DOW JONES

BARRON'S

Review & Preview Follow-Up -- A Return Visit to Earlier Stories: J&J's New Boss: What The Doctor Ordered

By Johanna Bennett and Lawrence C. Strauss
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When Barron's interviewed Johnson & Johnson CEO William Weldon late last summer ("Bringing J&J Back to Health," Sept. 10), he was emphatic that he still had much to do before retiring. At the top of the list was fixing, once and for all, J&J's McNeil Consumer Healthcare unit, which had been embarrassed by a series of recalls since 2009 of children's Tylenol and other products.

Things didn't work out as planned. Johnson & Johnson (ticker: JNJ) announced Feb. 17 that it was voluntarily recalling 574,000 bottles of infant Tylenol, due to a "small number" of consumer complaints about the bottles' new dosing system. Last week, it said that Alex Gorsky, 51, would succeed Weldon, 63, in late April. Weldon will remain chairman of the health-care giant to help with the transition.

Investors shouldn't expect major changes in strategy from Gorsky, who has overseen the supply chain and medical-devices and diagnostics group. He is known as a hard-driving manager whose talents include top-notch organizational skills and an ability to motivate employees, and his appointment reflects J&J's history of promoting from within.

Mark Bussard, a health-care analyst at T. Rowe Price who has met with Gorsky several times, says, "I have come away impressed that he has a real command over the businesses."

A West Point graduate who initially joined the company in 1988, Gorsky beat out Sheri McCoy for the job. She will continue to run the pharmaceuticals and consumer groups. McCoy also is well-regarded, particularly for the way she has been rebuilding the company's prescription-drug business as it has faced patent expirations. Since last April, J&J has received FDA approval for the prostate-cancer drug Zytiga, the HIV medication Edurant and the blood thinner Xarelto.

Something else that is unlikely to change much under Gorsky is J&J's decentralized operating model, which gives unit managers a lot of autonomy. The setup has come under fire in recent years. "The consumer problems have convinced them that, in terms of a regulatory perspective, they need to centralize that function and have a much stronger quality-assurance program" companywide, says Ian Sanderson, an analyst at Cowen with an Outperform rating on the stock. He expects J&J to outperform the market by 10% to 15% in the next year.

J&J shares are up 7% in the past year, to $64.46, and have outperformed the S&P 500. But the stock, which yields 3.5%, has trailed the S&P Healthcare index. Gorsky looks like a solid choice to improve Johnson & Johnson's operating performance. A higher stock price likely will follow.

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BARRON'S

Home
A New Day for J&J

By Johanna Bennett
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Investors have been waiting for years for shares of Johnson & Johnson to lift off. With a new CEO at the helm, that may finally happen.

The health-care conglomerate announced late Tuesday that CEO Bill Weldon will step down in April, and company veteran Alex Gorsky will take the reins.

The 51-year old executive beat out rival Sheri McCoy for the job. And he's assuming control of a company that has been hobbled by a flurry of setbacks and troubles, including an embarrassing string of product recalls that eroded profits and tarnished J&J's reputation as one of America's most trusted and respected companies.

The stock has paid the price. Granted, at roughly $65 share, J&J (ticker: JNJ) has climbed 6% over the last 12 months, outperforming the Standard & Poor's 500. However, it has lagged gains by the broader S&P Healthcare index, which includes rivals such as Amgen (AMGN), Pfizer (PFE) and Abbott Laboratories (ABT), over the past one, two and five years.

But Gorsky's appointment sends a signal that the world's largest health-care company is finally "moving beyond the challenges of the last few years," says Marshall Gordon, an analyst with ClearBridge Advisors.

And with big new drug launches and a $21 billion bid to buy medical tool maker Synthes promising a much needed boost to a struggling medical-device business, J&J's sales and profit growth should accelerate over the next few years.

Add a 3.5% dividend yield, and the stock – which now trades at less than 13 times expected forward earnings – could return more than 30% over the next 12 to 24 months.

"Things are starting to go right [for J&J]," says Jeff Jonas, an analyst with Gabelli & Co. who sees the stock reaching $85 by next year. "…It is a very safe and defensive stock that you can hold for a long time in your portfolio."

With sales of $65 billion in 2011, J&J operates more than 100 subsidiaries that sell everything from baby shampoo to cancer medication. That diversity, as well as the company's cash-generating ability and steadily growing dividend earned applause from Barrons.com last year (see Weekday Trader, "J&J Shares Regaining Health," June 22, 2011).

All of that remains a big plus for J&J.

But patent expirations and a lousy economy have hurt sales. Quality control problems led to massive product recalls in its consumer products division. And last year it exited the $5 billion market for drug-eluting stents as part of efforts to restructure a medical-device business ravaged by pricing pressure and economic downturn.

From 2009 through 2011, annual profit growth had fallen into the mid- to low single digits. Earnings per share rose 5% last year to $4.76 a share. This year, Wall Street sees earnings per share climbing 2% to $5.11.

But in 2013, J&J could earn $5.44 a share, a 6% increase and the best annual earnings growth since 2008.

Since April 2011, J&J has received Food and Drug Administration approval for the prostate cancer drug Zytiga, the HIV medication Edurant and the blood thinner Xarelto.

And European and U.S. regulators have approved the hepatitis C drug telaprevir, which J&J is marketing in Europe under a partnership agreement with Vertex Pharmaceuticals (VRTX).

European regulators are still reviewing J&J's plans to buy Synthes, which is the biggest acquisition in the company's 125-year history (see Barron's, Follow Up, "Deal Could Cure Some J&J Ills," April 23, 2011). And J&J has reportedly offered concessions to European antitrust regulators who have extended their deadline for a ruling on the matter until April 26.

At 12.7 times forward earnings, investors are paying a 10% premium for J&J compared to the broader pharmaceutical industry.

Rivals such as Pfizer, Bristol-Myers Squibb (BMY) and Merck & Co. (MRK) pay juicier dividend yields. And J&J still faces some stiff economic headwinds.

But it has piles of free cash at its disposal, a growing dividend and a healthy drug pipeline. With a highly respected executive taking over the company's helm, J&J may finally deliver the healthy returns investors crave.

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J&J Recalls Infant Tylenol

Barron's Blogs, 10:25, 17 February 2012, 140 words, By Avi Salzman, (English)

Johnson & Johnson (JNJ), which has been struggling with multiple product recalls in the past few years, just announced a recall of 574,000 bottles of infant Tylenol because of complaints about the dosing syringe included with the ...

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BARRON'S

Home
The Best Opportunities in a Half-Century

By Andrew Bary
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Joe Rosenberg is known for his candor, and for his understanding of all major asset classes. That comes from 50 years of experience on Wall Street, and his deep knowledge of markets and financial history. After beginning his career as an airline analyst at Bache in the 1960s, he was hired in 1973 by the late Larry Tisch at Loews, the New York conglomerate controlled by the Tisch family.

Rosenberg recalls that some people, including Barron's columnist Alan Abelson, told him that he might not last long at Loews because he and Tisch both were too strong-willed to get along well.

Yet, Rosenberg has been there ever since. He was chief investment officer until 1995, when he became chief investment strategist. He's also an advisor to Loews' current CEO, Jim Tisch, Larry's son. In addition, Rosenberg is a director of CNA Financial, the property-and-casualty insurer controlled by Loews.

Barron's has interviewed him on several occasions, most recently in February 2008. He then urged Microsoft (ticker: MSFT) to scrap its proposed merger with Yahoo! (YHOO) because he felt Microsoft was overpaying. Luckily for Microsoft, Yahoo! rejected the deal, which would have taken place at nearly double the Internet company's current share price.

Rosenberg doesn't always get things right. He was bullish on Fannie Mae and bank stocks prior to the financial crisis, during which financial stocks were crushed and Fannie Mae was taken over by the government.

Rosenberg spoke with Barron's last Monday at his New Jersey home. He's now bullish on U.S. blue-chips like Microsoft, Merck (MRK) and Johnson & Johnson (JNJ), saying investors have a historic opportunity now to buy them at attractive prices. He believes that Microsoft boss Steve Ballmer should act more like Sam Palmisano, the CEO of IBM (IBM). And he's bearish on U.S. government bonds—with yields near historic lows. Rosenberg emphasized that these are his own views, and not necessarily those of Loews (L).

Barron's: Europe has been a big overhang for the U.S. stock market. How bad is it?

Rosenberg: People are projecting a worst-case scenario about intertwined banking systems in Europe and the United States. That fear factor is what is impelling people to stay away from equities in the United States, and is precisely why equities here are so attractively priced. Now, I am not going to say all equities. There is a big disparity in valuations between the best companies in the world, large-cap companies—both growth and value—and small-cap stocks, which have done well over the past few years, and are not as attractively priced. The price/book ratio of the S&P 500 relative to the Russell 2000 is near a multidecade low (see graph).

In my 50 years on Wall Street, it is rare that I've been so attracted to some of the best and finest companies. I will name a few, but generally speaking, I feel like a kid in a candy store, because I don't know where to begin. There's Microsoft, Merck, Amgen [AMGN], Johnson & Johnson, Teva Pharmaceutical [TEVA], Staples [SPLS], Oracle [ORCL] andCisco [CSCO]. The best companies in the world are now some of the cheapest stocks.

Stocks have disappointed for a long time.

We're at an inflection point in history, and that's what I want to emphasize. I'm not talking about a trade. I don't know what is going to happen next week or next month.

In terms of economic history, the equity market looks a lot like the Treasury-bond market in the early 1980s, when I had the most difficult time convincing people that they ought to buy bonds at 15% yields. Equities can easily generate a 10% annualized total return over the next five to 10 years. And they would still not be overvalued at that point. That's the beauty of it.

What should investors do?

If investors are afraid to put all their money into equities at one time, keep cash—and then every time you get another one of these scares, add to your position.

Investors are running scared.

These scares are nothing new in financial history. Sometimes, the scares are financial, and sometimes they are political. I can recall worse scares than the current one. Nobody wanted to go near equities during the Cuban missile crisis. That was a much worse scare than this one. It didn't last as long, but it was much worse, because we were actually on nuclear alert in this country. You can have cheap equity prices or good news, but you can't have both at the same time.

Many investors are worried that a weakening economy will mean earnings disappointments in 2012.

I think earnings will hold up well next year, but my base case isn't so much about the short-term earnings outlook.

A lot of the smart money has a very low allocation to U.S. stocks, including university endowments at Harvard, Yale and Princeton.

In the endowment world, everybody wants to be in vogue, so if you suggest to a fund that they ought to buy private equity, they are happy to do that. The wonderful thing about private equity is that you don't get marked-to-market every day. With stocks, you have to be prepared to suffer some volatility, but the reward for that volatility is the ability to buy companies at prices that are, relatively speaking, as cheap as I have ever seen in my career.

One of my key points is that some of the largest potential investors are all underinvested in equities, and they will get reinvested in equities because these are long cycles. When I first came to Wall Street, the typical pension plan was managed by U.S. Trust, and it would be two-thirds in bonds yielding 2% or 3%, and the rest in equities. That was a carryover from the 1930s and '40s. It later completely reversed.

Total Returns*	1-Year	5-Year	10-Year	30-Year
30-year Treasury	19.9%	10.9%	8.7%	11.8%
S&P 500 index	1.1	-1.2	2.8	10.8

Change in security value, plus dividends, through Sept. 30

Source: Blanco Research

Rosenberg's Picks

Company/Ticker	Recent Price	2012 P/E*
Cisco Systems/CSCO	$18.58	10.5
Hewlett-Packard/HPQ	28.22	6.9
Johnson&Johnson/JNJ	64.45	12.3
Merck/MRK	35.68	9.3
Microsoft/MSFT	25.28	9.2
Oracle/ORCL	31.67	13.1
Seagate Technology/STX	17.40	5.9
Staples/SPLS	14.32	9.5
Teva Pharmaceutical/TEVA	39.74	7.0
Western Digital/WDC	29.25	NM

*Based on fiscal 2012 earnings estimates. NM=Not meaningful

Source: Thomson Reuters

Many investors are worried about the political backdrop.

America has loads of problems, but I certainly don't believe that the country's best days are behind it. The current administration doesn't exactly foster a positive environment for the business community, either through its rhetoric or through excessive regulation. But even that has a positive aspect to it. With business leaders so cautious, corporate balance sheets are in superb condition.

How do U.S. stocks compare with other asset classes?

It's important to look at all investments on a relative basis. One alternative to equities is to earn nothing on your money at all in cash. Now, earning nothing on your money is not without its risks, because your money can prove to be relatively worthless.

The return on government bonds and the return on cash is indistinguishable. It is basically zero. Now, why would somebody want to invest in a five-year Treasury bond at 87 basis points (87/100ths of a percentage point) for five years?

