrate a commitment to delivering healthcare solutions, to benefit patients, consumers and communities around the world. Our purpose driven Credo based culture puts patients and people first. And this is certainly true in the way we think about our employees and work to consistently cultivate the world's best, healthiest and most engaged workforce.

The fact that our Johnson & Johnson colleagues are truly the driving force behind our successful performance and in fulfilling our purpose is something that we never, never take for granted and always celebrate. We share the common objective of always making the health and well-being of the patients and consumers who use our products every day our number one priority. And it has been this way for the last 134 years. We are on the front lines of developing medicines and revolutionary products that are literally saving people's lives. And we're working to prevent cancer, offer less invasive surgeries, in the end Ebola and HIV. This is what the world expects of us and this is what our global workforce is united around, committed to and prepared to do.

Now putting the needs of those we serve first also means protecting our shared environment Natural Resources. We know the human health is directly linked to the health of the planet. Healthy people and communities go hand-in-hand with a healthy environment. This is why we are committed to reducing the environmental footprint of our operations, products and supply chain with 2020 targets to reduce carbon emissions by 20% and procure 35% of electricity from renewable resources.

Looking over the long term, we are optimizing our operations to improve water and energy efficiency, while focusing on sustainable design in reduction and in product packaging as well. All with the goal of delivering better health for people everywhere.

So now I'd like to close where I began. In spite of the numerous industry challenges we face throughout 2019, I'm very pleased that we remain focused on meeting the needs of patients and consumers globally, delivering value to all of our stakeholders, innovating, driving growth in achieving solid performance. Our sustainable business model is built for the long-term and provides us with increased confidence about our business, our strategic direction and the healthcare industry and what may sometimes feel like uncertain times. You have our unwavering commitment that we will hold ourselves accountable to fulfill all of our Credo responsibilities, where we always keep the patient at the center of everything we do and also ensure the continued long term success of Johnson & Johnson.

We have an incredible opportunity to play a leading role in defining and driving the future of healthcare and putting it within the reach of everyone everywhere. This is why we are so very excited and confident about 2020 and beyond. I look forward to addressing your questions during the upcoming Q&A, but, I'll now turn it over to Joe, who will provide additional details about our results and guidance for 2020. Thank you. Joe?

Joseph J. Wolk {BIO 19812977 <GO>}

Thank you, Alex. Hello, everyone. We appreciate you joining today's call. I will be providing additional context around our 2019 performance including our year-end cash position and the capital allocation actions that we execute it throughout the year and then conclude with our guidance for 2020.

As Alex and Chris mentioned, we delivered solid fourth quarter results, which capped a strong year performance for Johnson & Johnson. Our full year results reflect a continued commitment to our long-term strategic objectives. Throughout the quarter and the year, we maintained our focus on delivering life-saving and life changing products to patients and consumers across the globe. Heading into 2020, we are confident in our overall strategy and ability to drive results across the enterprise that will yield strong shareholder returns.

Our solid results during the year generated strong cash flow, our highest level ever of free cash flow of nearly $20 billion. With respect to our cash position at the end of 2019, we had approximately $8.4 billion of net debt, consisting of approximately $19.3 billion of cash and marketable securities and approximately $27.7 billion of debt. Although we don't provide cash flow guidance for transparency as we come off a record year of free cash flow generation, we do expect a decline in 2020 of approximately 10% as we are planning for a payment related to the agreement in principle to settle opioid litigation as previously disclosed.

In 2019, we executed on all four elements of our capital allocation strategy. Our first objective within that framework is to invest in growth opportunities to solidify and advance our current business. Delivering transformative healthcare solutions and creating access is the top priority for Johnson & Johnson and as Alex mentioned, we invested more than $11 billion in R&D during 2019. As investors in Johnson & Johnson know delivering a competitive and increasing dividend is a capital allocation priority for us.

In 2019, we returned almost $10 billion to investors, which is approximately 50% of our free cash flow increasing the quarterly dividend by 5.6%. Once we have satisfied our dividend objectives, we seek M&A opportunities where our capabilities can create compelling value. During the year, we completed a number of strategic acquisitions totaling almost $6 billion to further strengthen our portfolio, which Alex outlined earlier in the call. Finally, after executing on these three important capital allocation priorities, we consider other prudent ways to return value to shareholders, such as the $5 billion share repurchase program we began in December of 2018 and concluded in the third quarter of 2019.

Let's move the discussion to guidance and information to assist your financial modeling for the year ahead. I'll begin with some qualitative comments that we considered in our outlook. First, our projected sales growth includes the benefit of an additional two to three shipping days associated with a 53rd week in our 2020 fiscal calendar. This will be partially offset by SKU rationalization program in our consumer segment. As part of our efforts to further improve profitability in 2020, the Consumer segment will continue to invest in platforms where we have differentiated brands with the greatest potential.

Therefore, we plan to rationalize approximately 10% of the SKUs across the global portfolio, translating to a negative impact on 2020 top line growth of slightly over 100 basis points for the segment. This program will be primarily focused outside the US with a larger impact coming in the second half of the year in the Baby and Beauty franchises. Considering both the additional shipping days associated with a 53rd fiscal week and the consumer SKU Rationalization Program, the net impact is approximately 50 basis points to 100 basis points of benefit to the company's sales growth outlook.

