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US Q3 Consumer Health Earnings Preview: Helm Changes, Supply Challenges, Separation Plan

by [Malcolm Spicer](#)

July-September results for sales of OTC drugs, supplements and personal care products will come with CEO leaving J&J and P&G, a new leader for Perrigo Americas, Bausch Health likely offering Bausch + Lomb separation details and a cloud of rising costs related to supplies.

Changes in executive suites as well as the marketplace along with discussions of rising costs linked to supply chain disruption will be included with the latest quarterly results from North American consumer health product firms starting this week.

The sector's reports for the July-September also likely will feature an announcement from one firm, [Bausch Health Companies Inc.](#), about how it will separate its consumer health division into a standalone business.

Two of the largest firms in the sector, [Johnson & Johnson](#) and [Procter & Gamble](#), will report their final quarterly results before each firm's current CEO leaves the post.

Private label/store brand OTC leader [Perrigo Company PLC](#), meanwhile, will publish its third-quarter results soon after moving a former US regulatory official to the helm of Americas division.

In terms of marketplace results, dietary supplement direct seller [Herbalife Nutrition Ltd.](#) already has announced a decrease in its expected third-quarter and full-year net sales due to lower than expected levels of activity among its independent distributors.

[Church & Dwight Co. Inc.](#) Inc. didn't wait long during the third quarter to lower its guidance.

Along with its second-quarter results, it lowered its full-year forecast because it saw costs growing as fast or faster than sales. [Prestige Consumer Healthcare Inc.](#), on the other hand, increased its earnings guidance for Q3.

Bausch Health's plans for separating its [Bausch + Lomb Inc.](#) business could be the most anticipated information coming with the sectors' latest quarterly results. HBW Insight's preview of sales and earnings results in North America from the July-September begins with the Canadian firm.

Bausch + Lomb Plans Anticipated

Bausch Health has said that with its third-quarter results it will disclose how it will separate Bausch + Lomb, its Rx and OTC drug and dietary supplement vision health business.

With its second-quarter results in August, the Laval, Quebec-based firm announced that for Bausch + Lomb it had filed with the US Securities & Exchange Commission an S-1 form, an initial registration required by the SEC for new securities for public companies based in the US. In addition to an IPO, a sale and a spinoff are options. (Also see "[Bausch Health Has Full Plate While Trimming Debt, Setting Table For Bausch + Lomb Separation](#)" - HBW Insight, 3 Aug, 2021.)

In May, CEO Joseph Papa said he plans to be at the helm of Bridgewater, NJ-based Bausch + Lomb following the separation. (Also see "[Bausch CEO Papa Will Head Eye Health Biz Under Strategic Review](#)" - HBW Insight, 5 May, 2021.)

Bausch Health also has filed an S-1 with the SEC and announced IPO plans for its Solta Medical aesthetics business by the end of the year as a step toward the Bausch + Lomb separation. And with its second-quarter results, it announced that it completed the sale of its equity in Egyptian firm Amoun Pharmaceutical Company S.A.E. to Abu-Dhabi holding company ADQ for total consideration of around \$740m subject to adjustments.

- Results scheduled for 2 November will be compared to its 2020 third-quarter results of a consumer health business showing a "recovery in progress" as US revenues grew 11% on sales of eye drops and vision care supplements to push its global results up 1% to \$374m. Its Bausch + Lomb Inc. business reported US sales of PreserVision eye supplement brand grew 17% while Biotrue multi-purpose contact lens solution sales grew 9% in the July-September period; but consumer health revenues outside the US were down 5% organically as regions continue to recover from the COVID-19 pandemic at different rates. (Also see "[PreserVision, Biotrue Brands Help Bausch US Consumer Health See Turnaround More Clearly](#)" - HBW Insight, 3 Nov, 2020.)

Bausch Health in August reported it's continuing a recovery from the disaster previous management left, when it operated as Valeant Pharmaceuticals International Inc., even with a \$595m net loss for the April-June period. The loss was \$269m more than in the year-ago period and was primarily due to unfavorable change in its operating results coupled with a decrease in the benefit from income taxes, according to its earnings release.