There was a time in the 1980s that I used to scream that people should buy five-year Treasuries yielding 16%, and I would have arguments. People would say to me, "Well, you know, government budget deficits are out of control, and that's why yields are so high." Well, if government budget deficits were out of control when Treasuries were paying 16%, what do those same people say to me about government budget deficits being out of control now, when government bonds are paying 87 basis points?

Looking back, bonds have been a great asset class.

The great bond bull market began 30 years ago, in September of 1981. For the past 30 years, 30-year Treasury bonds have outperformed the S&P 500. The last time that phenomenon occurred was in 1842. That is how far back you have to go. Now if you want to look at a period of 20-year outperformance, you have to go back to 1939. While I was around in 1939, I wasn't managing money actively back then.

How are stocks valued?

Many companies have price/earnings ratios of 10, and free-cash flow yields of 10%. So these companies can basically LBO themselves [do a leveraged buyout] by borrowing two- to three-year money at 2% or 3% and buying an earning asset yielding 10% or more.

So, what's your advice?

If a person is not a professional and they want equity exposure, one way to get it is buying the SPDR Dow Jones Industrial Average ETF [DIA, an exchange-traded fund]. Many of the companies that I would want to own are part of the Dow Industrials.

You've been bullish on Microsoft for years, and the stock has gone nowhere. What could change that?

Everyone is talking about IBM, because Berkshire Hathaway [BRKA] took such a large stake in the company. But Microsoft by every metric is better than IBM. Its top-line growth is better. Its valuation is better. Its return on capital is better. Microsoft has a 12-month trailing-earnings yield of 10%; IBM's is around 7%.

Is Microsoft CEO Steve Ballmer part of the problem?

He is focused on operations, and should be focused on that, but he should listen to other people about the capital-allocation process. He should be more aggressive in buying back stock.

There are two things that IBM CEO Sam Palmisano has done, and that Buffett alluded to recently. By the way, I think that Buffett came pretty late to the IBM party. Palmisano basically has laid out a series of five-year plans, and he has met those targets. He also has communicated his intentions and his desires to Wall Street.

In this area, Steve Ballmer has been deficient. He has antagonized Wall Street by his absence. Why should he care about the stock price? His employees are shareholders. A better stock price certainly would help attract young people to work at Microsoft. When people look at a company, they assume that the price of the stock is symptomatic of its success. With Microsoft, that is not the case. Since Buffett is a buddy of [Microsoft Chairman] Bill Gates and has him on the Berkshire board, why doesn't Buffett tell Gates to take a page out of the success of IBM and apply it to Microsoft?

Microsoft is now around 25. With better capital allocation, where could it trade?

It could easily trade into the 40s. And then things become much easier, because a higher stock price becomes self-fulfilling. There are a lot of reasonable tech stocks: Oracle, Cisco Systems and Hewlett-Packard [HPQ]. I'd also mention the disk-drive industry, with Western Digital [WDC] and Seagate Technology [STX]. The consolidation of that industry means that there are very few competitors, which gives them tremendous pricing power.

Are you partial to drug stocks?

Here's an industry where dividend yields often are north of 3% and 4%. Companies have spent hundreds of billions of dollars on research and development in the past 10 years, and have little to show for it. Some companies are realizing that, and returning more of their earnings to shareholders. Merck is yielding more than 4%, and selling at a price/earnings multiple of nine, while spending $8 billion a year on R&D. Other companies have similar valuations, including Teva, which is large in generic drugs, and Johnson & Johnson, which is one of the premier companies in the world, has an AAA bond rating, and yields over 3%. Amgen is doing what Microsoft ought to be doing. It just announced a $6 billion bond issue, and a simultaneous repurchase of $5 billion worth of stock.

It's a Dutch-auction tender. Amgen is going to buy all $5 billion at once.

That's fine. Amgen isn't overpaying for the stock, which has a free-cash-flow yield of 9%. Abbott Laboratories [ABT] is attractive, as is Zimmer Holdings [ZMH], which makes hip replacements.

What other stocks appeal to you?

Staples. Here's an industry that could be consolidating. Staples' two major competitors–Office Depot [ODP] and OfficeMax [OMX]—can't seem to get it right. There are ongoing rumors that the two may merge. Staples has a huge brand name, and is very successful. It's selling with a 10 P/E and a 10% free-cash-flow yield. Staples is handicapped in the short run by what I consider unfair competition in its online business, which is not insignificant. Staples has to charge customers state sales taxes, whereas one of its largest competitors, Amazon.com [AMZN], usually doesn't. That's an untenable situation in the long run. If that changes, and I think it will change, it will be a big boost to Staples, which has a better brand name in office supplies than Amazon. [For more on Staples, see "Nope, That Wasn't Easy."]

Many value investors like depressed financial stocks. What do you think?

I don't want to recommend banks. The experience of the past few years has taught me that it's impossible to figure out what banks own, even when you're on the inside. As an outsider, I can't analyze them. This doesn't apply to MasterCard [MA], but it does apply to Citigroup [C].

How about emerging-market stocks?

I'd rather participate in emerging markets by buying U.S. multinationals that get 50% or more of their revenue abroad, including the growing countries of Asia.

What's your view on bonds now?

Treasury securities are probably in the final throes of one of the greatest bubbles I have ever seen. But I want to distinguish Treasuries from spread products, such as corporate bonds or Build America bonds—which are taxable municipals—or long-dated municipals. New Jersey recently sold transportation trust fund bonds with a yield above 5%, or 200 basis points more than the 30-year Treasury. That interests me. But I'm not making a bull case for spread products, because equities are so much more attractive.

What about junk bonds?

High-yield debt is not outrageously cheap. I prefer equities.

What are your thoughts on retirement?

When you interviewed me three years ago, I said this and I'll say it again: Retirement isn't in my plans. I'm happy working for Loews. I'll hang around as long as [CEO] Jimmy [Tisch] wants me around.

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J&J Begins to Rebound from Recalls

Barron's Blogs, 16:00, 21 September 2011, 125 words, By Avi Salzman, (English)

Johnson & Johnson (JNJ) has begun to ship new Tylenol Cold & Flu Severe caplets, a sign that the company is rebounding from a series of high-profile recalls on consumer products in 2009, the Wall Street Journal just reported. The ...

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BARRON'S

CEO Spotlight: Bringing J&J Back to Health

By Lawrence C. Strauss
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Last year could rightly be called the year from hell for Johnson & Johnson (ticker: JNJ). The company's McNeil Consumer Healthcare unit was forced to recall Children's Tylenol, Motrin and more than a dozen other products after contamination was found in one of its plants and serious problems were discovered in two others. By some estimates, the recalls have cost the diversified heath-care company more than $1 billion in lost sales -- and far more in terms of the damage to its once spotless reputation.

William Weldon, a 40-year J&J veteran who became CEO in 2002, is under no illusion that customers will automatically migrate back to Children's Tylenol, which has been off store shelves for 16 months. In years past, parents have been willing to pay more for the branded product. Now, he says, "we have to earn it."

A husky 62-year-old with a shock of white hair, Weldon met with Barron's last month in a corner office overlooking the Raritan River at J&J's campus headquarters in New Brunswick, N.J. Dressed in dark slacks and a white button-down shirt and loafers, the chief of this $178 billion company seemed almost avuncular at times. An avid sportsman, he is quick to talk about how he had to give up running and tennis in favor of golf after his legs went bad, adding that he has had a knee replacement and three laminectomies to relieve pressure on the spinal cord.

But beneath a mild-mannered surface is a tough competitor and leader who learned from the best. While playing high-school basketball in North Jersey in the 1960s, he attended clinics with Bob Knight, then an up-and-coming coach at Army -- and now the winningest NCAA Division I men's roundball coach in history. "Everybody knows about his intensity, but he has an extraordinary ability to connect with people," says the J&J chief, who brightens at the memory.

When not talking about sports, Weldon is all business. And McNeil isn't his only challenge. Like all big pharma companies, J&J has faced patent expirations. Unlike its peers, the loss of its biggest drugs -- Risperdal, an antipsychotic, and Topamax, an epilepsy treatment -- are already behind it. Pharmaceuticals accounted for 36% of J&J's $61.6 billion in revenue last year.

Medical devices and diagnostics, 40% of revenue, have also slowed, in part due to the commoditization of drug-eluting stents, which J&J pioneered in the 2003. Hurt by increased competition and weak pricing, the company intends to exit from the drug-eluting coronary stent business by the end of the year.

"We look at our portfolio of products and companies and ask which ones are the ones that we need to be investing in and which ones are the ones where the returns aren't going to be as great. And we got to a point where we saw that stents in general were declining and the price of stents was declining greatly," says Weldon.

Having dramatically expanded J&J's Ethicon Endo-Surgery unit in the 1990s, Weldon thinks the returns from medical devices will remain strong. In April the company agreed to acquire Synthes, a device maker, for $21.3 billion, the biggest deal in J&J's history. The deal establishes Johnson & Johnson as the world leader in traumatology and strengthens its position in spinal devices.

"If you get into an automobile accident where you have trauma, you have to be treated," Weldon says. "So, it is not as dependent on the economy and other things as the rest of the business."

Mike Weinstein, who covers J&J for JPMorgan and has known Weldon since 1995, says, "strategically, the deal makes sense." But the jury is still out on the rich price that J&J is paying. Still, he gives Weldon kudos for running J&J with a "longer-term view" and "being [more] receptive to ideas and technological innovation outside of J&J" than some of his peers.

Over the long term, Weldon's tenure is indeed impressive. Since he took over in 2002, J&J's revenue has grown 80%, to a forecast $65.3 billion this year; earnings have more than doubled, to an expected $13.6 billion; and earnings per share are up 126%, to a projected $4.97 this year.

J&J's shares, which recently traded at 63.64, have fared less well, returning 28%, including reinvested dividends, over the 9 1/2 years that Weldon has been chief, compared with the broad market's 31% gain.

Weldon grew up in Ridgewood, N.J., the son of a stagehand and a seamstress for the New York City Ballet. "My parents just taught me the value of hard work," he says, matter-of-factly. But Weldon, who played football and basketball in high school, never considered a career behind the scenes. After earning a biology degree from Quinnipiac College in 1971, he took a job as a sales rep in upstate New York for J&J's McNeil division, calling on doctors, hospitals and pharmacies.

Though he originally wanted to go on to medical school, Weldon, who married in college and had a child on the way, took a more pragmatic route. He credits Barbara, his wife of 42 years, for that decision -- and much more. "She really made me understand my responsibilities and brought discipline into my life," he says.

His ascent at McNeil was rapid. Two years in, he was calling on hospitals in New York City, and two years after that he was a division manager in Pittsburgh. Yet, says Weldon, he never had a prescription for getting to the top. "I did my job," he says, "And I focused on doing it really well."

Nor did he ever consider jumping to another company to speed his way. "Too many people get too enamored of wanting to go to the next job for a few more bucks or a better title," he says.

For all his success, Weldon allows that the last few years have been "by far and away the most hurtful and difficult" of his career. Some industry watchers called for his resignation as the events at McNeil unfolded, and recriminations have flown.

Asked how the problems occurred in the first place, he says, "It all boils down to making sure you stay focused on basics. We have [standard operating procedures], and we didn't necessarily follow SOPs." He insists that he wants to get McNeil back on the right path before he steps down, possibly in a year or two.

"I don't plan on being here forever," he says.

In planning for his succession, Weldon has set up a so-called bake-off between two J&J veterans, Sheri McCoy, 52, and Alex Gorsky, 51, who both were elevated to the office of the chairman in January. McCoy, who has spent her career at J&J, heads the global pharmaceuticals and consumer businesses. Gorsky, who joined the company from the Army and now is on his second tour of duty at J&J, oversees medical devices and diagnostics. He is also in charge of the company's vast supply chain, which has been overhauled to insure that no more defective products emerge for the J&J's manufacturing plants.

"One person will get the job," Weldon says, "But the other person will still have an extraordinary job. When you look at the job that either of these people would have as a No. 2, it is broader than that of most CEOs. And the two of them work as a great team."

Founded 125 years ago, J&J is a sprawling enterprise with more than 250 operating companies in 60 countries and 114,000 employees. Its products touch hundreds of millions of lives every day. For Weldon, some of the company's efforts are also quite personal. In 2009, J&J paid about $1 billion to the Irish drug company Elan to acquire all of the rights to its Alzheimer's Immunotherapy Program, notably the drug bapineuzumab, which is now in Phase III of clinical trials in the U.S. If successful, it could slow the progression of the disease. It could also become a multibillion-dollar success story for J&J.