Specific to each segment, our adjusted sales guidance also assumes continued above market performance in our Pharmaceutical segment, driven by continued strong growth from key products such as DARZALEX, IMBRUVICA, TREMFYA, STELARA and ERLEADA due to increased penetration and new indications. Continued acceleration of sales growth in Medical Devices generated by recent launches and improved execution. And in the Consumer Health business, we will continue to grow above the market in the US, while executing the SKU Rationalization Program to position the segment for benchmark profitability. Given these factors, we expect adjusted operational sales growth for the full year of between 5.0% and 6.0% or 5.5% at the midpoint.

The adjusted operational sales growth of 5% to 6% is on a constant currency basis, reflecting how we manage our business performance. Considering a negative impact from net acquisitions and divestitures, which we estimate at 50 basis points, we are comfortable with your models reflecting operational sales growth in the range of 4.5% to 5.5% or $85.8 billion to $86.6 billion. As you know, we do not predict the impact of currency movements, but utilizing the euro spot rate relative to the US dollar as of last week at 1.11, there is an estimated negative impact of foreign currency translation of approximately 50 basis points, resulting in an estimated reported sales growth between 4% and 5% compared to 2019 or $85.4 billion to $86.2 billion.

Let's now discuss earnings per share. As you can see on your screen, here is a slide depicting the components and assumptions included in our 2020 EPS guidance. Using the sales growth guidance, I just referenced provides approximately $0.40 growth to EPS. The next column is based on expected operating margin improvement of approximately 100 basis points, which translates to an incremental $0.25 of contribution, net of continued investments across our segments.

Operating margin improvement, will be primarily driven by continued efforts to improve manufacturing capabilities, optimize sales, marketing and administrative expenses and the consumer SKU rationalization just discussed. This results in strong adjusted operational EPS growth for the core business of $0.65 or 7.5% versus the prior year. Offsetting those two operating components is the anticipated reduced level of other income of approximately $0.30 compared to 2019. You may recall that we benefited from a large divestiture gain from the sale of our Advanced Sterilization Products business in the second quarter of 2019.

The final element to this EPS waterfall chart is the 2020 benefit we will have from the share repurchase program completed in 2019, which adds $0.05 to EPS compared to 2019, resulting in an adjusted operational EPS of $9.08 at the midpoint or growth rate of 4.6%. While not predicting the impact of currency movements, using recent exchange rates our reported adjusted EPS would be negatively impacted by approximately $0.05 per share resulting in adjusted reported earnings per share of $9.03 at the midpoint, reflecting growth of approximately 4%.

Continuing with EPS guidance, this slide provides a summary of additional P&L items to better provide insight into our full-year 2020 guidance. As referenced earlier, for 2020 we are expecting our adjusted pre-tax operating margin to improve by approximately 100 basis points, while still prioritizing investment in our business that accelerates and further strengthens our pipeline of new products for the long-term.

Although we are continuously evaluating external value creating opportunities for purposes of your models we currently assume no major acquisitions or other major uses of cash and are therefore comfortable with your modeling net interest expense between $0 million and $100 million. As a reminder, other income and expense is the line on the P&L, where we record royalty income as well as gains and losses related to the items such as litigation, investments by our Johnson & Johnson Development Corporation, divestitures, asset sales and write-offs. We would be comfortable with your models for 2020 reflecting net other income and expense, excluding special items as net income ranging from $1.5 billion to $1.7 billion. This is lower than 2019 as we had elevated levels of divestiture gains and we do not expect an event of that magnitude in 2020.

Moving on to taxes. Our effective tax rate guidance for 2020 excluding special items is approximately 17.5% to 18.5% or higher than where we ended 2019 driven by expected changes in the mix of global earnings and miscellaneous one-time benefits not expected to reoccur in 2020. Considering all these factors, we are comfortable with adjusted EPS guidance in a range of $9 to $9.15 per share on a constant currency basis, reflecting operational or constant currency growth of approximately 3.7% to 5.4%. Again, we are not predicting the impact of currency movements, but to provide some insight on the potential impact on EPS using exchange rates from last week, our reported adjusted EPS would be negatively impacted by approximately $0.05 per share. Therefore, our estimate for 2020 reported adjusted EPS is between the range of $8.95 to $9.10 per share or $9.03 per share at the midpoint.

As a final comment, our guidance assumes no formal share repurchase program at this time, I wanted to provide this reminder since the last time I looked, street estimates utilized an average share count, which is significantly lower than what we are assuming for our 2020 guidance. We estimate the average diluted shares outstanding to be largely in line with the fourth quarter 2019 share count or 2.67 billion shares. Although we do not provide quarterly guidance, there are a few factors for you to consider in your models beyond the selling day fluctuations Chris mentioned in his remarks for Medical Device.

For sales, you can expect the fourth quarter of 2020 to have the benefit of the additional shipping days, partially offset by the consumer SKU Rationalization Program that we are projecting throughout the year, but more pronounced in the back half. With respect to earnings, the first quarter of 2019 included an equity gain related to the consumer acquisition of Dr. Ci Labo and the second quarter of 2019 included the gain associated with the ASP divestiture in Medical Devices. We don't anticipate similar events for other income and expense in the first half of 2020, but would expect elevated levels of other income aligned to today's guidance in the second half of 2020. Lastly, based on today's spot rates, currency will have a more negative impact in the first half of 2020.

