# J&J sales of OTC products plunges 40 pct in 3Q

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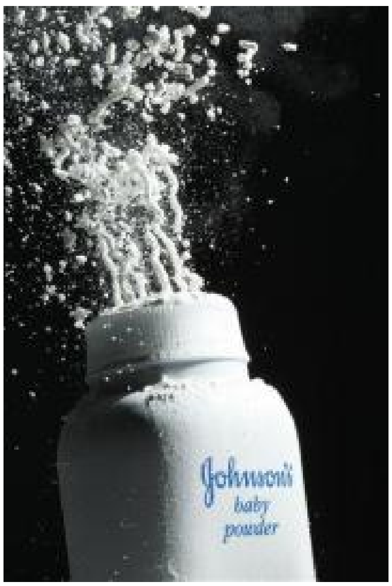


In this April 19, 2010 file photo, Johnson's Baby Powder is squeezed from its container to illustrate the product, in Philadelphia. Health care giant Johnson & Johnson says it eked out a 2 percent increase in profit for its third quarter, even though sales were down slightly.(AP Photo/Matt Rourke, file)

(AP) -- U.S. sales of Johnson & Johnson's nonprescription medicines plunged 40 percent in the third quarter as an embarrassing string of product recalls hurt sales and consumer trust. That, combined with the lingering global recession and some initial price cuts from the health care overhaul, contributed to anemic earnings for the health care giant.

The maker of baby shampoo, contraceptives and biologic drugs on Tuesday reported a 2 percent increase in profit for the quarter that ended Sept. 30, but that was due to a $196 million jump in other income from divestitures and a lower tax bill.

Third-quarter net income edged up to $3.42 billion, or $1.23 per share, beating analysts' expectations of $1.15 per share. A year earlier, net income was $3.35 billion, or $1.20 per share.

The revenue picture was far bleaker for the world's biggest maker of health care products:

- In the consumer division, known for such iconic brands as Band-Aids, No More Tears baby shampoo and Listerine, sales were down in every business segment except baby care. Over the past 13 months, the division has announced 10 product recalls involving tens of millions of bottles of Tylenol, Motrin and other nonprescription drugs. In addition, the recession continues to push penny-pinching shoppers to opt for cheaper store brands, a problem J&J executives have been citing for about two years.

- Total consumer product sales in the U.S. fell 25 percent, led by the over-the-counter category that was hit hard by product recalls. Overall, worldwide consumer sales fell almost 11 percent, to $3.57 billion.

- U.S. sales across all divisions were down 2.5 percent. Total sales dropped 6.4 percent in Europe, where government-run health programs have been forcing medical product companies to reduce prices. The only significant growth geographically came from the smaller markets of Latin America, Africa and the Asia-Pacific region.

- Revenue for the medical devices and diagnostics division, which became the company's biggest division earlier this year, rose just 1.3

percent, to $5.92 billion. Three of its seven businesses reported sales declines: the diabetes testing supply business, the laboratory diagnostics division and one selling artery-opening stents and other products for heart procedures.

"This is bad," said analyst Steve Brozak of WBB Securities. "Muddling through and blaming it on health care reform just won't cut it anymore."

In midday trading, J&J shares were down 55 cents at $63.31 after falling nearly 2 percent earlier.

Sales for the whole company were $14.98 billion, down almost 1 percent from $15.08 billion in 2009's third quarter. Analysts polled by Thomson Reuters were anticipating revenue of $15.18 billion.

The semi-bright spot was the pharmaceutical business, which has mostly recovered from some blockbuster drugs losing patent protection in recent years. It had a couple of newer drugs perform well, boosting revenue for the division by nearly 5 percent, to $5.5 billion.

New Brunswick, N.J.-based Johnson & Johnson has taken a black eye over all the product recalls, which have led to the head of the consumer division suddenly announcing an early retirement. In addition to the over-the-counter medicines, the company has recalled contact lenses, faulty blood glucose test strips and hip implants that caused so much pain that many had to be replaced.

The most recent, involving Tylenol caplets, was announced Monday evening.

The consumer product recalls forced the closure of a factory in Fort Washington, Pa., this past spring. J&J has estimated it will lose $600 million in sales of consumer products this year.

The company has begun shipping one children's medicine, now made at another factory, Chief Financial Officer Dominic Caruso told analysts on a conference call, and production of all the medicines made in Fort Washington is slowly ramping up elsewhere. That factory is getting a major overhaul, including new training for the employees now laid off.

"The plant will not be operational until late 2011," Caruso said. J&J previously said it would reopen sometime in the second half of the year.

Company executives also said revenue was reduced by about $100 million in the quarter as early provisions of the U.S. health care overhaul required lower prices from drugmakers for medicines bought through the Medicaid program.

J&J raised its earnings forecast for 2010, to $4.70 to $4.80 per share, up from its July forecast of $4.65 to $4.75. Those figures exclude the effect of one-time items.

"The company admits that much of this is due to the impact of currency fluctuations," Credit Suisse analyst Catherine Arnold wrote to clients.

J&J said unfavorable currency rates reduced revenue 0.8 percent in the third quarter, but that trend should reverse in the fourth quarter.

For the first nine months, J&J reported net income of $11.39 billion, or $4.08 per share, up from $10.06 billion, or $3.61 per share, in the first three quarters of 2009. Sales totaled $45.94 billion, up 1.3 percent from $45.35 billion a year earlier.