Weldon says that Alzheimer's claimed the lives of his mother and one of his grandmothers. "I actually had to put my grandmother into an institution when I was 22 years old," he recalls. "If we can have an impact on Alzheimer's, it would just be unbelievable."

A non-U.S. licensing deal with Vertex Pharmaceuticals, meanwhile, brought the company Telaprevir, for hepatitis C. Although the drug is not yet cleared for sale in Europe, it eventually could become a $1 billion-plus product.

"We look at what is best in class, and also at what is going to bring significant change in the marketplace," says Weldon. "It is not the 'not invented here' syndrome."

On the consumer side, J&J's broad range of products, including Band-Aids, baby oil, Visine, Listerine, Neutrogena and Neosporin, has been hurt by the weak economy, not to mention the recalls. Last year sales slipped nearly 9%, to $14.6 billion, but the business remains very profitable. And unlike, say, Pfizer (PFE), which sold its consumer-products division for $16.6 billion in cash in 2006 -- J&J was the buyer -- J&J remains committed to expanding its consumer franchise.

Johnson & Johnson's reputation has been tarnished, but there is at least one place where it is unsullied. It is one of only four publicly traded companies with a triple-A credit rating -- higher than that of the U.S. government. With $11 billion in net cash on its balance sheet as of July 3, the pharma giant has earned that honor, and has ample liquidity for the Synthes deal and more. This year, it is expected to generate $13.7 billion in free cash flow, according to FactSet Research.

J&J has long been generous in sharing its cash with investors. The company has raised its dividend for 49 straight years, and at an impressive annual clip of 10.6% in the past decade. It currently pays a yearly dividend of $2.28 a share, and the stock yields 3.5%.

As Johnson & Johnson's leader through some of its best and darkest days, Weldon has understood his responsibilities well -- to employees, shareholders and, above all, customers, many of whom have entrusted their health and well-being to J&J. Perhaps it is no accident that he bears more than a passing resemblance to his old pal Bobby Knight. Under his firm and no-nonsense coaching, J&J is likely to emerge from its troubles as a better and stronger company, and reclaim its reputation as one of America's winningest corporations.

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J&J Slips After Earnings Despite Beat; Is Guidance Conservative?

Barron's Blogs, 09:10, 19 July 2011, 448 words, By Johanna Bennett, (English)

Shares of Johnson & Johnson (JNJ) fell modestly in morning market action, despite the U.S. health-care products giant's better-than-expected second-quarter operating profits.

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BARRON'S

Weekday Trader: J&J's Time for Healing --- The drug maker's makeover should bring 20% returns

By Johanna Bennett
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English

Health-care conglomerate Johnson & Johnson entered this year determined to put its tough recent past behind it. Due to myriad product recalls, profit growth is hobbled. And the shares, now near 66, are up just 16.7% over the past two years; the broader market did twice that. But as quality-control problems are addressed, and the struggling medical-device unit is revamped amid big new-drug launches and smart acquisitions, sales and earnings growth should accelerate. Add a 3.5% dividend, and J&J could generate nearly 20% returns over the next year-even if the economy stays sluggish.

Since April, J&J (ticker: JNJ) has won Food and Drug Administration approval for two potential blockbusters: Zytiga, for prostate cancer; and Edurant, for treating HIV (the human immunodeficiency virus that causes AIDS). Meanwhile, J&J partner Vertex (VRTX) received regulatory clearance here for the hepatitis-C drug, telaprevir, and J&J is awaiting approval to market it abroad. The FDA call on blood-thinner Xarelto is expected in August. Sales of all four could total $6.5 billion by 2016, says Goldman Sachs analyst Jami Rubin, and J&J expects to seek approval for 11 more drugs.

Investors are paying up a bit for that pipeline. At 13.5 times forward earnings, the stock trades at a 20% premium to its peer group. But that's still well below J&J's 10-year median price/earnings multiple.

"I would buy the stock right here," says Ruairi O'Neill, a portfolio manager with PNC Capital Advisors. "It's a company with accelerating earnings growth, and many believe the current estimates are too low." Others agree. Since mid-March, the shares have climbed 12%. Bernstein Research analyst Derrick Sung recently upgraded J&J to Outperform, and Goldman's Rubin hiked her rating to Buy.

With sales of $61 billion, Johnson & Johnson operates more than 100 subsidiaries that sell everything from baby shampoo to cancer medications. That diversity, plus the company's cash-generating ability, AAA bond rating and a long string of dividend hikes earned applause from Barron's last year ("Liftoff at J&J," May 3, 2010). The praise was premature; the stock was almost precisely where it is now. Sales fell in 2009 and 2010 amid patent expirations and a lousy economy, plus the recalls. But when big, well-respected companies stumble, they can emerge stronger, says Jason Subotky, co-manager of the Yacktman Fund. J&J has revamped the McNeil unit that oversaw Tylenol, Rolaids and Motrin, and has reviewed manufacturing processes companywide, investing $100 million in quality-control improvements.

J&J expects to earn as much as $5 a share this year, thanks to favorable currency- exchange rates and strong drug sales. Next year, Wall Street sees profits climbing to $5.27 a share-a forecast that Goldman's Rubin considers too conservative.

Due to pitched competition, J&J will leavethe $5 billion market it pioneered for stents that prop open clogged heart vessels. But it is getting into the trauma business, buying Swiss medical-device maker Synthes for $21 billion. Turning promising drugs into winners is no sure thing. And J&J still faces thousands of lawsuits over its recalled DePuy artificial-hip implants. Yet with piles of cash, a growing dividend and a good drug pipeline, J&J shares should soon be in glowing health again.

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BARRON'S

Home

J&J Shares Regaining Health

By Johanna Bennett
933 words
22 June 2011
Barron's Online
BON
English

Correction: A previous version of this story misstated J&J's regulatory status of the hepatitis C drug, telaprevir.

Johnson & Johnson entered 2011 facing a big repair job, and so far it seems to be handing it quite well.

To be sure, profit growth has been hobbled by a myriad of problems, including a long string of embarrassing and costly product recalls that has soiled J&J's (ticker: JNJ) reputation.

And until recently, the stock has also been a disappointment. At roughly $66 a share, it has climbed 20% over the last two years – roughly half the gain made by the broader stock market.

But analysts say J&J is turning a corner in its attempts to resolve quality-control problems.

The company is restructuring a struggling medical-device business. And thanks to big new drug launches and smart acquisitions, sales and earnings growth should accelerate over the next few years.

Add a 3.4% dividend, and the shares could come close to generating 20% in returns over the next 12 months.

"I would buy the stock right here," says Ruairi O'Neill, a portfolio manager with PNC Capital Advisors. "It's a company with accelerating earnings growth, and many believe the current estimates are too low."

Others agree. Since mid-March, the shares have climbed 15%.

Last month, Bernstein Research analyst Derrick Sung upgraded J&J to Outperform and Goldman Sachs analyst Jami Rubin hiked her rating to Buy.

With sales of $61 billion, Johnson & Johnson operates more than 100 subsidiaries that sell everything from baby shampoo to cancer medications.

That diversity, as well as its cash-generating ability, a AAA bond rating and a long string of dividend hikes earned applause from Barron's last year (see Barron's, "Liftoff at J&J," May 3, 2010).

Sales, however, have not fared well, falling in 2009 and 2010 amid patent expirations and a lousy economy, not to mention product recalls and plant closings.

J&J's missteps have cost it dearly – and not just on the top line.

In 2010, the health-care conglomerate, with its stable of famous brands including Tylenol, Listerine, and Band-Aid, nearly topped Barron's list of the world's 100 most-respected corporations. In February it ranked 25th (see Barron's, "…And the Award Goes to Apple," Feb. 14, 2011).

But when big well-respected companies stumble, they can make big comebacks, and emerge stronger on the other side, says Jason Subotky, co-manager of the Yacktman Fund.

Stock Price:	$66.07
52-Week High:	$67.37
52-Week Low:	$56.86
Market Cap:	$181 billion
Est. 2011 EPS:	$4.95 per share

Fwd P/E:	13.5 times
Est. Long-Term EPS Growth:*	5%
Est. ('11/'10) EPS Growth:	4%
Revenue (trailing 12 months):	$62.1 billion
Dividend Yield:	3.40%
CEO:	
William C. Weldon	
Headquarters:	New Brunswick, N.J.

Under a consent decree signed in March, three manufacturing plants that made Tylenol, Rolaids, Motrin and other recalled over-the-counter products remain under close regulatory scrutiny.

J&J, however, has revamped the McNeil unit that oversaw those brands and the company reviewed manufacturing processes company-wide. It has also invested $100 million in quality-control improvements.

"There is no question that J&J was mismanaging things over the last few years, but the core businesses are intact and we will see better management ahead," says Subotky.

J&J's expects to earn as much as $5 a share this year thanks to favorable currency exchange rates and strong drug sales.

Next year, Wall Street sees profit climbing to $5.26 a share, a forecast that Goldman's Rubin considers too conservative.

J&J announced last week that it's finally exiting the $5 billion market it pioneered for small wire devices called stents that prop open clogged heart vessels.

But it is getting into the trauma business, buying Swiss medical-device maker Synthes for $21 billion (see Barron's, Follow Up, "Deal Could Cure Some J&J Ills," April 23, 2011).

Since April, J&J has received Food and Drug Administration approval for two potential blockbuster drugs – Zytiga for prostate cancer and the HIV medication Edurant. Meanwhile, J&J's partner, Vertex (VRTX), received regulatory clearance here for the hepatitis C drug, telaprevir, and J&J is awaiting approval to market the drug outside the U.S.

And the FDA is expected to render a decision on the blood thinner Xarelto in August.

Sales of all four products could total $6.5 billion by 2016, says Goldman's Rubin.

And by 2015, J&J expects to seek regulatory approval for another 11 new drugs.

Investors are paying up a bit for that drug pipeline. At 13.5 times forward earnings, the stock trades at a 20% premium to the broader pharmaceutical industry.

But that's still well below J&J's 10-year median price-to-earnings multiple.

Of course, turnaround stories are dicey, and turning promising drugs into winners is no sure thing.

J&J, meanwhile, still faces thousands of lawsuits over its DePuy artificial hip implant (recalled last year).

Still, with piles of cash at its disposal, a growing dividend and a drug pipeline that's the envy of many, Johnson & Johnson offers a prescription for healthy returns, even amid a slowing economic recovery.

And these days, that's not too bad.

Comments? E-mail us at editors@barrons.com

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BARRON'S

Review & Preview Follow-Up -- A Return Visit to Earlier Stories: Deal Could Cure Some J&J Ills

By Lawrence C. Strauss
318 words
25 April 2011
Barron's
B
16
English

Recent reports that Johnson & Johnson is in talks to acquire Swiss medical-device maker Synthes come at a good time.

Shares of the health-care giant are down 0.4% since Barron's wrote favorably about it last May 3, while the Standard & Poor's 500 Index has risen 13%; the drug maker has been beleaguered by embarrassing and costly recalls of products like pediatric Tylenol and Motrin.

Johnson & Johnson (ticker: JNJ) won't comment on the reports about Synthes (SYST.Switzerland). But the deal, which reportedly would cost about $20 billion, would help J&J's medical-device and diagnostics business, which has been hampered by tough competition, pricing pressure and a recall at its DePuy artificial-hip unit.

Steve Ethridge, a principal at money- manager Stewart & Patten, says the acquisition would quickly be accretive to J&J's earnings. "The margins at Synthes are certainly higher than the collective margins at JNJ," he observes.

Donald Yacktman, a portfolio manager of the Yacktman Fund (YACKX), says it would make sense for J&J to take a chunk of the cash it holds overseas -- where it's earning little -- and invest it in Synthes, which has the potential for a much higher return.

But even if the deal fizzles, J&J still has upside. Ethridge calls it "a health-care buffet that, over the long run, should produce earnings growth greater than the nominal growth rate of the economy."

The stock trades at a reasonable 13 times this year's estimated $4.84 a share in earnings. Another plus: a dividend yield around 3.4%.

Document B000000020110423e74p00013

Product Recalls Don' t Stop Johnson & Johnson from Beating Estimates

Barron's Blogs, 08:02, 19 April 2011, 243 words, By Johanna Bennett, (English)

Johnson & Johnson (JNJ) reported impassive financial results this morning and raised its 2011 profit view despite product recalls that have battered sales of over-the-counter drugs. Shares popped 2.9% in early trading.

Document WCBBE00020110419e74j000dy

BARRON'S

J&J Is A-OK

By Teresa Rivas
630 words
19 April 2011
Barron's Online
BON
English

Johnson & Johnson looks like the picture of health after delivering better-than-expected earningsand increasing its full-year profit forecast. Strong prescription-drug sales and a weaker dollar helped boost results.