That concludes prepared remarks of our financial summary of 2019 results and 2020 guidance. Our 2019 results reinforced our confidence in our broad-based business as we head into 2020 and we look forward to delivering continued value on behalf of all stakeholders. As Alex mentioned, we will be hosting our Medical Device Business Review Day on May 13th. And I look forward to seeing all of you in person at this exciting event, which will be held in New York City this year. For your planning purposes and based on investment community feedback, please note that we will be highlighting our Consumer Segment, at consumer-focused events such as notable CPG Conferences this year. A special thank you to our Johnson & Johnson associates around the world for their tireless efforts and commitment, who make the results we have attained possible and the outlook so bright.

I will now turn the call back to Chris to begin the Q&A.

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

Yes. Thank you. (Operator Instructions) Your first question comes from Chris Schott with JPMorgan.

Q - Chris Schott {BIO 6299911 <GO>}

Great, thanks very much for the questions. The first was just on Pharma. Can you just elaborate a little bit more on your expectations for growth in 2020. I guess specifically what are you expecting in terms of patent expiration headwinds for this year? And can you also elaborate on the competitive dynamics you're expecting for both TREMFYA and STELARA in psoriasis with the launch of SKYRIZI? Thanks so much.

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

Hey, good morning, Chris, Thanks for the question and thanks for joining us today. So with Pharmaceuticals, as I mentioned in some of our prepared remarks, we do expect continued growth above the market. I think as we would have sat here last year, we expected a bigger impact in 2019 from the loss of exclusivity in generic and biosimilar competition to our products and to our teams credit based on the data, the safety, the efficacy, the familiarity of the products and comfortability for physicians and patients. Those products were able to retain in that business a little bit longer.

We would expect that to bleed into 2020 and -- but we still do even with that, I'll call it a neutralized headwinds, it's not a tailwind per se, but I'll call it a neutralized headwind compared to 2019. I think we do certainly expect that the portfolio of products will continue to outperform the general market of Pharmaceuticals in general.

A - Alex Gorsky {BIO 16239711 <GO>}

Hey Chris this is Alex, just to add one comment on to that. Look, we're extremely proud overall the performance of our Pharmaceutical Group, but particularly our immunology group within Pharma. And if you just step back a moment and look over the past several years, first of all, the way that they were able to manage the biosimilar impact with REMICADE, while simultaneously launching multiple new indications for compounds like STELARA, launching TREMFYA. To note that TREMFYA had 55% growth in the quarter, STELARA at 19% growth.

And frankly also it's the clinical development and the competitive differentiation with TREMFYA for example having comparative trials not only versus our own compounds, but also against Humira and Cosentyx and I think what's really important is that in areas that -- where these products are used, it's not only the short-term results, but it's particularly important for the long-term results. And so many patients on psoriasis will shift from product-to-product and are suffering from this condition for a long time and having in excess of 48 months worth of duration and treatment effect by a compound like TREMFYA. I think really helps explain its uptake and continued confidence and used by physicians and patients in the marketplace.

So if we combine that with the penetration rate, we're probably somewhere in the 30% to 40% rate in this overall category. We think that there is still a lot of unmet need. We think that there is still a lot of opportunity with these compounds. And that doesn't even include some of the additional clinical development programs that we're having in areas such as GI as well for these were particularly for a compound like STELARA we're seeing great impact. We think that there is a lot of opportunity ahead.

Q - Chris Schott {BIO 6299911 <GO>}

Great, thanks for that. And I'm going to do one other really quick one here. Other income $1.5 billion to $1.7 billion, I think that's still a bit above your historic levels of other income. I know this number can be a bit lumpy, but should we think about the set the level as a new norm or can we think about that number of declining further as we look beyond 2020? Thanks.

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

Hey Chris. Thanks for the question. I would say it's certainly down from what we experienced in 2019. And I would expect not to provide any insight into 2021 just yet, but I would expect that number to come further down as we look out. So as you see this year, we're improving our operating margins by nearly 100 basis points to offset some of the effect that we had the benefit of in 2019. And I think we'll continue to do that.

A - Alex Gorsky {BIO 16239711 <GO>}

But to be truthful, we continually look and manage our portfolio in a very rigorous fashion, making sure that we're the best owners of the assets that we have, that works both ways. So we look to complement our portfolio, but we'll also look to take underperforming businesses and create value for shareholders in other ways.

A - Chris DelOrefice {BIO 20730104 <GO>}

Chris, thanks for your questions. 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. Just one on the extra week and one on the litigation. Joe can you talk about the impact of the extra week in 2020? In 2015 it was about 4% in Q4, 1% for the full year and neutral to EPS. Does it impact US more than international? Does it impact some businesses more than other? I heard your comments on consumer, but I'm thinking more about Pharma and Med Tech? And I had one follow-up.

