

# J&J 3Q net rises slightly on higher medicine sales

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A big jump in prescription drug sales and continued recovery of Johnson & Johnson's beleaguered consumer health business in the third quarter helped the health care giant overcome a new problem: slumping sales of its medical devices.

That was mainly due to pricing pressure in the U.S. that forced J&J to cut prices for devices including diabetes testing products and spine and hip replacement parts, and trouble integrating part of orthopedic products maker Synthes, bought last year for \$20 billion in J&J's biggest acquisition.

The maker of baby shampoo and immune disorder drugs nudged up its earnings forecast for 2013. In afternoon trading, shares rose 61 cents to \$90.41, near its 52-week high of \$94.42.

J&J said Tuesday that net income was \$2.98 billion, or \$1.04 per share, up from \$2.97 billion, or \$1.05 per share, a year earlier. Excluding charges, it earned \$1.36 per share, 4 cents per share more than expected.

Revenue rose 3 percent to \$17.58 billion. Analysts expected \$17.43 billion.

"We are still seeing (health care) utilization rates that are essentially flat year over year," Chief Financial Officer Dominic Caruso told analysts on a conference call.

That's been a problem throughout the lengthy global economic slowdown, as consumers delay elective surgical procedures and "trade down" to store brands rather than J&J's pricier Band-Aids and nonprescription medicines.

Those nonprescription drugs, responsible for most of J&J's roughly four dozen product recalls over the past four years, saw [sales](#) jump 18 percent in the U.S. and 6.4 percent worldwide as more products were returned to stores. Pain relievers such as Tylenol and Motrin, among the products recalled for reasons including wrong active ingredient levels and contamination with metal and plastic particles, fueled that growth.

The consumer health business, which also makes dental, wound and skin care items such as the Aveeno and Neutrogena lines, boosted sales 0.8 percent to \$3.61 billion.

The decline in device sales enabled the New Brunswick, New Jersey, company's prescription drug business to regain its position as J&J's top revenue generator.

Drug sales rose 9.9 percent to \$7.04 billion, led by big jumps for newer medicines including anticlotting drug Xarelto, immune disorder drug Simponi, Stelara for psoriasis, Invega Sustena for schizophrenia and Zytiga for prostate cancer.

"The new drug sales are particularly impressive," said Erik Gordon, a professor and analyst at University of Michigan's Ross School of Business. But he said J&J can't seem to get its consumer products business "moving quickly. They've lost four years of business and may never get it all back."

Analyst Steve Brozak of WBB Securities was encouraged by J&J's \$2.3 billion in sales of medicines for arthritis and inflammatory disorders,

and its push into cancer medicines. Both are growth areas and cancer drugs command big profits.

Device sales dropped 2 percent to \$6.93 billion, due to the pricing pressures and difficulty integrating the Synthes sales reps and products for repairing spinal damage. J&J said it's addressing that.

It's developing cheaper, easier-to-use [medical devices](#) for markets such as China and India. They're among the top emerging markets—countries with big populations that are spending more on [health care](#)—that are expected to provide 40 percent of device business growth in coming years.

Edward Jones analyst Judson Clark said J&J is acknowledging the industry can't hit its earlier rosy profit expectations in emerging markets.

"People who can't afford a \$100 medicine also can't afford to pay list price for replacement knees," Clark said, but noted device sales were up 0.3 percent excluding the effect of unfavorable currency exchange rates.

For the second straight quarter, J&J raised its profit forecast by a few cents, to \$5.44 to \$5.49 per share. Analysts expect \$5.46 per share.

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