Before Tuesday's market open, Johnson & Johnson (ticker: JNJ) reported first-quarter earnings of $3.48 billion, or $1.25 a share, down from $1.62 a share in the year-ago period. Excluding one-time items from both quarters, earnings per share rose to $1.35, from $1.29, ahead of analysts' estimates of $1.26 a share. Revenue of $16.17 billion beat the consensus $15.87 billion.

J&J also increased its full-year earnings-per-share guidance from $4.90 to $5. Analysts forecast earnings of $4.84 a share.

After J&J's rocky recent past, investors cheered by the unexpectedly good news, sending the stock up 2.8%, to $62.20 in midday trading.

J&J may not have solved all its problems, but the solid quarter demonstrates that the company still has life in it. In the last two years, J&J has recalled nearly two dozen products, so solidly beating expectations was welcome news.

Although currency helped results, organic sales growth was 1.5% in the quarter, the best performance since the third quarter of 2008 on a normalized basis, noted Citigroup analyst Matthew Dodds.

Dodds was also heartened to see that the pharmaceuticals business, which accounted for much of the outperformance, was "driven primarily by the impact of new products. This represents a very good sign for mid-2012 once the generic hit to Concerta and Levaquin anniversary."

Gross margins of 70.5% exceeded the 69.5% Wall Street estimate, while the company's largest unit, medical devices and diagnostics, saw a 3.3% increase in sales. Domestic weakness was offset by strength in international markets (which also got a boost from currency).

Leerink Swann analyst Rick Wise said that J&J's bullish guidance "seems to highlight management's confidence that a strong first quarter was not necessarily a fluke."

Though consumer sales were unsurprisingly hit by the recalls, Wise also noted that U.S. "consumer sales outperformance was driven by McNeil/OTC, potentially suggesting a less-bad-than-feared brand impact from recent recalls and the temporary closure of the Ft. Washington, Pennsylvania manufacturing plant."

The quarterly report didn't mention J&J's potential acquisition of Synthes. The Swiss-listed medical-device maker's roughly $20 billion price tag would make it the largest acquisition in J&J's history. Synthes yesterday confirmed it was in talks with J&J.

Analysts on the whole are cautiously positive about the estimated cost and benefits of such a match for J&J. The company has plenty of cash on hand to finance the deal, and Morningstar analyst Julie Stralow said yesterday that "we wouldn't expect this transaction to significantly strain its financial position or credit rating, despite the potential deal's large size."

Stralow also noted that the firm's "focus on trauma and spine would be complementary to J&J's traditional orthopedic stronghold in knees and hips."

J&J trades at 12.1 times forward earnings, near a five-year low, and offers an attractive 3.6% yield.

One good quarter does not a comeback make, but it is hard to ignore the strength that J&J demonstrated even with so much negative news going into the report, especially with bullish guidance. We would be cautious buyers, as J&J will have to continue to prove itself in quarters to come.

Comments? E-mail us at editors@barrons.com

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The Striking Price
Home
An Options Band-Aid for J&J

By Steven M. Sears
405 words
12 April 2011
Barron's Online
BON
English

It is easy to steal candy from babies. It is even easier to pick on Johnson & Johnson (ticker: JNJ).

The pharmaceutical company has been recalling so many different products in the past year that its missteps are destined to be studied at business schools for years to come. Last year, J&J recalled 12 products, and 10 others so far this year

As the company prepares to report first-quarter earnings next Tuesday, investors are lining up bets in the options market that Johnson & Johnson will disappoint investors. Goldman Sachs is telling clients to expect management to lower earnings guidance by about 10 cents per share.

"We recommend buying May puts to hedge ahead of a likely two to three percent negative-guidance revision to operational earnings per share on April 19," Goldman's influential derivative strategists, John Marshall and Katherine Fogertey, advised clients in a recent advisory.

They told clients to consider buying May $60 puts, at $1.42 when the stock was at $59.42, in anticipation shares will decline on earnings guidance. Goldman's investment rating on Johnson & Johnson is Neutral. The 12-month price target is $59.

The actual estimates into earnings are fairly firm. The company's consensus-earnings estimate is $1.26, and the range is $1.23 to $1.29.

But stocks trade on future earnings expectations, and if Johnson & Johnson lowers earnings estimates the stock will likely decline. Already, Johnson & Johnson's credit default swaps – think put options on bonds that expire in five years – are reflecting rising risks. Goldman says Moody's might lower the company's investment rating.

With the stock at $59.42, owning the May $60 put is essentially the same as shorting the stock in anticipation of a decline, but arguably safer. If the stock declines, the put's value should increase in price, offsetting any weakness in the stock. If the stock advances, investors just lose the money spent on the put.

If the past is prologue, bears have an edge into earnings. Johnson & Johnson's shares are down some 4% this year. The stock chart shows investors are wracked with indecision, as the stock seems to have stalled before earnings. Buying puts seems like a prudent decision.

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BARRON'S

Barron's Cover
...And the Award Goes to Apple!

By Vito J. Racanelli
3,456 words
14 February 2011
Barron's Online
BON
English

A fall from grace is both difficult to watch and morbidly fascinating. Whether the subject is a person of high regard or a greatly respected company, often it is impossible to look the other way.

Such is the case with Johnson & Johnson in Barron's latest ranking, The World's Most Respected Companies. Few firms, with the possible exception of banks, have fallen harder in the eyes of our respondents since our survey of professional money managers was launched seven years ago. J&J (ticker: JNJ) has always ranked No. 1 or No. 2 in garnering respect from investors—until this year, that is. After struggling with quality-control issues, the New Brunswick, N.J.-based health-care giant has tumbled all the way to No. 25 among the world's 100 largest public companies, hanging on to the list's first quartile by its bloodied fingernails.

JNJ's nosedive contrasts sharply with Apple's (AAPL) staying power, as the fabled inventor of the iPod, iPhone and iPad tops our annual ranking for the second consecutive year. What's more, the bouquet of accolades thrown at Apple might make even Steve Jobs blush. America's money managers praise the company he built as "visionary," "courageous," "innovative" and possessed of a "strong corporate culture," which has fostered "consistent execution." No matter that some say Wall Street's near-religious devotion to Apple, coupled with the stock's 53% rally last year, could be setting the company and its shares up for a fall. For now, Apple reigns supreme in commanding investors' respect.

Just as some companies fall out of favor, others, like Amazon.com (AMZN) gain greater esteem from investors. The online retailer is No. 2 this year, up from No. 10 in 2010. Berkshire Hathaway (BRKA), a perennial at the pinnacle, is No. 3, up from No. 5, in a vote of confidence for founder Warren Buffett's leadership. IBM (IBM) maintains its fourth-place status, while McDonald's (MCD) cracks the top five for the first time ever, edging up from No. 7 in a vote of confidence for the company's management and strategy. Even burgers, well done, can be as sexy as iPads.

EACH YEAR Barron's surveys professional money managers about their views of the world's 100 largest companies, based on total stock-market capitalization at year end, as determined by Dow Jones Indexes. This year's survey, conducted with the help of Beta Research in Syosset, N.Y., elicited responses from 92 investors across the country, ranging from proprietors of small advisory firms to the chief investment officers of money-management giants overseeing billions of dollars.

Participants were asked to select one of four statements reflecting their view of each company: Highly Respect, Respect, Respect Somewhat or Don't Respect. A point value was assigned to each response, with the highest accorded to Highly Respect, and a mean score was tabulated for each company. In the case of ties, the higher ranking went to the company with the most Highly Respect votes. The managers also were asked to rank the factors they consider most important in determining respect for corporations, and were invited to contribute comments on individual companies.

BP (BP), the British oil producer, fell more places than J&J, but already had been held in only middling regard. No. 47 in 2010, it slid to No. 95, where it rubs elbows with governance-challenged Russian companies, not to mention Citigroup (C) and Bank of America (BAC), ranked No. 96 and No. 97, respectively.

Procter & Gamble (PG) consistently has ranked among the top five in commanding respect, but not this year; it clocks in at No. 10, down from No. 3. Investors may be disappointed that its shares rose only 6% last year, and concerned that P&G's higher-priced products could be less competitive in a post-recession world.

Toyota Motor (TM) also lost face, plummeting to No. 47 from last year's No. 6, as investors reacted to the company's recalls of various models for mechanical problems in 2009-10. And Goldman Sachs (GS), the global investment bank that appeared on the list for the first time last year, promptly fell this year to No. 66 from No. 30, a remarkable drop for a company considered uniquely successful by investors around the world just a few short years ago.

Moving up sharply on in our survey are companies such as No. 7-ranked 3M (MMM); No. 21-ranked Siemens (SI), and Daimler (DDAIFF), the German automotive leader, now No. 30. The French luxury-goods conglomerate LVMH Moët Hennessy Louis Vuitton (MC.France) is ranked No. 32, up from No. 52, while Britain's Vodafone (VOD) is No. 36, a long way up from last year's No. 65.

Each of these companies won more respect for different reasons, but the collective advance of the four European outfits speaks to another of this year's themes: a 50% increase, to 15, in the number of foreign companies among the top 40 names on the list.

WITH THE EXCEPTION of BP, our cellar dwellers aren't new to their lowly position. Russian companies consistently have been dissed by U.S. investors, and rightly so, for poor governance, corruption and Russia's disregard of the rule of law. Gazprom (GAZP.Russia), the energy-exploration giant, is No. 100, a short but ignominious drop from last year's No. 99. Its replacement in the penultimate position is Sberbank (SBER03.Russia), down from No. 97, while Rosneft (ROSN.Russia), another energy producer, stays at No. 98.

What determines respect? "Sound business strategy" gets the most votes this year, from 32% of money managers, eclipsing "strong management," which was most important to 28% of respondents but last year ranked No. 1. That is a "healthy and important change," says Jack De Gan, chief investment officer at Harbor Advisory in Portsmouth, N.H. "Even the best CEO can't make a huge success out of a flawed business strategy."

De Gan thinks former Fidelity fund manager Peter Lynch said it best when criticizing the cult of star CEOs: Go for a business that any idiot can run, because sooner or later any idiot probably is going to be running it.

Interestingly, only 12% of money managers now consider "ethical business practices" the first determinant of respect, down from 20% last year. Could it be that memories of fraudulent behavior, financial shenanigans and other lapses in ethics are fading right along with memories of the credit crunch, bear market and Great Recession of 2008-09?

For Lloyd Khaner of New York's Khaner Capital, management still is tops. "Management is the single most important factor" in determining a company's direction and success, he says. "If I take a torpedo because of management [I've invested in], there's no one to blame but myself."

Jack Oliver, head of money manager RBO in St. Helena, Calif., agrees. "Strong management will drive all those other components. It will be ethical and innovative…. It's an intangible asset on the balance sheet."

SOME MONEY MANAGERS cite respect as the first cut in their investment process. But others say respect is the result of strong investment performance, which reflects a multitude of smart decisions made by management and employees. Respected companies treat their shareholders, customers and employees well, and companies whose shares go up seem to garner ever greater respect. "You'll get respect if your stock is up," says Paul Jackson of Paul Jackson & Associates in Auburndale, Mass. "It often comes down to stock price."

For Apple, it is hard to know where respect ends and blind adulation begins. In the past five years Apple has shown "an ability to execute and have the pulse of the world consumer," says Seth Shalov, a portfolio manager at MAI Wealth Advisors in Cleveland.

Apple has redefined the consumer-electronics market, inventing must-have telecommunications gear and pocketing additional revenue from the sale of iPhone and iPad applications, or apps. "Steve Jobs has revived a culture that emphasizes vision and is highly innovative," says Tom Weary of Pacific Income Advisers in Santa Monica, Calif.

How Apple fares with Jobs on a medical leave of indeterminate duration is another matter. Although the company has a deep bench, the law of large numbers may begin to work against it. With a huge market capitalization of $328 billion, the company might languish a while without Jobs, Shalov says.

AMAZON.COM IS ANOTHER COMPANY that has taken full advantage of the Internet, becoming the world's largest online retailer. Indeed, it is one of the few healthy survivors of the dot-com boom of a decade ago.

Dismissed as a fad in that bubble era, even by this publication, Amazon has gone on to generate more than $34 billion in annual revenue and command a market value of nearly $84 billion.

"It is very profitable and always investing for a better consumer experience…adding [retail] categories all the time," says Jim O'Donnell at San Francisco-based Forward Management. Amazon has a "phenomenal" core business and is going global, he adds.

"It surprises you on innovation, too," says Pacific Income's Weary.

As for Berkshire Hathaway, there is little to add about its consistently high ranking in our survey and many others. The company garners respect for its lengthy history of operating and investment successes, and that leads straight to the boss—the plainspoken, octogenarian, Cherry-Coke sipping Wall Street legend, Warren Buffett.