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

Yeah, so Larry with respect to the fiscal 53rd week that translates to about two to three shipping days, I would say that's pretty much the norm for the Medical Device and Pharmaceutical units that you've asked about. It's a little bit less in Consumer in terms of impact, because it doesn't impact stocking during the holiday season. So -- and you're absolutely correct, we have the same assumptions around EPS, it's pretty much neutral because you still have a full week of expenses without really the benefit of a full week of sales.

Q - Larry Biegelsen {BIO 7539249 <GO>}

Thanks for that. And Alex just one on litigation. Just, what's the latest on the opioid litigation, the latest on the $4 billion settlement, you previously announced, many important dates and milestones we should think about? And just lastly on talc, when do you expect a decision from the Daubert Hearings? Thanks for taking the questions.

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

Hey, Larry, this is Joe I'll take that. Thanks for the questions. With respect to the opioid settlement and agreement in principle that was announced shortly after our Q3 earnings where we set aside $4 billion, we continue to work with the negotiating committee of the State Attorney Generals to finalize the agreement in principle. We remain, I would say cautiously optimistic that's progressing very well. We're highly engaged to the extent we can be to finalize that agreement in principle, and we hope to hear more over the coming months from the lead negotiators representing not just the states, but as you know the counties and municipalities.

With respect to talc and the Daubert litigation, we are awaiting Judge Wilson's verdict in that. Again as you know, that's an evidentiary standard of hearing. So we'll be able to make sure that there is great clarity and certainty as to the type of scientific evidence that needs to be presented. As you know and you probably saw in the Journal of American Medical Association article published just a few weeks ago, probably one of the most comprehensive reports evaluating all studies from independent sources found no link between talc and cancer. So we think that's, again another independent source. And we think those facts -- those -- that data that scientific research will bear out in the end.

Q - Larry Biegelsen {BIO 7539249 <GO>}

Thank you.

A - Chris DelOrefice {BIO 20730104 <GO>}

Great. Thanks Larry. Rob next question please.

Operator

Your next question is from David Lewis with Morgan Stanley.

Q - David Lewis {BIO 15161699 <GO>}

Great. Just a couple of questions this morning. Joe Just one clarification and one qualitative on revenue. So these 5% to 6% operational guidance for 2020, the way to think about that is that includes about 50 basis points to 100 basis points of the net effect of selling days adjusted for the consumers SKUs?

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

Exactly right, David.

Q - David Lewis {BIO 15161699 <GO>}

Okay. And just a follow-up on revenue. And one more quick one after that. Just qualitatively, Joe, can you sort of help us understand 2020 how you see it framing up from a pharmaceutical consumer Medical Device business and historically you've given us a sense of sort of which businesses are likely to accelerate and which businesses are sort of more stable. So across former MD&D consumer, how do you see sort of the qualitative parameters driving the 2020 guide?

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

Yeah, thanks for the question, David. So we have I think great narratives across all three of our businesses. If you look at Pharmaceuticals, we will continue to accelerate growth, I would say we'll be above market. It's probably not as robust as we would have thought at this time last year, again because we were able to retain some of the business that was subject to generic and biosimilar competition. But again very healthy growth above market and we'll be looking to complement the portfolio certainly with advancing our pipeline. We've got a couple of things that are hopefully will be this year around ponesimod for multiple sclerosis. We hope to gain approval on the DARZALEX subcutaneous formulation, which is a tremendous benefit for patients. And we'll see the continued uptake of BALVERSA and SPRAVATO.

In Medical Devices, we're very pleased and just to put it into some context for the analyst community here, in 2017, we grew 1.6% in 2017 -- 2018, I'm sorry we grew 2.7% and now we're up to 3.9% and we're not done. So we're going to continue to accelerate growth be towards that in the middle of the market range that we believe is on the horizon for 2020. And that's before we have the opportunity to launch what we think will be a very differentiated offering around digital robotic surgery.

In consumer, again, as Alex mentioned in some of his remarks, we have focused on profitability there. We focused putting investment behind our stronghold categories of skin health and self-care. So that would be TYLENOL and MOTRIN for self care; AVEENO and NEUTROGENA for skin health. Those brands continue to do extremely well. I would suspect we grow more in line with the market for that category except for the SKU rationalization where we'll be looking to de-prioritize some less productive brands.

Q - David Lewis {BIO 15161699 <GO>}

Thank you. And then just Joe, just one quick question follow-up on margins. In some of the years you've had sort of other income headwinds, you've been not offset a bit more significant SG&A gains driving margins. You're talking about 100 basis points of margin expansion in 2020 Medical Devices with the (inaudible) agreement continues to track well. Other just, spending dynamics are more visibility and sort of 100 basis points of NOI margin expansion in 2020 headwinds and tailwinds we should be thinking about? Thanks so much.

Q - Josh Jennings {BIO 16451037 <GO>}

Yeah, I know Chris, do you want to add something.

A - Chris DelOrefice {BIO 20730104 <GO>}

I just wanted to amplify and consumer just examples of that TYLENOL and NEUTROGENA for the full year this past year, NEUTROGENA at 6% growth, TYLENOL 9% growth just to build on what we were sharing on consumer.