It reported 38% growth, or 33% organically in Bausch + Lomb revenues to \$934m for the quarter. Sales growth for Bausch + Lomb's consumer health lineup of vision care OTC drugs and dietary supplements was a healthy 9% organically, but the rate lagged well behind the other, all Rx segments of the business.

Herbalife Results Follow Lower Guidance

The Los Angeles-based sport, nutritional and weight loss supplement firm's results will frame the quarter not only within lowered expectations announced in September but also around an initiative it announced with its second-quarter results to facilitate stronger sales growth in China.

Separately, Herbalife recently released results of a survey showing a majority of consumers in China and other Asia-Pacific markets aren't satisfied with their health and wellness (*see related story below*).

On the eve of its annual investor day in September, Herbalife said lower than expected levels of activity among its independent distributors prompted a decrease in earnings forecast. It lowered its third-quarter net sales guidance to a decrease of 3.5% to 6.5% from the same period in 2019 after previously forecasting a range between 5% growth and 1% decrease; for the year, it lowered its previous estimate of 8.5% to 12.5% growth to net sales improving from 2019 by 4.5% to 8.5%.

- Herbalife on 2 November will publish results compared to \$1.5bn net sales on 22.3% growth in the 2020 third quarter, when it also expanded its lineup into hemp-derived cannabinoids with an online portal offering a view of test results of every batch. The results were led by 55.1% growth in the US and Canada to \$398.7m. (Also see "[Herbalife Adds Cannabinoid Skin Care Line On Top Of Reporting Record Quarterly Results](#)" - HBW Insight, 6 Nov, 2020.)

The trim to its full-year revenue guidance came after Herbalife, with its second-quarter results in August, lowered it to 8.5% to 12.5% from an earlier estimate of around 9% to 15%. (Also see "[Herbalife Lowers Sales Growth Guidance On Eve Of Promoting Growth Drivers At Investor Day](#)" - HBW Insight, 13 Sep, 2021.)

It looks to drive sales in China after reporting a 16.1% drop to \$175.8m in net sales there during the April-June period. Net sales were up across all its other regions and its global total was up 15.2% to nearly \$1.6bn. (Also see "[Herbalife's China Growth Plan Includes Expediting Business Licensing, Tighter Hiring Standards](#)" - HBW Insight, 4 Aug, 2021.)

Along with its second-quarter results, Herbalife in August announced an initiative for China including facilitating sales licenses for distributors as part of overhauling its business and implementing a sales strategy already a fixture in its other regions, nutrition clubs with representatives offering as frequent as daily meetings.

Clearance from regulatory authorities for representatives of Herbalife, other multilevel marketers and other types of retail marketers to conduct sales in China has been inconsistent and an impediment to growing sales. Direct sellers as well as other companies in China incurred a business slowdown in the first half of 2019 during the country's trade and health regulators' 100-day review of potentially unlawful promotions and sales of health products. (Also see "[China Slump Slows Herbalife, Potential There Drives Outlook](#)" - HBW Insight, 31 Oct, 2019.)

Herbalife Survey Points To Emphasizing Digital For Growing Asia-Pacific Sales

By [Eileen Francis](#)

15 Oct 2021

Survey of more than 5,000 Asia-Pacific consumers finds 56% use technology tools such as nutrition apps to support healthy living, suggesting opportunity to connect with consumers.

[Read the full article here](#)

Gorsky Leaves J&J With Checkered Consumer Health History

J&J's earnings briefing on 18 October will be the final one with CEO Alex Gorsky at the helm. Stepping down in January after almost 10 years at the helm, Gorsky will be succeeded by Joaquin Duato, currently vice chairman of the executive committee, and will remain with the New Brunswick, N.J.-based firm as executive chairman. (Also see "[J&J's CEO Gorsky Steps Aside With Duato Named His Successor](#)" - HBW Insight, 24 Aug, 2021.)

In more than 30 years with J&J, Duato worked in multiple business sectors, geographies and functions. He led J&J's global pharmaceutical business as chairman for over seven years until his appointment in 2018 as vice chairman of the executive committee, providing strategic direction for the pharmaceutical and consumer health divisions and overseeing the global supply chain, technology and health and wellness teams.