In the throes of the financial crisis, his investments in Goldman Sachs and General Electric (GE) helped stabilize both companies and give the financial markets a much-needed shot of confidence, notes George Mussalli, a money manager at PanAgora Asset Management in Boston. Buffett, he says, "is like the market's Good Housekeeping Seal of Approval."

For that and other reasons, Buffett's 13EEE-size investment shoes will be difficult to fill when the master steps down. "Can Berkshire survive after Buffett's exit?" asks David Hartzell, CEO of Cornell Capital Management in upstate New York. "Yes, but it won't be the same company. This is even more of a question than at Apple. Is Berkshire's bench enough to hold an oddball conglomerate together?"

Good question.

Institutional investors' abiding fondness for IBM suggests the company finally is achieving some lasting recognition for a once-controversial switch made years ago—to emphasize software and services over mainframes and other computers. Respect, hard won and long in the cultivating, doesn't always come from meeting quarterly earnings estimates or achieving other short-term goals that Wall Street demands, survey-takers noted.

With the Street focused on IBM's transformation and the then-controversial disposal of its legacy hardware business, the company didn't receive the credit it deserved for steady earnings growth without major profit disappointments. "It is a great example of a company that has moved to services from hardware, adding value and longevity," says Peter Scholla, a partner at Global Investment Adviser in North Palm Beach, Fla.

AND THEN THERE ARE HAMBURGERS, lots and lots of them, made and sold by McDonald's, another belated recipient of much-deserved respect. The company's image on Main Street as the biggest fast-food chain in the world doesn't do it justice, according to our respondents. On Wall Street, McDonald's is viewed as a company that changed its spots for the better back in 2002-03, moving away from a single-minded focus on unit growth to a more mature approach that balances growth with the return of cash to shareholders. Much as investors like McDonald's appetizing 3.3% dividend yield, they also appreciate that it has responded effectively to changes in society's eating and drinking habits.

"What business is more up, down and risky than the restaurant business?" asks Cornell Capital's Hartzell, a big fan of the stock. "People think of McDonald's as a burger maker, but they've got specialty coffees, salads and sundaes now"— a testament to the company's ability to reinvent itself.

That brings us to companies such as J&J and Toyota, which must reinvent themselves quickly, or at least make some big changes to get back into investors' good graces.

The litany of Johnson & Johnson problems that have exploded into the news in the past 18 months is too lengthy to recount, but here are a few: Just last month, a Texas federal jury ordered the company to pay $482 million in patent-infringement damages. J&J's once-pristine respect score also has been hurt by a string of product recalls at various subsidiaries, especially some that sell children's medicines and the company's flagship over-the-counter painkiller, Tylenol. When it comes to respect from investors, the message should be clear: Don't mess with kids' drugs.

Johnson & Johnson has pulled almost 47 million units of over-the-counter products such as Tylenol, Benadryl, Sinutab and Sudafed, due to quality-control problems. In last year's fourth quarter, the company took a painful $922 million charge, representing the impact of litigation settlements, product-liability expenses and costs associated with the recall of certain hip implants at DePuy, another subsidiary.

J&J has had to suspend or alter activities at several plants, which could affect this year's sales. It has acknowledged that consumer trust of its products "has truly been tested." In its annual report three years ago, the company said it would focus on execution. "That's not what they've done," says Marc Heilweil at Spectrum Advisory Services in Atlanta.

Johnson & Johnson and McDonald's are a study in contrasts, says Fla Lewis, a principal at Weybosset Research & Management in Providence, R.I. The fast-food chain has kept its eye on the ball and protected its brand, while "at J&J it seems to be one thing after another. They don't seem to be able to wrestle it down."

In an e-mail Friday in response to a query from Barron's, CEO Bill Weldon noted that, until the recent setbacks, the company had built a strong reputation in the past 125 years. And he added: "We are working diligently to overcome our recent problems to ensure only the highest-quality products reach our customers—the first step to earning back their trust and confidence."

One consolation for investors is that Johnson & Johnson's earnings have grown, even through the company's troubles. Earnings rose to $4.78 a share last year from $4.40 in 2009, even though revenue was basically flat at $61.6 billion. J&J also pays a dividend of $2.16 a share, for a yield of 3.5%.

IN MANY WAYS, our survey of investor respect is an accurate barometer of public perceptions about a number of big companies—and a warning to those in need of change. Take Toyota, another long-trusted maker of familiar products that also was rocked by a series of recalls beginning in late 2009. The Japanese company recalled about eight million vehicles amid allegations of defective floor mats and accelerator pedals.

Toyota was tarnished not only by the need for a recall but "the way they handled it," one money manager wrote. "They didn't address as quickly as they could have."

The timing was bad, a lost opportunity. "It was a perfect time to screw up, right when General Motors [GM] and Ford [F] were flat on their backs," quips Paul Jackson.

Yet the well of respect for Toyota hasn't run dry, as our respondents indicated the company would recover from its current woes. Just last Tuesday, for instance, an investigation by NASA engineers showed no link between electronic throttles and unintended acceleration in Toyota vehicles, something that should help the auto maker recover its reputation.

After several years in the doghouse, General Electric (GE) is one company beginning to see some daylight. The company rose in our ranking to No. 48 from No. 74 last year. Once the standard-bearer for American capitalism, GE was hurt when its highly leveraged finance unit hit an air pocket amid the financial crisis. The company had to run to Buffett for a major cash infusion.

Since then, GE's core industrial businesses have been on the upswing, and the company has reduced its reliance on GE Capital, its finance unit. It also sold off its 51% stake in the NBC Universal entertainment business. Despite the improvements, some investors still are calling for GE to be broken up.

GE epitomizes bureaucratic thinking, says John Campbell of Cornerstone Investment Partners in Atlanta. "It is hard to understand where the value is being created…by largely unrelated businesses," he says.

PanAgora's Mussalli agrees, noting the company's collection of businesses "perpetually underperform." The various divisions could do much better alone, and "a break-up could unlock value," he says.

Both money managers indicated they "don't respect" GE, although plenty of others now do.

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At the recent World Economic Forum in Davos, Russian President Dmitry Medvedev expressly conceded that the country's problems hinder investment and vowed to improve the investment climate. That is a big job and won't happen overnight.

American banks such as Citigroup and Bank of America also are likely to forgo investors' respect for a while longer, given their dismal performance at the depths of the global financial crisis. "They took TARP [Troubled Asset Relief Program] money and their reputations disintegrated," says David Corbin, CEO of Corbin & Co. in Fort Worth, Texas. "In some cases there also was highly questionable behavior. Some had great legacies that have suffered."

The anger still smolders over the role of big banks in helping to foment and deepen the crisis. "The amount of arrogance [on the part of banks] towards the U.S. taxpayer is extraordinary," says James Vanasek of VN Capital Management in New York. "Citi was a weekend away from bankruptcy but kept on insisting nothing was wrong. And no one was punished at the top."

Some banks have done better than others, however. JPMorgan Chase (JPM), for example, jumped to No. 14 this year from No. 21, mainly because of the respect accorded its popular CEO, Jamie Dimon. "The Bear Stearns merger was thrust upon him, but he made sure it wasn't going to hurt his company," says Thomas Goldsmith of Flagship Capital in Media, Pa., "He's stubbed his toe from time to time but learned from it."

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It is a cliché to say that respect is hard to earn but easy to lose. Yet that doesn't detract from its importance for these companies, and all companies. When will J&J, Toyota and even Citi be welcomed back into the market's good graces? Next year's Most Respected survey can't come fast enough.

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BARRON'S

...And the Award Goes to Apple!

By Vito J. Racanelli
3,468 words
14 February 2011
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English

A fall from grace is both difficult to watch and morbidly fascinating. Whether the subject is a person of high regard or a greatly respected company, often it is impossible to look the other way.

Such is the case with Johnson & Johnson in Barron's latest ranking, The World's Most Respected Companies. Few firms, with the possible exception of banks, have fallen harder in the eyes of our respondents since our survey of professional money managers was launched sevenyears ago. J&J (ticker: JNJ) has always ranked No. 1 or No. 2 in garnering respect from investors -- until this year, that is. After struggling with quality-control issues, the New Brunswick, N.J.-based health-care giant has tumbled all the way to No. 25 among the world's 100 largest public companies, hanging on to the list's first quartile by its bloodied fingernails.

JNJ's nosedive contrasts sharply with Apple's (AAPL) staying power, as the fabled inventor of the iPod, iPhone and iPad tops our annual ranking for the second consecutive year. What's more, the bouquet of accolades thrown at Apple might make even Steve Jobs blush. America's money managers praise the company he built as "visionary," "courageous," "innovative" and possessed of a "strong corporate culture," which has fostered "consistent execution." No matter that some say Wall Street's near-religious devotion to Apple, coupled with the stock's 53% rally last year, could be setting the company and its shares up for a fall. For now, Apple reigns supreme in commanding investors' respect.

Just as some companies fall out of favor, others, like Amazon.com (AMZN) gain greater esteem from investors. The online retailer is No. 2 this year, up from No. 10 in 2010. Berkshire Hathaway (BRKA), a perennial at the pinnacle, is No. 3, up from No. 5, in a vote of confidence for founder Warren Buffett's leadership. IBM (IBM) maintains its fourth-place status, while McDonald's (MCD) cracks the top five for the first time ever, edging up from No. 7 in a vote of confidence for the company's management and strategy. Even burgers, well done, can be as sexy as iPads.

Each year Barron's surveys professional money managers about their views of the world's 100 largest companies, based on total stock-market capitalization at year end, as determined by Dow Jones Indexes. This year's survey, conducted with the help of Beta Research in Syosset, N.Y., elicited responses from 92 investors across the country, ranging from proprietors of small advisory firms to the chief investment officers of money-management giants overseeing billions of dollars.

Participants were asked to select one of four statements reflecting their view of each company: Highly Respect, Respect, Respect Somewhat or Don't Respect. A point value was assigned to each response, with the highest accorded to Highly Respect, and a mean score was tabulated for each company. In the case of ties, the higher ranking went to the company with the most Highly Respect votes. The managers also were asked to rank the factors they consider most important in determining respect for corporations, and were invited to contribute comments on individual companies.

BP (BP), the British oil producer, fell more places than J&J, but already had been held in only middling regard. No. 47 in 2010, it slid to No. 95, where it rubs elbows with governance-challenged Russian companies, not to mention Citigroup (C) and Bank of America (BAC), ranked No. 96 and No. 97, respectively.

Procter & Gamble (PG) consistently has ranked among the top five in commanding respect, but not this year; it clocks in at No. 10, down from No. 3. Investors may be disappointed that its shares rose only 6% last year, and concerned that P&G's higher-priced products could be less competitive in a post-recession world.

Toyota Motor (TM) also lost face, plummeting to No. 47 from last year's No. 6, as investors reacted to the company's recalls of various models for mechanical problems in 2009-10. And Goldman Sachs (GS), the global investment bank that appeared on the list for the first time last year, promptly fell this year to No. 66 from No. 30, a remarkable drop for a company considered uniquely successful by investors around the world just a few short years ago.

Moving up sharply on in our survey are companies such as No. 7-ranked 3M (MMM); No. 21-ranked Siemens (SI), and Daimler (DDAIFF), the German automotive leader, now No. 30. The French luxury-goods conglomerate LVMH Moet Hennessy Louis Vuitton (MC.France) is ranked No. 32, up from No. 52, while Britain's Vodafone (VOD) is No. 36, a long way up from last year's No. 65.

Each of these companies won more respect for different reasons, but the collective advance of the four European outfits speaks to another of this year's themes: a 50% increase, to 15, in the number of foreign companies among the top 40 names on the list.

With the exception of BP, our cellar dwellers aren't new to their lowly position. Russian companies consistently have been dissed by U.S. investors, and rightly so, for poor governance, corruption and Russia's disregard of the rule of law. Gazprom (GAZP.Russia), the energy-exploration giant, is No. 100, a short but ignominious drop from last year's No. 99. Its replacement in the penultimate position is Sberbank (SBER03.Russia), down from No. 97, while Rosneft (ROSN.Russia), another energy producer, stays at No. 98.

What determines respect? "Sound business strategy" gets the most votes this year, from 32% of money managers, eclipsing "strong management," which was most important to 28% of respondents but last year ranked No. 1. That is a "healthy and important change," says Jack De Gan, chief investment officer at Harbor Advisory in Portsmouth, N.H. "Even the best CEO can't make a huge success out of a flawed business strategy."

De Gan thinks former Fidelity fund manager Peter Lynch said it best when criticizing the cult of star CEOs: Go for a business that any idiot can run, because sooner or later any idiot probably is going to be running it.