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

Right, okay. Thanks, Chris. With respect to margin expansion David, I think we would look to certainly manufacturing capabilities and improving our productivity there. I would point to the consumer SKU rationalization, the design behind that is specifically to improve profitability. And then we'll continue to look at other opportunities for enabling functions across finance, HR, information technology and procurement to get savings. So we think we're in pretty good shape to deliver that for 2020.

A - Chris DelOrefice {BIO 20730104 <GO>}

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

Operator

Your next question comes from Kristen Stewart with Barclays.

Q - Kristen Stewart {BIO 15155691 <GO>}

Hi, thanks for taking my question. Just one clarification, the extra week with the SKU rationalization, it's a net impact overall, it's 50 to 100 to the top line, is that correct?

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

That's correct, Kristen.

Q - Kristen Stewart {BIO 15155691 <GO>}

Okay, perfect. Just want to clarify that. And then just a big picture, I guess question just portfolio and capital allocation. I know you had mentioned just in terms of models need to take into consideration with the share count know further share repurchase activity, you guys are in a pretty good position obviously from a share -- I'm sorry cash flow perspective generating $20 billion this year, it sounds like your expectation is to pay out the opioid settlement. But I guess why not get more aggressive from a share repurchase perspective, just how should we think about capital allocation going forward?

A - Alex Gorsky {BIO 16239711 <GO>}

Hey, Kristen this is Alex. Thank you very much for the question and look we're really proud of our strong performance across our businesses and frankly as it relates to our capital allocation model this year, and we're very confident in it going forward. As we mentioned in the results earlier, if you think about the free cash flow spin-off that we had in 2019, I think it's indicative of not only great discipline across our various lines and you see the P&L in front of you. So overall, it was quite healthy. But it's also important to note that we did that in the context of also continuing to invest in more than 11 acquisitions about six licensing agreements where we invested almost $7.5 billion just in the course of the year.

So as we talked about in the past, we'll continue to invest in our brands and in research and development at an appropriate rate. If you go back over the last four years, I think if you add the numbers up in R&D, we've invested more than $45 billion during that time frame. And we think that based upon the number of new product launches in our Pharma and Medical Device business and our Consumer business that we've gotten a good return on that. We've continued to keep a healthy dividend, at the same time we realize how important that is. During that same time frame for years, it's a pretty similar number to our R&D, it's about $40 billion to $45 billion. And, of course, after that, we always take a look at value creating acquisitions.

And again during that same time frame, I think the number comes to about $50 billion that we've invested. Over the past year of note was -- you might say, the additional investment that we made in Auris and we think combining that with the later buyout that we did with the Verb, with Verb and Verily is the right thing. If you think ahead in Medical Devices, there are probably few things that are going to represent a more secular shift in that domain. Then they shift into digital and robotic surgery and bringing those together, we think creates a very exciting opportunity for us.

But we also continue to do value creating tuck-in opportunities as well as in our Pharmaceutical business as we just talked about the end of the year. We brought in two really exciting compounds Bermekimab in particular in both AES [ph], as well as other conditions, we think represents a great opportunity and it's certainly in an area where we've got a lot of capability and a lot of expertise.

And finally, we talk about share repurchases, and I think we've demonstrated over the last four or five years that we'll certainly employee share purposes -- share repurchases when we think that we're undervalued particularly in a significant way. And again I think an outcome of the way that we manage our overall P&L, it means that we can do these things simultaneously. It's not necessarily in order and we continue to -- we expect to continue that strategy going forward.

Q - Kristen Stewart {BIO 15155691 <GO>}

Okay.

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

Yeah, Kristen Just a quick comment now and thanks for noticing the comments around the share count. I'll have to tip my hat and complement the investment community, because when we go through the consensus P&L, the income in terms of absolute dollars was almost spot on. It was yearly close in fact, and then where the disconnect came in the form of share count, where the average share count using consensus was about 14 million shares less, which translates to about $0.05 or $0.06. So we thought we were very much in line with what consensus expectations were. And while we don't provide guidance assuming any share repurchase, that's not currently authorized, it seems that a few analysts may have made that assumption.

Q - Kristen Stewart {BIO 15155691 <GO>}

Okay, perfect. Thank so much.

A - Chris DelOrefice {BIO 20730104 <GO>}

All right. Thank you, Kristen. Rob, next question please.

Operator

Next question is from the line of Josh Jennings with Cowen.

Q - Josh Jennings {BIO 16451037 <GO>}

Hi, good morning. Thanks for taking the questions. First is on robotics and you clearly put a stake in the ground and with investments pursuing leadership in digital surgery ecosystem. But I just wanted to see if and understand we're going to get a big update at the Med Device Day in May, but if you could get our appetite at all today just give any updates on progress in the Auris launch, timelines for Orthotaxy, and then any indications that you see, the robotics is not in play today that could come into play over the next three to five years within your portfolio?

And then second question is just for Joe and then Alex, I guess it's just on the other income line it's been a focus. I think the concerns are where that could fall off next year within the out-years and you talk about your process for portfolio review and then pruning may be underperforming assets or assets don't fit under your roof. If you could just talk about that process and how regimen it is. Is there a formula? Is there 1% of the portfolio that gets pruned every year or is it just a strategic and opportunistic annually? Thanks, thanks for taking the questions. I apologize for the background noise.