Since Gorsky took J&J's reins in 2012, consumer health sales have remained steady at around \$14bn annually. He expanded the business favoring bolt-on acquisitions in fast-growing categories rather than transformational deals made by rivals in the OTC drug and nutritional and

personal care product space.

He beefed up J&J's skin health/beauty franchise with the 2016 acquisitions of cosmetics firm NeoStrata Co. Inc. and hair-care player Vogue International Inc., and in 2018 took the firm into the natural vitamins, minerals and supplements space by acquiring Zarbee's Inc.

- On 18 October, J&J's results will be compared to a year-ago quarter when its Band-Aid line was the sales driver among its wound care products contributing to an 11.6% increase to \$1.56bn in US sales across its consumer health products business. Although reported international sales were down 5.6% \$1.96bn, J&J's total consumer health revenues for the 2020 Q3 were up 1.3% to \$3.51bn. (Also see "[Band-Aid Covers Sales Driver Role To Continue J&J's Consumer Health Business Growth](#)" - HBW Insight, 13 Oct, 2020.)

Also in 2018, Gorsky oversaw an overhaul of the Johnson's baby care brand, prompted in part by competition in the category from natural upstarts. The products were reformulated with more naturally derived ingredients and fewer ingredients overall.

More recently, under Gorsky the consumer health business has focused on cutting around 10% of its SKUs mainly in the baby and beauty categories outside the US to improve profitability.

But he announced his exit likely feeling investor pressure as J&J incurred increasing scrutiny concerning its sunscreen, talc products and opioid drugs.

Gorsky's challenges at the consumer health business began with the fallout of a US Food and Drug Administration consent decree in 2011 concerning good manufacturing practices by its McNeil unit. A more damaging fallout started in 2016 with a string of lawsuits related to an alleged link between J&J's talc products and ovarian cancer and other illnesses.

In a move criticized by plaintiffs' attorneys and consumer health advocates, J&J opted to separate its talc product operations into a standalone business, LTL Management LLC, to incur claims in the cosmetic talc litigation.

On 14 October, the New Brunswick, NJ-based firm announced that LTL filed for chapter 11 bankruptcy protection, a filing "intended to resolve all claims related to cosmetic talc in a manner that is equitable to all parties, including any current and future claimants." J&J will fund the affiliate with a \$2bn trust and a royalty stream with net value of more than \$350m currently.

Morningstar analysts say the bankruptcy strategy likely works better for J&J than continuing to litigate the almost 35,000 lawsuits challenging the safety of its talc powder. “The decision was guided by the firm’s desire to reduce the uncertainty around the almost 35,000 lawsuits,” according to a 15 October Morningstar research note.

“The funding to satisfy the claims is largely in line with our expectations. While we had expected J&J to continue to litigate more cases and then finally settle, the bankruptcy pathway appears to expedite a similar result had the firm continued to challenge each lawsuit. Even though we believe there is still some uncertainty that the bankruptcy pathway will be acceptable for the plaintiffs, we expect the plan will likely end the risk overhang of these claims on J&J,” the analysts stated.

J&J also currently is dealing with regulatory and class action problems related to the carcinogen benzene found in aerosol sunscreens it markets under the Neutrogena and Aveeno brands. The FDA stated, after J&J on 14 July announced a recall of five spray sunscreens due to trace amounts of benzene detected in internal testing, it is investigating how the contaminant reached the products. (Also see "[J&J Recall Of Benzene-Tainted Sunscreens Lends Weight To Valisure Claims, Triggers Class Action](#)" - HBW Insight, 15 Jul, 2021.)

Consumer health results were strong for the April-June period, though. Like its competitors, J&J reported sales growth driven by the first sustained period of consumer spending since the COVID-19 pandemic shutdown and compared its results to a year-ago quarter when sales of consumer health and personal health care products dropped precipitously after widespread stockpiling purchasing in the first quarter. (Also see "[Second-Quarter Consumer Health Results Bring J&J Relief From Year-Ago Sales Plummet](#)" - HBW Insight, 21 Jul, 2021.)

