J&J 4Q profit jumps on higher sales, lower charges (Update)

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In this Monday, July 16, 2012, photo, Johnson & Johnson products are displayed in Orlando, Fla. Higher sales helped Johnson & Johnson post a much bigger fourth-quarter profit than a year ago, when a slew of charges depressed results. The New Brunswick, N.J., company said Tuesday, Jan. 22, 2012, that net income was $2.57 billion, or 91 cents per share, up from $218 million, or 8 cents per share, in 2011's fourth quarter. (AP Photo/John Raoux, File)

Higher sales of prescription drugs and medical devices helped Johnson

& Johnson post a much bigger fourth-quarter profit than a year ago, when a slew of charges depressed results.

However, consumer health product sales dipped and the company again pushed back its timeline for returning recalled products to stores. In addition, J&J's 2013 profit forecast, for $5.35 to $5.45 per share, is below the average analyst estimate of $5.49.

The New Brunswick, New Jersey, company said Tuesday that net income was $2.57 billion, or 91 cents per share, up from $218 million, or 8 cents per share, in 2011's fourth quarter.

Excluding about $800 million in charges in the latest quarter, earnings would have been $3.38 billion, or $1.19 per share, 2 cents above analysts' expectations. The charges include J&J's biggest acquisition ever and increased litigation reserves over recalls of defective DePuy hip implants.

The maker of attention deficit drug Concerta, Acuvue contact lenses and consumer health products such as No More Tears shampoo said revenue totaled $17.56 billion, up 8 percent from a year ago but just shy of analysts' average estimate of $17.69 billion.

J&J shares fell 54 cents to close at $72.69 Tuesday.

"On the whole, the quarter was no problem," said WBB Securities analyst Steve Brozak, adding J&J needs to quickly decide what to do with its $12.5 billion in free cash flow. "Are they going to buy, are they going to sell or are they going to stand still?"

CEO Alex Gorsky told analysts during a conference call that the company is exploring alternatives such as the sale or spinoff of its Ortho Clinical Diagnostics business. It makes equipment and supplies for detecting and diagnosing conditions such as HIV, diabetes and high cholesterol and for ensuring donated blood is safe.

"Johnson & Johnson delivered solid results in 2012, with momentum continuing to build and sales growth accelerating," Gorsky said. "As we enter 2013, I believe we're well positioned to drive growth in this increasingly competitive, dynamic market."

However, J&J's long-running manufacturing quality problems continue to hurt sales of consumer health products, which were down 3.6 percent in the U.S. and 0.4 percent worldwide at $3.65 billion in the quarter.

The company has issued about 30 recalls of Tylenol and other products since September 2009. Reasons range from nauseating packaging smells to tiny glass and metal shards in liquid medicines.

Costs for upgrades and completely rebuilding one factory, and for lost sales as Tylenol, Motrin, Benadryl and other products remained off store shelves, top $1 billion. Upgrading its factories and getting all the products back in stores has dragged on far longer than the company initially predicted.

"We will return a consistent supply of our key products over the course of 2013," Gorsky said, with about 75 percent of the brands getting back on the market.

Two years ago, Gorsky's predecessor, Bill Weldon, said all the products would be back in stores by the end of 2011.

"They haven't turned the corner on the fallout from the string of recalls," said analyst Erik Gordon, a professor at the University of Michigan's Ross School of Business. "Without the sales added by the Synthes acquisition, overall sales were anemic and medical device and diagnostic sales took a dive."

The $19.7 billion acquisition of surgical trauma equipment and orthopedic implants maker Synthes Inc. last June drove a 14 percent increase in sales of medical devices and diagnostics, J&J's largest segment, to $7.38 billion.

Prescription medicine sales rose 7.1 percent, to $6.53 billion, despite continuing revenue losses to generic competition for several drugs. Newer medicines posted double-digit sales jumps, including HIV drug Prezista, Invega Sustenna for schizophrenia and Simponi and Stelara for immune disorders such as psoriasis.

Gorsky told the analysts the company is poised to take advantage of expected growth of health care sales in developed countries from $5.5 billion in 2012 to $8 billion in 2022.

Brozak said the company's growth assumptions are too optimistic, given that government health programs, particularly in debt-laden European countries, are trying to trim their spending.

"They're talking about a pie ... that's only growing in terms of demand, but who's going to pay for that demand?" he said.

For all of 2012, J&J reported net income of $10.85 billion, or $3.86 per share, on revenue of $67.22 billion. The company expects 2013 revenue of about $71 billion.

During a lengthy presentation on the medical device business—the world's largest—managers of its three divisions said they intend to increase market share, partly by expanding sales into more countries.

Other sales-boosting strategies they cited include developing innovative products, such as a new artificial knee with improved range of motion that makes climbing stairs easier. Another is giving customers "both clinical and economic value," as with a program J&J developed to speed up each step in treating patients with new hip fractures—so they're sent home from the hospital quicker, saving insurance plans lots of money.