A - Chris DelOrefice {BIO 20730104 <GO>}

Hey Josh, thank you very much for the question. And look, I am really glad that you mentioned, robotics and digital in terms of an entire platform for us because, of course, that's exactly what it is. And let's start first with our acquisition of Auris Health. Overall, what we would say, it's off to a great start where we couldn't be more thrilled to have the robotics pioneer and former CEO, Fred Moll and his team at J&J, the Monarch platform is off to a very good start, it's going to play a critical role in our lung cancer initiative.

And when you just look at the science and the technology and what it can do with the digital part for the lung, what it brings in terms of potentially ablation leveraging it with our new wave of technology. And even longer term, having the potential to dispense oncolytic viruses in treating cancer in very new and unique ways is exciting. Physicians that perform more than 2,000 bronchoscopy procedures with the Monarch platform and we're really pleased with what we're seeing with it.

Second, you saw our announcement on Verb and we think combining Auris and Verb really helps ensure that we have a very strong role in the next generation of the digital surgery platform and ongoing development. Our teams are working now together in a really comprehensive way. We do look -- sorry for that feedback, but we do look at this as a platform that is something that will be in place for the next several decades. Therefore, it's really important that we step through this in the right way.

And what I would say is, the early results from the collaboration and the partnership that we're seeing between these teams is very encouraging, and that's why we're excited to give you this preview that Joe mentioned on May 13th in New York, because we think it will provide very clear transparent kind of tangible evidence of not only the machines, but also the digital platform component of this as well.

Next, we're really excited about the progress is being made with (inaudible) in our orthopedics robotics platform as well. It's an exciting technology. We think that it's going to offer a portable low cost system that's easy to use, will improve accuracy. It also is a nice combination to ensure the surgeon remains intimately involved and if we look at the training and technical support, it's something that will be easily coordinated between Auris and surgeon. So we're progressing towards a mid-year 2020 regulatory submission for this.

So really if you just step back and you think about what we have going with our Auris and Monarch, if you think about the plans now that we have a place with (inaudible) in orthopedics and in longer term, as we bring out that next generation of digital and robotics platform more broadly across surgery, we're very excited about it.

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

And, Josh, to address your question regarding the management of our portfolio. So I would say it's rigorous. Iit's not formulaic though. So we meet as a management team and Executive Committee monthly on what additions or deletions from our portfolio make sense. And it makes sense probably should be defined in terms of, we have the aspirations in all the markets we play and to be either number one or number two in that space with the promise of bringing better solutions in that space to patients and consumers across the globe. We have plans in place for all of our businesses to do that, but after a period of time where those plans don't come to fruition, we'll assess other alternatives. I would say under Alex's leadership we've gotten very disciplined in this rigor and that's proved to be pretty productive I think in terms of how we've been able to take underperforming businesses, turn that into gains and reinvest back in businesses in areas that we think we've got a differentiated right to win.

A - Chris DelOrefice {BIO 20730104 <GO>}

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

Operator

Your next question is from Matt Miksic with Credit Suisse.

Q - Matt Miksic {BIO 6990080 <GO>}

Hi, thanks for taking the question. So I just had one follow-up on one of your business lines in Med Devices. In Orthopedics, clearly, it looks like you were able to deliver a pretty solid improvement and in these, in the US and just I was wondering if you'd be willing to offer any color on the spine growth within the sort spine and other category, like which parts of that were -- where the drivers has the decline? And then I had one follow-up if I could for Alex on digital health.

A - Alex Gorsky {BIO 16239711 <GO>}

So thanks for the question, Matt. Good to speak with you. So we are very proud of the knees performance, if you look. That was a declining business in 2018. We've had almost a 2 point improvement there. So the team has done a very nice job. We have ATTUNE both the primary as well as the revision platform available for patients. We've also made an entry into the cementless side of the business, which as you know is the fastest growing piece of that business. And as Alex mentioned, we look forward to what (inaudible) could do on the horizon.

With respect to spine, I think you have to take into account the impact of a 2018 US rebate adjustment, which impacted comparative growth about 250 basis points. If you look at the growth in the US, it was probably about half of the decline of what you saw based on that comparison. We continue to see pretty good growth outside the US, specifically in Asia Pacific. I don't know, Chris, if there is any other commentary in spine or other.

A - Chris DelOrefice {BIO 20730104 <GO>}

Yeah, Matt, I would just say, if you adjust for that, I would say the business has stabilized at low-single digit declines, where we're seeing success is where we have new innovation in particular in degenerative spine with our 3D Cage, and our VIPER PRIME systems. I think the next level of improvements will come from SIMPONI system in posterior cervical, which was launched later this year. So we really didn't get that benefit in this year at all and we expect to see that continued improvement through next year and beyond.

Q - Matt Miksic {BIO 6990080 <GO>}

That's great. And then just a follow-up, appreciate the update and overview on the robotic surgery strategy, Alex. But I guess one of the things that we've noticed is just how quickly and I realize it's sort of a buzzwordy term, and we have seen it in a lot of magazines, but artificial intelligence in digital health for whatever reason implementation and innovation, but it seems to be moving perhaps the fastest of the categories of digital surgery and digital health. And just wondering one of your competitors is partnering with a smaller innovator in that space around stroke. I'm sure you're watching it, I'm sure you're making investments and looking at it, just curious if you could give us an update or a preview, perhaps, which you'll talk about in the spring?