However, J&J aligned with analysts in saying its second-quarter results not only were better than the year-ago period but also likely better than the segment would do for the remainder of 2021.

J&J in July reported 9.2% operational growth, adjusted for acquisition and divestitures, from the year-ago period to \$3.74bn in sales. The regional split for J&J’s consumer results was \$1.75bn in US sales, up 12.4%, and \$1.98bn international, up 6.3% or 7.8% including the influence of

Like COVID-19 Impact On Supply Chain, Expert Says Global Demand For Goods ‘Unprecedented’

By [Malcolm Spicer](#)

17 Sep 2021

UCLA professor Chris Tang says like most US businesses relying on supplies or production from outside the country, particularly from China, consumer health and beauty and personal care product companies should expect at least another year of supply disruption.

[Read the full article here](#)

currency exchange. Its overall consumer results were up 4.1% accounting for currency exchange.

Nearly \$2Bn Headwind Challenges P&G

P&G will report whether sales of health care, beauty or other product category continued driving the gains the firm has made for 12 consecutive quarters under CEO David Taylor, who will be succeeded by chief operating officer Jon Moeller in November. Taylor was at the helm for almost six years and will continue as executive chairman. (Also see "[Final Quarter Of P&G CEO Taylor's Tenure Could Become Stormy With Headwinds From Rising Costs](#)" - HBW Insight, 1 Aug, 2021.)

Clearing the bar is made more challenging with the firm facing \$1.8bn in headwinds from commodity and freight costs during its fiscal year 2022, which started in July. Cost increases are expected to cut earnings per share by around 12 percentage points as the firm estimated a \$1.8bn after-tax commodity cost headwind for its FY2022.

The firm expects freight and transportation costs to create an \$100m after-tax headwind. Some costs will be offset by price increases but those hikes come after the costs' impact on the firm's results.

Health care organic sales increased 14% in the April-June period, with sales of personal health care lines including Vick's cough/cold products, Pepto-Bismol upset stomach relief and Prilosec OTC heartburn remedy up mid-teens primarily from line extensions, package-size variations and other innovations and price increases in some markets.

- P&G on 18 October compares its latest results to Q1 of its FY2021 when sales of its household cleaning lines in addition to its personal health and hygiene brands drove its US organic sales up 16%, contributing to a 9% increase in net and organic sales to \$19.3bn worldwide. Its personal health division reported organic growth in the high single digits, helping drive total health care sales up 11% to \$2.47bn. P&G's beauty business sales for the quarter were up 7% to \$3.79bn. (Also see "[P&G Health, Hygiene Brands Ride Consumer 'Trust' To Sales Growth Amid Pandemic Uncertainty](#)" - HBW Insight, 20 Oct, 2020.)

For its FY2021, health care sales grew 10% to \$9.96bn; in personal health care, the NyQuil Honey formulation was the leading new item in the US respiratory market and the Vick's brand share was up 90 basis points over the previous 12 months.

After 33 years with P&G, Moeller's promotion to president and CEO was announced in July. He had been a member of P&G's global leadership team since 2009 as chief financial officer before becoming vice chairman and chief operating officer. (Also see "[Moeller Takes P&G Reins With 33-Year Grasp Of Products, Planning And Footprint](#)" - HBW Insight, 29 Jul, 2021.)

The Cincinnati-based firm also appointed Shailesh Jejurikar, currently CEO of its fabric and home care sector, as chief operating officer effective on 1 October.

Rx Unit And Tax Overhang Gone, HRA In For Perrigo

The OTC drug private label/store brand giant will report its third-quarter results looking ahead after putting behind it a nearly \$2bn tax overhang and moved to the head of the line for potential OTC oral contraceptives by acquiring HRA Pharma.

More recently, Dublin-headquartered Perrigo appointed former US Food and Drug Administration official Jim Dillard, who has research and development experience as well as a regulatory background from his work there, president of the unit the firm calls Consumer Self-Care Americas. (Also see "[Who You Gonna Call For US Oral Contraceptive Switch? Former FDA Official Heads Perrigo Americas](#)" - HBW Insight, 7 Oct, 2021.)