Interestingly, only 12% of money managers now consider "ethical business practices" the first determinant of respect, down from 20% last year. Could it be that memories of fraudulent behavior, financial shenanigans and other lapses in ethics are fading right along with memories of the credit crunch, bear market and Great Recession of 2008-09?

For Lloyd Khaner of New York's Khaner Capital, management still is tops. "Management is the single most important factor" in determining a company's direction and success, he says. "If I take a torpedo because of management [I've invested in], there's no one to blame but myself."

Jack Oliver, head of money manager RBO in St. Helena, Calif., agrees. "Strong management will drive all those other components. It will be ethical and innovative . . . . It's an intangible asset on the balance sheet."

Some money managers cite respect as the first cut in their investment process. But others say respect is the result of strong investment performance, which reflects a multitude of smart decisions made by management and employees. Respected companies treat their shareholders, customers and employees well, and companies whose shares go up seem to garner ever greater respect. "You'll get respect if your stock is up," says Paul Jackson of Paul Jackson & Associates in Auburndale, Mass. "It often comes down to stock price."

For Apple, it is hard to know where respect ends and blind adulation begins. In the past five years Apple has shown "an ability to execute and have the pulse of the world consumer," says Seth Shalov, a portfolio manager at MAI Wealth Advisors in Cleveland.

Apple has redefined the consumer-electronics market, inventing must-have telecommunications gear and pocketing additional revenue from the sale of iPhone and iPad applications, or apps. "Steve Jobs has revived a culture that emphasizes vision and is highly innovative," says Tom Weary of Pacific Income Advisers in Santa Monica, Calif.

How Apple fares with Jobs on a medical leave of indeterminate duration is another matter. Although the company has a deep bench, the law of large numbers may begin to work against it. With a huge market capitalization of $328 billion, the company might languish a while without Jobs, Shalov says.

Amazon.com is another company that has taken full advantage of the Internet, becoming the world's largest online retailer. Indeed, it is one of the few healthy survivors of the dot-com boom of a decade ago. Dismissed as a fad in that bubble era, even by this publication, Amazon has gone on to generate more than $34 billion in annual revenue and command a market value of nearly $84 billion.

"It is very profitable and always investing for a better consumer experience . . . adding [retail] categories all the time," says Jim O'Donnell at San Francisco-based Forward Management. Amazon has a "phenomenal" core business and is going global, he adds.

"It surprises you on innovation, too," says Pacific Income's Weary.

As for Berkshire Hathaway, there is little to add about its consistently high ranking in our survey and many others. The company garners respect for its lengthy history of operating and investment successes, and that leads straight to the boss -- the plainspoken, octogenarian, Cherry-Coke sipping Wall Street legend, Warren Buffett.

In the throes of the financial crisis, his investments in Goldman Sachs and General Electric (GE) helped stabilize both companies and give the financial markets a much-needed shot of confidence, notes George Mussalli, a money manager at PanAgora Asset Management in Boston. Buffett, he says, "is like the market's Good Housekeeping Seal of Approval."

For that and other reasons, Buffett's 13EEE-size investment shoes will be difficult to fill when the master steps down. "Can Berkshire survive after Buffett's exit?" asks David Hartzell, CEO of Cornell Capital Management in upstate New York. "Yes, but it won't be the same company. This is even more of a question than at Apple. Is Berkshire's bench enough to hold an oddball conglomerate together?"

Good question.

Institutional investors' abiding fondness for IBM suggests the company finally is achieving some lasting recognition for a once-controversial switch made years ago -- to emphasize software and services over mainframes and other computers. Respect, hard won and long in the cultivating, doesn't always come from meeting quarterly earnings estimates or achieving other short-term goals that Wall Street demands, survey-takers noted.

With the Street focused on IBM's transformation and the then-controversial disposal of its legacy hardware business, the company didn't receive the credit it deserved for steady earnings growth without major profit disappointments. "It is a great example of a company that has moved to services from hardware, adding value and longevity," says Peter Scholla, a partner at Global Investment Adviser in North Palm Beach, Fla.

And then there are hamburgers, lots and lots of them, made and sold by McDonald's, another belated recipient of much-deserved respect. The company's image on Main Street as the biggest fast-food chain in the world doesn't do it justice, according to our respondents. On Wall Street, McDonald's is viewed as a company that changed its spots for the better back in 2002-03, moving away from a single-minded focus on unit growth to a more mature approach that balances growth with the return of cash to shareholders. Much as investors like McDonald's appetizing 3.3% dividend yield, they also appreciate that it has responded effectively to changes in society's eating and drinking habits.

"What business is more up, down and risky than the restaurant business?" asks Cornell Capital's Hartzell, a big fan of the stock. "People think of McDonald's as a burger maker, but they've got specialty coffees, salads and sundaes now" -- a testament to the company's ability to reinvent itself.

That brings us to companies such as J&J and Toyota, which must reinvent themselves quickly, or at least make some big changes to get back into investors' good graces.

The litany of Johnson & Johnson problems that have exploded into the news in the past 18 months is too lengthy to recount, but here are a few: Just last month, a Texas federal jury ordered the company to pay $482 million in patent-infringement damages. J&J's once-pristine respect score also has been hurt by a string of product recalls at various subsidiaries, especially some that sell children's medicines and the company's flagship over-the-counter painkiller, Tylenol. When it comes to respect from investors, the message should be clear: Don't mess with kids' drugs.

Johnson & Johnson has pulled almost 47 million units of over-the-counter products such as Tylenol, Benadryl, Sinutab and Sudafed, due to quality-control problems. In last year's fourth quarter, the company took a painful $922 million charge, representing the impact of litigation settlements, product-liability expenses and costs associated with the recall of certain hip implants at DePuy, another subsidiary.

J&J has had to suspend or alter activities at several plants, which could affect this year's sales. It has acknowledged that consumer trust of its products "has truly been tested." In its annual report three years ago, the company said it would focus on execution. "That's not what they've done," says Marc Heilweil at Spectrum Advisory Services in Atlanta.

Johnson & Johnson and McDonald's are a study in contrasts, says Fla Lewis, a principal at Weybosset Research & Management in Providence, R.I. The fast-food chain has kept its eye on the ball and protected its brand, while "at J&J it seems to be one thing after another. They don't seem to be able to wrestle it down."

In an e-mail Friday in response to a query from Barron's, CEO Bill Weldon noted that, until the recent setbacks, the company had built a strong reputation in the past 125 years. And he added: "We are working diligently to overcome our recent problems to ensure only the highest-quality products reach our customers -- the first step to earning back their trust and confidence."

One consolation for investors is that Johnson & Johnson's earnings have grown, even through the company's troubles. Earnings rose to $4.78 a share last year from $4.40 in 2009, even though revenue was basically flat at $61.6 billion. J&J also pays a dividend of $2.16 a share, for a yield of 3.5%.

In many ways, our survey of investor respect is an accurate barometer of public perceptions about a number of big companies -- and a warning to those in need of change. Take Toyota, another long-trusted maker of familiar products that also was rocked by a series of recalls beginning in late 2009. The Japanese company recalled about eight million vehicles amid allegations of defective floor mats and accelerator pedals.

Toyota was tarnished not only by the need for a recall but "the way they handled it," one money manager wrote. "They didn't address as quickly as they could have."

The timing was bad, a lost opportunity. "It was a perfect time to screw up, right when General Motors [GM] and Ford [F] were flat on their backs," quips Paul Jackson.

Yet the well of respect for Toyota hasn't run dry, as our respondents indicated the company would recover from its current woes. Just last Tuesday, for instance, an investigation by NASA engineers showed no link between electronic throttles and unintended acceleration in Toyota vehicles, something that should help the auto maker recover its reputation.

After several years in the doghouse, General Electric (GE) is one company beginning to see some daylight. The company rose in our ranking to No. 48 from No. 74 last year. Once the standard-bearer for American capitalism, GE was hurt when its highly leveraged finance unit hit an air pocket amid the financial crisis. The company had to run to Buffett for a major cash infusion.

Since then, GE's core industrial businesses have been on the upswing, and the company has reduced its reliance on GE Capital, its finance unit. It also sold off its 51% stake in the NBC Universal entertainment business. Despite the improvements, some investors still are calling for GE to be broken up.

GE epitomizes bureaucratic thinking, says John Campbell of Cornerstone Investment Partners in Atlanta. "It is hard to understand where the value is being created . . . by largely unrelated businesses," he says.

PanAgora's Mussalli agrees, noting the company's collection of businesses "perpetually underperform." The various divisions could do much better alone, and "a break-up could unlock value," he says.

Both money managers indicated they "don't respect" GE, although plenty of others now do.

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BARRON'S

Hot Research AM
Johnson & Johnson Needs a Band-Aid

933 words
2 February 2011
Barron's Online
BON
English

Johnson & Johnson (JNJ: NYSE) By First Global ($59.80, Feb. 1, 2011)

In view of the pressure that the company is likely to witness in the near term, we now downgrade Johnson & Johnson to Market Perform [from Moderate Outperform].

Johnson & Johnson (ticker: JNJ) managed to moderately surpass our, as well as the consensus, earnings-per-share expectations in fourth-quarter 2010, in spite of its ongoing product recalls and suspension of manufacturing at the company's Ortho McNeil facility.

Johnson & Johnson's diluted EPS at $1.03 for the quarter came in above our, as well as the consensus, estimates for $1.01 and $1.02, respectively.

Thus, the company's full-year 2010 EPS of $4.76 was well within management's EPS guidance range of $4.70-to-$4.80.

However, disappointment in Johnson & Johnson's performance in fourth-quarter 2010 was in the company's lower top-line growth, on account of its ongoing product recalls and a negative currency impact.

In fourth-quarter 2010, Johnson & Johnson's revenue declined 6% year-over-year to $15.6 billion, down 3% from our estimate of $16.1 billion.

In spite of the continued negative impact on its top line, the company managed to record a bottom-line growth in fourth-quarter 2010, on the back of a higher "other income" and lower tax rate for the quarter.

For calendar 2011, Johnson & Johnson expects its sales growth to accelerate to 2%-3%, excluding the foreign-exchange-rate (forex) impact, and appears achievable if the McNeil-related issues are resolved and the segment witnesses a recovery, accompanied by a few launches on the Pharma front.

Management's EPS guidance of $4.80-$4.90 for calendar 2011 reflects a forex benefit of eight cents, an impact of six cents on account of the McNeil upgrade, six cents pertaining to a U.S. Pharma fee to be paid related to the U.S. health-care-reform legislation and 0.5%-to-1% due to Europe's austerity measures.

For calendar 2011, management expects all of Johnson & Johnson's major divisions to face various challenges, including pricing pressure, utilization, impact of health-care reforms and Europe's austerity programs on medical device & diagnostics (MD&D) and Pharma, and the resolution of quality and regulatory issues, as well as product recalls in the consumer segment.

Moreover, two of the company's high margin products -- Concerta [used to treat attention deficit hyperactivity disorder (ADHD)] and Levaquin [used to treat urinary infection] -- are likely to face generic competition in calendar 2011. Hence, we have lowered our estimates for calendar 2011.

We now estimate an EPS of $4.90 for calendar 2011, as against our earlier estimate of $5.05, translating into an earnings growth of merely 3%, as against our earlier estimated-earnings growth of 7%.

We believe that Johnson & Johnson's consumer segment is likely to continue facing problems throughout first-half 2010, as the company's Fort Washington facility is not yet scheduled to return online until first-half 2011, while alternate supply sources are unlikely to be ready before third-quarter 2011.

On the pharmaceuticals front, the impact of U.S. health-care reforms on the company's revenue is expected to be at the lower end of management's previous forecast of $400 million-to-$500 million.

Also, in the MD&D segment, pricing pressure remains a concern for devices as well, particularly for the company's Depuy Orthopedics and Vistakon [a vision-care provider] businesses.

However, these concerns are likely to be partially offset by Johnson & Johnson's strengthening pipeline basket.

With sales of the company's relatively newly launched products, such as Intelence [an HIV treatment], Stelara [a plaque psoriasis treatment], Doribax [an intra-abdominal infection and urinary-tract-infection treatment], Simponi [used to treat joint damage] and Nucynta [a pain reliever] gradually ramping up we expect their contribution to continue increasing, going forward.

Despite our expectations that calendar 2011 will be quite a challenging period for Johnson & Johnson, we believe the company is likely to step back on the growth trajectory from calendar 2012 onwards, following the potential resolution of the McNeil recall and over-the-counter (OTC) issues and successful execution of new product launches.

We estimate the company's EPS to grow by a respectable 8% year-over-year in calendar 2012, as against the estimated EPS growth of merely 3% for calendar 2011.