A - Alex Gorsky {BIO 16239711 <GO>}

Sure. Thanks again for the question, Matt. Look there are few areas across our different innovation or technology platforms that are not being touched by some of this new technology, whether it's AI, whether it's ML, whether it's digital, whether it's the cloud. I mean if you think about just our Pharmaceutical portfolio, for example, and you talk to Paul Stoffels or Mitch Ullmann or Bill Hait, I think they would tell you is one of the most important areas supporting that as our data sciences capabilities.

And the insights that we can gain from reviewing these large datasets and coming and developing much better insights frankly is helping lead us to a much faster and more productive identification of new targets. And it certainly is helping us when we apply those same skills and capabilities of the clinical development programs as you work with hospitals and large Medical Systems. And you can review medical health records for example in a much more detailed way in terms of patient selection and tracking through development.

So we're certainly excited about there. As it relates to Medical devices, we've been I think very consistent in sharing our thinking that again this next generation is certainly about the robotics component that helps facilitate perhaps having more consistency in an exact procedure perhaps getting into a tighter space, having better access, but we think longer term, the digital AI component of that in terms of helping preoperatively in developing a very detailed plan even being applied interoperatively in terms of additional guidance systems and by the way, then that can -- that only to help a surgeon get to a particular area, but it could also be to help him or her stay away from areas that may and could cause a problem.

And so -- and then of course, how that information can be utilized by large healthcare systems to really ensure that they've got the most effective and efficient and value-added healthcare delivery programs in place, we think will be more important than ever. So hence our reason for partnering with Verb and Verily and Alphabet in building those capabilities. And again it's something that more broadly across Johnson & Johnson, we're spending a lot of time thinking about how all those capabilities are going to become more and more part of our of our doing business of our doing research and development across each one of our sectors.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks, Matt. I appreciate the question.

Q - Matt Miksic {BIO 6990080 <GO>}

Thank you.

A - Chris DelOrefice {BIO 20730104 <GO>}

Rob, next question please.

Operator

Your next question is from Danielle Antalffy with SVB Leerink

Q - Danielle Antalffy {BIO 16104603 <GO>}

Hey, good morning guys. Thanks so much for taking the question. I just wanted to talk a little bit more about Medical Devices specifically you guys saw a pretty strong sales growth acceleration on an operational adjusted basis this year. How do we think about the next year? I know, Ashley, you said in the past, it's not linear quarterly, but I suspect we should be looking for another uptick. Can you help talk about that, what specifically will be the drivers in 2020 of that?

A - Alex Gorsky {BIO 16239711 <GO>}

Sure, Danielle. Thank you very much for the question. Look, we're, again we're really proud of the progress that Ashley and our team has made over the last several years. Joe took you through the improvement from 2017 to '18 to 2019. And we certainly expect that trajectory to continue in the coming years. If I just kind of zero down for a moment though on 2019, we saw first half growth of about 3.8% and we saw growth in the second half at 4%. And while there is a bit lumpiness in the quarters consistent with Ashley's comments and -- look we're still taking a look at Q4, we think that the timing of the holidays and a few other things, I think, you always have to be careful what you attribute.

But if you just look at the number of days between some of those we think that could potentially have had an impact, but it really doesn't change the overall trend of accelerated growth in second half versus first half. Now if we look at our business, it's really being driven by a number of factors. In our Surgery business, what you're seeing is strong performance in areas like Electrophysiology, another 14% growth in this quarter with great new technology. We expect a continuous launch in the coming year as well with new products. You also saw a good performance in our energy business just about 3% growth and biosurgery coming in at about 4% growth. We think one of the growth drivers, frankly is just overcoming our supply issue in 2020 that probably cut our biosurgery growth rate into half, especially in the latter part of the year.

So we think once we work our way through that, that's going to be a growth driver for us. Our circular stapler launch is also going well. We're going to lap the recall as well that we had in the past year. So we think those are definitely drivers in our core surgery business. If we look at orthopedics, here too we've seen a steady cadence of improvement. Our Knee business ATTUNE, the launch of the cementless, the Revision is going very well. And you think about it, we've turned that from being down almost 0.5% to 1% to growing at 1.4% in this quarter, which again shows physicians increasing confidence in that platform. And we're starting to see an uptick again in ATTUNE primaries. And so we're really pleased to see that. And then of course our hip performance coming in at over 4%, strong trauma at about 2.5%, we think is pretty consistent with the market. Chris address some of the issues in spine and how we see that moving forward.

And then of course there is Vision Care. And I think what we see in Vision Care is fundamentally strong performance in contact lens. You saw about 3% growth overall in our contact lens business, but what's important to note there is we had 9% growth in the United States. So the transition lens, the Astig lens, daily disposables continue to go well. Frankly, we've been disappointed in some of our surgical performance, particularly in the US. We've got plans in place to address that. If you look at the ongoing rollout that we're going to have with the TECNIS Symfony and the synergy, we're very optimistic that it's going to make us more competitive, not only in the Astig area, but really across that entire platform. So we're confident that, that's going to lead to continued growth trends as we go through 2020. And certainly setting ourselves up for even continued growth beyond that as well.