Perrigo boosted the outlook for its international business as well as the Americas unit in September with agreements to acquire HRA and to pay Ireland €266.1m (\$308.7m) to settle a €1.6bn (\$1.9bn) assessment for back taxes.

- At the yet-scheduled release, Perrigo's results will be compared to consumer health product net sales growth of 3.6% to \$1bn during the year-ago quarter. E-commerce increased 142% for its Americas business –the US, Canada and Latin America – and grew by “the high 40s” for its European consumer business. But its consumer health international business in Europe reported a 2.9% slip in net sales to \$339m due primarily to consumers’ changing spending patterns. (Also see "[Perrigo's Consumer E-commerce Sales Jump 142% In US, Improve Pan-European Marketing Potential](#)" - HBW Insight, 4 Nov, 2020.)

The €1.8bn (\$2.1bn) in a cash deal for HRA, officially identified in France as Héra SAS, came first on 8 September. HRA's regulatory approval earlier in 2021 for pharmacy sales of daily-use 75-mcg desogestrel in the UK, where it's branded Hana, and the firm's ongoing work on a new drug application to propose making another progestin-only contraceptive ingredient, norgestrel, available OTC in the US stand out as the additions to Perrigo's business with the most substantial short- and long-term revenue impacts. (Also see "[International Business Floats Perrigo Q2 Sales As Market Uncertainties Cloud Americas Region](#)" - HBW Insight, 11 Aug, 2021.)

Perrigo, which maintains its primary operations in Grand Rapids, MI, announced on 29 September an agreement with Irish authorities about an assessment ordered in 2018 linked to Rx ingredient royalty rights the firm gained when it acquired Elan Corp. in 2013 and became incorporated in Dublin. (Also see "[Perrigo Paying \\$309M To Settle \\$1.9Bn Irish Tax Assessment](#)"

[From Elan Merger](#)" - HBW Insight, 29 Sep, 2021.)

Perrigo contended that Elan's recognition of the royalty payments for 20 years as trading income taxed at 12.5% was correct, not the 33% chargeable gain Irish authorities ordered. However, it expected the Tax Appeals Commission would have confirmed the 33% rate and it opted to settle.

The tax settlement, the HRA deal and Dillard's appointment came after Perrigo in August reported net sales during the April-June period of \$981m, up 3.4%, despite a 1.4% decrease in organic sales to \$622m for its Americas business on a 2.7% drop in sales of cough/cold products. (Also see "[International Business Floats Perrigo Q2 Sales As Market Uncertainties Cloud Americas Region](#)" - HBW Insight, 11 Aug, 2021.)

Perrigo executives, noting the sale of its Rx generics business earlier in 2021, deem the firm transformed to a consumer health-focused business with a clean slate to drive growth, a status that Jefferies analysts say it has limited time to fulfill.

"With the sale of the generics unit complete, improved growth prospects ahead from HRA, and now the risk of major tax liabilities eliminated, [Perrigo management] has bought themselves two years to deliver as a pure play," according to a 30 September Jefferies research note.

The analysts added that "while the jury is still out on whether meaningful organic growth can return, investor expectations are low after years of underperformance" and Perrigo "remains dominant in store brands, which for years was an attractive business."

Prestige Consumer Saw Sales Growth Ahead

While other US consumer health product marketers reported following their previous quarters that increasing supply chain costs, including transportation as well as materials and packaging, led to trimming earnings guidances, Prestige Consumer Healthcare in August forecast better results than the flat sales it estimated when its fiscal year 2022 began in April. (Also see "[With TheraTears, Prestige Consumer Sees Way To Boost Guidance Despite COVID, Cost Uncertainties](#)" - HBW Insight, 5 Aug, 2021.)

More than 17% growth in its OTC drug and other consumer health product sales during the April-June period on top of adding the TheraTears brands to PCH's lineup in July outweighed potential headwinds from costs and changes in consumer spending and prompted a guidance increase (*see image*).

- The Tarrytown, NY-based firm acquired line of products indicated for dry eyes along with the Diabetic Tussin decongestant and Zostrix (capsaicin) topical analgesic OTC brands and the

PCH's \$57.8m net income was up more than 32% from the year-ago period when consumer spending plummeted after jumping to unprecedented levels in the first three months of 2020.