Moreover, we believe that Johnson & Johnson has a robust drug pipeline and appears to be in transition to a new set of growth drivers. At 12.5 times estimated calendar 2011 earnings of $4.90, the stock trades at a premium to its industry peers.

To our mind, the stock could remain range-bound until there is further clarity on the resolution of the McNeil recall and OTC issues and the extent of pricing pressure in the EU, though we remain positive on the company's long-term growth prospects, considering its strong fundamentals and strengthening product basket.

-- Devina Mehra -- Kavita Thomas

The companies mentioned in Hot Research are subjects of research reports issued recently by investment firms. Their opinions in no way represent those of Barrons.com or Dow Jones & Company, Inc. Share prices at the time the report was issued and the date of the report are in parentheses.

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Johnson & Johnson Needs More than a Band-Aid

Barron's Blogs, 08:10, 25 January 2011, 177 words, By Avi Salzman, (English)

Health products giant Johnson & Johnson(JNJ) disappointed investors with a weak fourth quarter earnings report Tuesday, hurt by slowing sales and product recalls.

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BARRON'S

Barron's Take
Why J&J Will Be OK

By Miriam Gottfried
528 words
25 January 2011
Barron's Online
BON
English

Johnson & Johnson has a headache that even Motrin can't clear.

A quarter affected by recalls, pricing pressure and slowing generic drug sales left the company with in-line earnings and disappointing revenue. Moreover, Johnson & Johnson's (ticker: JNJ) earnings forecast for 2011 of $4.80 to $4.90 a share also fell short, coming in below the $4.97 estimate projected by analysts polled by Thomson Reuters.

Shares were 2.2% lower at $60.80 in midday trading.

But even amid the dark clouds, it's clear that J&J can weather the storm. The company is a cash machine, and analysts say its pipeline seems to be improving. While uncertainty remains, particularly at the health-care Goliath's consumer unit, investors are being paid to wait with a handsome 3.5% dividend yield.

Shares trade at only 12 times projected forward earnings, further reducing risk. J&J remains the bluest of blue chips, and we would use this patch of trouble as a chance to get on board.

"It's pretty clear that J&J—in a very un-J&J-like way—has lost its bearings," says Les Funtleyder, health-care strategist at Miller Tabak. "But the risk is to the upside."

J&J reported a profit of $1.94 billion, or 70 cents a share, down from $2.21 billion, or 79 cents a share, a year earlier. Excluding special items such as restructuring costs, earnings rose to $1.03 from $1.02. Revenue slid 5.5% to $15.64 billion.

Analysts surveyed by Thomson Reuters expected a profit of $1.03 on revenue of $16.03 billion.

Gross margin narrowed to 67.8% from 67.9%.

Positive upside is possible for J&J, particularly if changes in health-care legislation remain at a minimum, Funtleyder says.

To be sure, J&J continues to face some stiff headwinds. The company has come under heightened regulatory scrutiny due to a series of recalls of its products such as Tylenol, Motrin and Benadryl last year. The recalls continued to mount in the fourth quarter and have hurt global consumer sales.

J&J is also getting hurt by efforts by cash-strapped European governments to control health-care spending and decisions by some U.S. patients to put off elective medical procedures. These issues, however, are not unique to J&J. Every hospital chain, medical-device maker and drug company is facing these same headwinds.

In a note this morning, Rick Wise, an analyst with Leerink Swann called the company's guidance conservative, saying that "it doesn't seem to point to an improving macroeconomic environment overall, with possibly still-declining procedure volumes and ongoing pricing pressures."

But Wise continues to rate J&J at Outperform, suggesting that the guidance may leave room for upside.

Investors should take a chance on J&J as it works to get itself back on track. The plush dividend may be the best medicine for waiting it out.

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BARRON'S

Barron's Take
J&J Needs More Than a Band-Aid

By TERESA RIVAS
674 words
19 October 2010
Barron's Online
BON
English

NOT EVERYTHING IS OKAY AT JNJ.

Tuesday morning, the health-care products titan Johnson & Johnson (ticker: JNJ) reported that third-quarter earnings rose 2.2%, to $3.42 billion, or $1.23 a share, up from $1.20 a share in the year-earlier period, and ahead of the $1.15 per-share profit analysts had predicted.

However, revenue fell 0.7% to $14.98 billion, just shy of the Street's expectations of $15.2 billion.

The company raised its full year forecast by a nickel, and now expects to earn between $4.70 and $4.80 a share, though this is mostly due to currency exchange trends.

Investors were looking for a more robust outlook, however, and sent the shares down $1.15, or 1.8%, to $62.71 in early afternoon trading.

We think the market is right to be skeptical.

Some investors will seemingly always love JNJ, thanks to its well established brand name, diversified product line and healthy 3.4% yield. And for those who own it for the long haul, today's news may well be seen as a buying opportunity.

However, we expect the stock to move little in the near future thanks to some disappointing trends highlighted by the quarter.

For starters, the eight-cent per-share surprise isn't as impressive as it seems on the surface. As Leerink Swann Research analyst Rick Wise explained, "outperformance…was primarily driven by higher other/interest income and a lower tax rate, which added six cents and seven cents to earnings per share, respectively.

Excluding these factors, reported EPS would have looked more like $1.10 vs. the $1.23 JNJ reported." (The upside to other income came largely from the sale of its breast-care business.)

Thus the earnings outperformance, like the company's currency-inspired increased guidance, shows that underlying fundamentals are not driving the improved numbers.

Gross margins, which exceeded 30% previously, slipped to 29.4% in the quarter, and CFO Dominic Caruso acknowledged that the company was still feeling the effects of a sluggish economy and high unemployment, as patients continue to delay elective medical procedures.

Not surprisingly, U.S. sales were soft in the quarter, coming on the heels of several embarrassing recalls of over-the-counter medications and implants, the largest of which involved more than 136 million bottles of children's liquid medicines found to have traces of metals and greater concentrations of active ingredients than normal.

Wise notes that it's too early to tell if there has been any lasting damage to the brand after the series of recalls. Sales at the company's consumer division came in more than $200 million below his estimates, which "could potentially signal some systemic damage to JNJ's brand name in light of the…recalls and negative publicity."

Morningstar analyst Damien Conover notes that while he expects sales in consumer and device divisions to recover, "the turnaround will probably take several quarters."

In addition, Conover noted that operating costs were higher than expected in the quarter, due to manufacturing issues, and he expects "operating costs will remain elevated through the first half of 2011." He also doesn't expect that "the company will sustain the low tax rate [which added to this quarter's beat] for the remainder of the year."

There are other looming concerns as well, as JNJ (and its peers) have begun to pay for changes mandated by health care reform. This comes as budget gaps have caused European countries to slash spending on their national health care programs, creating greater pricing pressure.

Trading at 12.5 times earnings, the stock looks attractive, so some investors with longer investment horizons may buy this dip. However, it's unlikely that the stock will meaningfully advance until it can prove that it has moved beyond the recalls' pall, lethargic consumer demand, and larger macro headwinds.

Comments? E-mail us at online.editors@barrons.com

Document BON0000020101019e6aj0008d

J&J Shares Dip on Capitol Hill Grilling

Barron's Blogs, 13:27, 30 September 2010, 204 words, By Tiernan Ray, (English)

Johnson & Johnson(JNJ) stock is holding up fairly well today as the company's CEO, William Weldon, was grilled by the House Committee on Oversight and Government Reformregarding J&J's multiple recalls of children's ...

Document WCBBE00020100930e69u0018h

J&J: Reputation on the Line, Says CLSA

Barron's Blogs, 08:24, 29 September 2010, 341 words, By Johanna Bennett, (English)

Tomorrow, Johnson & Johnson(JNJ) CEO William Weldonwill appear at a Congressional hearing and provide his account of the manufacturing problems that led to massive recalls of popular over-the-counter drugs earlier this year.

Document WCBBE00020100929e69t000p3

BARRON'S

Review &Preview Follow-Up -- A Return Visit to Earlier Stories: Buffett Offers a Salve For J&J's Wounds

By Lawrence C. Strauss
445 words
23 August 2010
Barron's
B
16
English

Johnson &Johnson, which has struggled recently with an embarrassing recall of some of the liquid pediatric versions of its medications like Tylenol and Motrin, got a dose of good news last week: Warren Buffett substantially increased his stake in the company's shares during the second quarter.

Buffett's Berkshire Hathaway raised its position from 23.9 million to 41.3 million shares, a 73% increase, according to a filing. Last year, Berkshire (ticker: BRK.A) sold a chunk of its J&J shares (JNJ), apparently to raise cash for other investments. Berkshire noted at the time that J&J and the other shares it sold "will likely trade higher in the future."

News of the recall, the latest in a series of stumbles, surfaced at the end of April. Afterward, it emerged that J&J had quality-control problems and has temporarily shuttered a plant in Fort Washington, Pa. In an interview last week with The Wall Street Journal, J&J's chief executive, William Weldon, outlined the steps needed to correct the manufacturing problems at its McNeil Consumer Healthcare unit, including a reorganization.

Since Barron's wrote a favorable story about the company last spring ("J&J Has Liftoff," May 3), the shares are down about 10%. Last week, the stock, at 58 and change, fetched a reasonable 11.7 times the $5.03 a share analysts expect the company to earn next year. It also sports an attractive dividend yield of 3.7%.

Investors have steered clear, as the health-care giant negotiates a tough year. In the second quarter, the company earned $1.23 a share, versus $1.15 a share a year earlier, on a slight increase in revenues to $15.3 billion.

The company said that the recall and suspension of manufacturing at the Pennsylvania plant nicked second-quarter earnings by 5 cents a share.

"The company has finally become aggressive in terms of realizing the potential damage to its reputation from not handling this in a more transparent way," says Scott Glasser, co-portfolio manager of the Legg Mason ClearBridge Appreciation Fund (SHAPX). J&J is a top fund holding.

The good news, he says, is that J&J is a diversified global company with revenues of more than $60 billion last year.

No doubt, The Oracle of Omaha has a similar assessment.

Document B000000020100821e68n00011

BARRON'S

Follow Up
This Just In: Washington Post Is Cheaper Than Dirt

980 words
21 August 2010
Barron's Online
BON
English

Review | Preview

Buffett Offers a Salve for J&J's Wounds

WASHINGTON POST'S SHARES and reputation took a hit recently with a report by the U.S. Department of Education that repayment rates on government loans by students at the Post's fast-growing Kaplan higher-education unit are some of the lowest among leaders in the for-profit education industry.

The Post's stock, at $348, is down 17% so far this month and 22% below the price of $445 when we wrote favorably on the company ("Washington Post Is Dirt Cheap," April 5). We argued the Post (ticker: WPO) was attractive on a sum-of-the-parts basis but failed to anticipate the potential damage to Kaplan, which has been viewed as the company's most valuable asset.

Now the stock market seems to be assigning a negative value to the overall Kaplan education franchise, which generated $167 million of operating income in the first half of 2010. Although the stock looks even more attractively priced today, the cloud over Kaplan may take time to lift.

The Post owns cable-TV systems, a group of network-TV stations, the Washington Post newspaper and Kaplan, having agreed to sell money-losing Newsweek earlier this month for next to nothing.

We estimate the cable business is worth $2 billion, or about $3,000 per subscriber, and we value the TV stations at $1 billion. The Post also has net cash and securities totaling $650 million. That totals $3.65 billion, or almost $400 a share. We're assigning no value to the newspaper or giving the company any credit for its overfunded pension plan.

The Kaplan situation is embarrassing and troublesome for the Post because the higher-education operation—both physical campuses and online study—accounts for virtually all of Kaplan's profits. The original test-preparation business is slightly in the red. The Education Department reported that just 28% of former Kaplan students were paying principal on their government student loans, which accounts for the bulk of Kaplan's revenues. Other for-profit schools were in the 25% to 54% range, including Apollo Group at 44% and Career Education at 35%. By comparison, Harvard's student-repayment rate is 84%.

Under a proposed federal rule, schools with repayment rates below 35% would be ineligible to participate in the main government student-loan program, called Title IV. The Post warned that the proposed rules "could have a materially adverse effect on future results" at Kaplan.

The report emboldened critics who've argued that for-profit schools recruit under-prepared students to high-cost programs that add little to their job skills or employment prospects while saddling them with significant debt. The Post asserts that the government figures don't include students participating in various government-sponsored debt management programs.

One Post holder says the company ought to launch a big share-repurchase program, given its cheap stock and high cash position. It's probably also time for the Post's board, which includes Warren Buffett, to take a hard look at Kaplan to see if it's living up to the Post's high standards.

It's tough to value Kaplan now, but it appears to be worth considerably more than the negative number discounted in Post shares.