Q - Danielle Antalffy {BIO 16104603 <GO>}

Thank you so much.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks Danielle. Appreciate it. Rob, next question please.

Operator

Your next question is from Terence Flynn with Goldman Sachs.

Q - Terence Flynn {BIO 15030404 <GO>}

Hi, good morning. Thanks for taking the questions. Maybe just two from me. You guys presented additional data at ASH from your BCMA CAR-T program in myeloma and recently got Breakthrough Designation and are planning to file for approval later this year. I would love your initial thoughts on overcoming some of the hurdles faced by other CAR-T drugs and longer term where you see this drug playing a role in the treatment paradigm? The second question relates to the FDA announcement of a meeting next month on testing methods for asbestos and talc. I was just wondering if the company is participating and then what you think the key issues are that are going to be discuss there? Thank you.

A - Alex Gorsky {BIO 16239711 <GO>}

Sure, Terence. Thank you very much. Look let me take the first one regarding the CAR T data at ASH. As I'm sure you saw when we released the data, we were very excited when we saw those results. And again here too, I think it's may be important to just step back and think about the steps that our team has taken over the last several years regarding CAR-T therapy. And when you look at the different development programs that are out there, how we were able to support or source this from Legend. The way that we were able to accelerate the development timelines, the ongoing and great work that our supply chain is doing as well to ensure that we've got the strong integrity of that supply chain, it's dependability that's put in place, we're really proud of the progress they made.

And I think the results that we shared at ASH demonstrate our increasing confidence. And by the way we think this is great news for patients, particularly those who have failed multiple other treatment lines in a very difficult to treat condition like multiple myeloma. And as we think about it going forward, we think that this is truly an opportunity to transform the way patients are treated in this space. We've got a lot of confidence in our reimbursement teams, I think we demonstrated in other areas that we can work with payers in a very collaborative way. We're also innovative, not only in the products that we're bringing, but frankly in the reimbursement programs that we introduced as well.

And we intend to work just that way with payers and provider those in the United States, but also abroad, ultimately to make sure that this therapy is available for patients and they can get access to it. And that it's, not only as effective as of the data that you that we saw at ASH, but it's also cost effective to the overall healthcare system.

A - Chris DelOrefice {BIO 20730104 <GO>}

Joe, does you want to --

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

Sure, and Terence with respect to the meeting, I believe it's next month February 4th regarding testing methods [ph] around talc. We certainly welcome any discussion around the safety and efficacy of the product, specifically, we will not be active participants at that meeting. However, I can say that our current internal testing methods exceed that of current FDA standards for cosmetic talc.

A - Chris DelOrefice {BIO 20730104 <GO>}

Great, thank you Terence, appreciate the questions. Rob, we have time for one last question.

Operator

Yes, that last question will be coming from Louise Chen with Cantor Fitzgerald.

Q - Louise Chen {BIO 6990156 <GO>}

Hi, thanks for taking my questions here. So my first question for you is, what is your view on M&A? Is this year -- and what areas you're most interested in, is it Pharma, Consumer or Devices or all the above? And then my second question is how optimistic are you regarding a universal settlement for opioids? Thank you.

A - Alex Gorsky {BIO 16239711 <GO>}

Okay. Let me take the first part of that Louise. Thanks a lot for the question. Look, I think we demonstrated in 2019, as I mentioned earlier that we remained active really across all three areas. I think we did 11 acquisitions, six licensing agreements and putting more than

$7 billion worth of capital to work. We have continued, I think our pattern of tuck-in acquisitions, where we get new technologies as you saw that we did with both XBiotech and other opportunities in our Pharmaceutical business, we would expect to continue that.

We also had a fair amount of activity in our Medical Device Group led by Auris that we did earlier in the year. And then our Consumer group of course that was led by Dr. Ci Labo, which also gave us a great toehold you might say into the premium beauty segment, particularly in Asia, but we plan to expand that into the United States. So we'll be looking across all three of our segments, but we would expect there to be an ongoing cadence of M&A activity in those different areas.

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

And Louise, with respect to the opioid settlement. So we continue to work with the negotiating committee of the State Attorney General's to finalize the agreement and principle. I would say, we remain optimistic and confident that the agreement is moving forward, but certainly can't predict when that agreement in principle will be finalized. So we'll continue to monitor that, engage as needed, and hopefully come to a resolution.

A - Chris DelOrefice {BIO 20730104 <GO>}

Thanks Louise, appreciate it. And thanks to everyone for your questions and continued interest in our company. Apologies to those we couldn't get you 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 just for some closing comments.

A - Alex Gorsky {BIO 16239711 <GO>}

Well, thank you everybody for your ongoing support across 2019. As we mentioned earlier, we're very proud of our strong performance, but we're even more excited and more confident about what the prospects hold for 2020 and beyond. I think we had a chance to review a lot of the opportunities that lie in front of us and we look forward to continuing to keep you updated throughout the year as we progress through our plan. So thank you very much everybody and have a great day.

Operator

Thank you. This concludes today's Johnson & Johnson's Fourth Quarter 2019 Earnings Conference call. You may now disconnect.