Global OTC segment sales were up 17.3% to \$269.2m, split between \$242.4m in North America and \$26.8m in other markets.

MagOx magnesium supplement and Multi-betic multivitamin brands from Akorn Inc. for \$230m cash in a deal that closed on 1 July. (Also see "[Deal For TheraTears Emphasizes Prestige Is A Consumer Health Business, Akorn Isn't](#)" - HBW Insight, 27 May, 2021.)

The results prompted the firm to boost its initial expectations for its FY2022: its revenue guidance was upped from an initial range between \$957m and \$962m to \$1.045bn and up, and its organic growth forecast was increased from between 1.5% and 2% to around 6%.

Prices Up, Forecast Down For Church & Dwight

With its second-quarter results in August, the Ewing, NJ-based firm lowered its full-year outlook for net sales growth from a range of 5% to 6% it had stated in April to around 5%; its organic sales growth from a 4%-5% range to around 4%; adjusted earnings per share from 6%-8% to lower end of that range; and cash from operations from \$1bn to around \$950m. (Also see "[Church & Dwight Cuts Outlook Due To Rising Costs, Adds Suppliers To Strengthen 'Weak Links'](#)" - HBW Insight, 2 Aug, 2021.)

Its consumer health and personal care product sales grew 13% to drive overall 6.4% net sales growth in the April-June period, but supply costs are up and supplies are harder to come by due to multiple causes including labor shortages at its suppliers and its third-party manufacturers.

C&D had raised prices on some products before Q3; in mid-September, president and CEO Matthew Farrell said the firm expects by October to raise prices on products in its portfolio it hadn't previously increased.

- C&D's results out on 29 October will be compared to 24.5% growth in personal care product sales to \$453.2m driven by its vitafusion and L'il Critters gummy vitamin and supplement lines in the year-ago Q3. Total sales increased 13.9% to \$1.24bn, with organic sales growing 9.9%. Growth of its supplement lines prompted C&D to raise its full-year outlook for sales growth from its previous 9%-10% estimate to 11%. (Also see "[Demand For Vitafusion, L'il Critters Gummy Lines Exceeds Church & Dwight Capacity, Drive Q3 Growth](#)" - HBW Insight, 30 Oct, 2020.)

In a 2 August research note, Credit

Suisse analysts agreed with C&D's pricing strategy in response to \$35m extra inflationary costs, estimated at \$125m for the year, and as shortages of materials and other supplies were expected to continue costing it at least 1 percentage point of sales growth in July-September period. As well, it's adding about 25% capacity to its supply chain by year-end for greater flexibility and resiliency.

"Pricing actions will bode well for [2022] and beyond" and with ad spending unchanged, "tighter expense control will keep operating margin and cash flow largely on track," Credit Suisse analysts said.

C&D executives said in August that the firm will continue with its business model rather than become more vertically integrated as most of its competitors are. Additionally, it reported positive impacts from its supply challenges – it's adding more suppliers and with distribution slowed, it cut back on marketing for some products.

Credit Suisse analysts agree there, too. C&D "is a structurally better business today, able to achieve higher productivity, generate greater volume throughput, and enjoy contribution from margin-accretive acquisitions and price increases," they wrote.

C&D reported Q2 net income up 15.1% to \$218.3m and overall net sales up 6.4% to nearly \$1.3bn as sales of personal care products, which include vitafusion and L'il Critters gummy vitamins and other consumer health products, increased 13% to \$436.7m.

It reported double-digit consumption growth in nine categories including gummy vitamins, dry shampoo and water flossers. Its global online sales grew 7.2% after surging 77% growth in the year-ago period, expanded to 14.2% as a percentage of total sales.

During Q3, C&D extended its Nair hair removal line with formulations including one made with cannabinoids and its First Response at-home pregnancy tests with a kit for women who test often. (Also see "[Church & Dwight Includes Cannabinoids Among Nair Bladeless Shave Luxury Treatment Choices](#)" - HBW Insight, 14 Sep, 2021.)