--Andrew Bary

Buffett Offers a Salve for J&J's Wounds

JOHNSON & JOHNSON, WHICH HAS STRUGGLED recently with an embarrassing recall of some of the liquid pediatric versions of its medications like Tylenol and Motrin, got a dose of good news last week: Warren Buffett substantially increased his stake in the company's shares during the second quarter.

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--Lawrence C. Strauss

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Document BON0000020100821e68l00005

BARRON'S

Weekday Trader
Two Health-Care Stocks That Are Priced Right

By JOHANNA BENNETT
851 words
20 July 2010
Barron's Online
BON
English

THE FOOD AND DRUG ADMINISTRATION hasn't been kind to health-care investors.

But for European drug maker GlaxoSmithKline (ticker: GSK) and medical-products giant Baxter International (BAX), the FDA's unkind attentions could set the stage for attractive returns.

Already hurt by a weak economy here and abroad, and by worries about the financial impact of health-care reform measures signed into law earlier this year, companies that make prescription drugs, medical equipment and other health-care products are facing increased scrutiny from regulators.

And the FDA hasn't been shy about taking action.

It's hammered Genzyme (GENZ) and Johnson & Johnson (JNJ) over problems at manufacturing plants, and ordered Baxter to recall 200,000 drug infusion pumps.

Meanwhile, the agency is currently pondering whether to ban Glaxo's diabetes drug Avandia due to safety issues.

But recent events suggest that the regulatory headwinds facing Baxter and Glaxo are not as severe as many initially feared.

With price-to-earnings multiples hovering near record lows, growing dividends and promising new products in development, Glaxo and Baxter could return 20% or better over the next 12 to 18 months.

"Any sign of FDA scrutiny can cause extreme reactions by investors, but if the setback is temporary then the company may be worth taking a look at," says Chris Armbruster, a vice president of research with Al Frank Asset Management. "If a company has the financial wherewithal to weather the increased pressure from the FDA and the valuation is palatable, the long-term rewards may justify some short-term risks."

Of course, running afoul of the nation's health watchdog can be the stuff of corporate nightmares.

Recalls and manufacturing problems can take years to unwind, hurting a company's finances and operations, and eroding investors' confidence in management.

Having a drug banned by the FDA is no less crushing.

But Glaxo seems to have dodged that bullet.

An FDA advisory panel voted Wednesday to recommend that Avandia remain on the market despite concerns the drug could raise the risk of heart attacks.

Once a blockbuster, Avandia generated just 3% of Glaxo's revenue in 2009. And its patent expires in 2012. But analysts worry Glaxo could face a new rash of litigation if the drug gets pulled off the market.

Chances that regulators will go against the panel's recommendation and ban Avandia are slim. Glaxo, meanwhile, has set aside $2.4 billion to handle legal cost from lawsuits over Avandia and Paxil, another controversial drug.

Concerns about Avandia have long been baked into Glaxo's American depositary receipts (see Barron's Take, "Glaxo a Buy Despite Avandia Scare," Feb. 22, 2010), which have fallen 39% since safety concerns about Avandia first emerged in 2007.

But at 9.7 times forward earnings, the ADRs look cheap, especially given Glaxo's valuable vaccine and consumer-health businesses and its limited exposure to patent expirations, says Jeffrey Holford, an analyst with Jefferies International.

The company has 100 new drugs and 15 vaccines in development, according to Linda Bannister, an analyst with Edward Jones. Profit is growing.

And with a dividend yield of 5.1%, investors are being paid to wait.

Baxter also has a lot going for it.

It has 25 drugs in development with the potential to generate annual sales of $6 billion. That and the $2.6 billion in cash on its balance sheet led Barrons.com to write optimistically about the stock back in March. (See Weekday Trader, "Baxter International Has Room to Run," March 3, 2010.)

But it's been a bad year for Baxter, whose stock has fallen 31% since hitting a 52-week high in January.

The company slashed profit projections for 2010 in April, citing a slow market and falling prices for plasma-based products. And in May, the FDA ordered Baxter to remove all of its Colleague infusion pumps now on the market, opening the door to rival pump makers.

Last week, Baxter got a break. The FDA has given the company two years to complete the recall, longer than many analysts expected, which should help Baxter get enough replacement pumps to protect its market share.

Analysts remain at odds over the company's future prospects amid worries about the market for plasma-based products, which are a key component to Baxter's biggest business unit.

Still, Wall Street sees profit climbing 3% this year and another 8% in 2011 to $4.23 a share, according Thomson Reuters.

And at 10.7 times forward earnings, the stock trades well below its five-year median of 19 times forward earnings.

Of course, neither Baxter nor Glaxo are out of the woods. Though both companies are scheduled to announce quarterly financial results later this week, critics see little to get excited about in the near future.

Sticking with either stock will take some patience.

Still, Glaxo and Baxter have rock-solid dividends, and with valuations so low, the shares could be easy pickings for savvy bargain hunters.

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Document BON0000020100720e67k000jh

BARRON'S

Review &Preview Follow-Up -- A Return Visit to Earlier Stories: Pill Maker's Shares Stay Tranquil

By Lawrence C. Strauss
537 words
10 May 2010
Barron's
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English

Prior to the latest dose of bad news, the health-care-products giant appeared to be digging out from a series of over-the-counter product recalls, the most recent of which had been in January, and pertained to Tylenol and several other brands.

The market more or less shrugged off the news of the latest recall. On Friday, even after market rout the previous day, the shares were north of 63, about 3% below where they closed on April 30.

The recall involves products at J&J's McNeil Consumer Healthcare unit. The Food and Drug Administration said some of the raw material contained bacteria, but the finished products did not.

The drug maker's stock is likely to come under pressure in the coming weeks, as Johnson &Johnson deals with the fallout -- which will include a congressional investigation, hearings and more negative headlines. But the company's long-term-growth prospects remain sound, thanks to a diversified group of businesses, a very strong balance sheet, and a promising product pipeline.

Scott Glasser, co-portfolio manager of the large-cap-blend Legg Mason ClearBridge Appreciation Fund (SHAPX), estimates the affected products generate $250 million to $350 million of annual sales -- or less than 1% of the roughly $65 billion in revenue that the company expects this year. He thinks 2010 earnings are only going to take a one-cent hit.

While "it's an unfortunate situation, the issue is limited in scope and it's being addressed immediately," says Glasser. J&J is one of the ClearBridge Appreciation fund's top holdings.

Beyond the hit to revenue and profit, the key for J&J is to get a handle on its manufacturing problems and fix them quickly, or else risk tarnishing a good name built up over more than a century of doing business.

Early this year, McNeil began reviewing its quality-control and manufacturing systems, but it has a lot more work to do.

The company has proved very adept at managing crises, including the one in 1982 in which cyanide-laced Tylenol capsules killed seven people in the Chicago area. So it's likely J&J will be able to repair the damage from the most recent lapses. It just can't let the situation linger.

"If it is over quickly, it will likely be manageable from an [earnings per share] perspective," says Les Funtleyder, an analyst at Miller Tabak &Co., who has a Buy rating on J&J.

Based on inspections last month at a company plant in Fort Washington, Pa., where production was suspended, the federal agency cited "manufacturing deficiencies which may affect quality, purity or potency" of the products involved. The FDA called the potential for serious health problems remote, but it did advise consumers to stop using the products immediately.

The latest recall notwithstanding, our conclusion remains intact: Over the long haul, J&J shares still have good upside.

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BARRON'S

Follow Up
The Pressure Grows on Monsanto

1,065 words
8 May 2010
Barron's Online
BON
English

Review | Preview

Pill Maker's Shares Stay Tranquil

MONSANTO SHARES HAVE FALLEN 27%, TO 59, since Barron's argued late last year that they were undervalued ("Sowing the Seeds of Recovery," Nov. 30). Tempting as it is to double down now, it may be more prudent to exit the agriculture-technology stock, which could continue to struggle in the near term. Chances are you will be able to repurchase Monsanto (ticker: MON) at a lower price, once the dimensions of the company's problems become clearer.

Turns out that trouble is sprouting in the weed world, where some noxious plants are developing incremental resistance to herbicides sold by Monsanto and its competitors.

In a way, the company has become a victim of its own success: By developing a groundbreaking, environmentally friendlier herbicide, Roundup, which controls a wide variety of weeds, and then selling farmers Roundup-resistant seeds, Monsanto simplified the once-messy business of weed control. But that also made it easier for some farmers to rely excessively on Roundup, with the result that certain weeds have evolved to withstand the herbicide.

The problem is especially acute, for now, in the cotton fields of the Southeast, where a particularly pesky pigweed requires farmers to use supplementary herbicides, or to till or even weed by hand. The added costs are squeezing farmers who already pay a premium for Monsanto seeds, and the company has taken the unusual step of rebating affected farmers up to $12.50 an acre.

So far, Roundup-resistant weeds affect less than 6% of U.S. farmland. They're less of a problem in Monsanto's bedrock corn and soy businesses. The company won't disclose how much it has set aside for rebates, but says the amount is "not material," and there are no plans yet to expand the program beyond cotton.

Monsanto trades at 18.6 times projected 2010 profit, and looks cheap only by historical standards. It fetched 43 times earnings in 2007, but subsequent developments have hurt the shares. Generic competition has forced down prices in the herbicide business, while competition from DuPont (DD) and Syngenta (SYT) is increasing. Also, the company recently priced new seeds too richly to win over converts. If more weeds prove resistant to Roundup, the seed business, which chipped in two-thirds of last year's sales, could be affected.

It may be risky to short Monsanto at its current price, even though the stock fetches a 16% premium to other agrichemical concerns and a 31% premium to the overall market. The company already told investors to expect earnings to grow at a slower 13% to 17% rate, and has corrected some missteps; it lowered prices on new seeds to gain market share.

New seeds, such as SmartStax corn, that are more bug-resistant, are expected to drive growth in coming years. Their potential will become clearer closer to harvest. That might be a better time to evaluate Monsanto's prospects.

-- Kopin Tan

Pill Maker's Shares Stay Tranquil

WORD OF JOHNSON & JOHNSON'S VOLUNTARY recall of pediatric Tylenol, Motrin and several other liquid products was a big downer.

And for Barron's, which published a favorable cover story about the company last week (ticker: JNJ), the timing couldn't have been worse, as the announcement came soon after the magazine went to press on April 30.

Prior to the latest dose of bad news, the health-care-products giant appeared to be digging out from a series of over-the-counter product recalls, the most recent of which had been in January, and pertained to Tylenol and several other brands.

The market more or less shrugged off the news of the latest recall. On Friday, even after market rout the previous day, the shares closed north of 63, about 3% below where they ended on April 30.

The recall involves products at J&J's McNeil Consumer Healthcare unit. The Food and Drug Administration said some of the raw material contained bacteria, but the finished products didn't.

The drug maker's stock is likely to come under pressure in the coming weeks, as Johnson & Johnson deals with the fallout -- which will include a congressional investigation, hearings and more negative headlines. But the company's long-term-growth prospects remain sound, thanks to a diversified group of businesses, a very strong balance sheet and a promising product pipeline.

Scott Glasser, co-portfolio manager of the large-cap-blend Legg Mason ClearBridge Appreciation Fund (SHAPX), estimates that the affected products generate $250 million to $350 million of annual sales -- or less than 1% of the roughly $65 billion in revenue that the company expects this year. He thinks 2010 earnings are going to take only a one-cent hit.

While "it's an unfortunate situation, the issue is limited in scope and it's being addressed immediately," says Glasser. J&J is one of the ClearBridge Appreciation fund's top holdings.

Beyond the hit to revenue and profit, the key for J&J is to get a handle on its manufacturing problems and fix them quickly, or else risk tarnishing a good name built up over more than a century of doing business.

Early this year, McNeil began reviewing its quality-control and manufacturing systems, but it has a lot more work to do.

Johnson & Johnson has proved very adept at managing crises, including the one in 1982 in which cyanide-laced Tylenol capsules killed seven people in the Chicago area. So it's likely J&J will be able to repair the damage from the most recent lapses. It just can't let the situation linger.

"If it is over quickly, it will likely be manageable from an [earnings per share] perspective," says Les Funtleyder, an analyst at Miller Tabak & Co., who has a Buy rating on J&J.

Based on inspections last month at a company plant in Fort Washington, Pa., where production was suspended, the federal agency cited "manufacturing deficiencies which may affect quality, purity or potency" of the products involved. The FDA called the potential for serious health problems remote, but it did advise consumers to stop using the products immediately.

The latest recall notwithstanding, our conclusion remains intact: Over the long haul, J&J shares have good upside.

-- Lawrence C. Strauss

Document BON0000020100508e65800038

Weekday Trader
J&J a 'Buy' Despite Recall

By Lawrence C. Strauss
535 words
3 May 2010
Barron's Online
BON
English

WORD OF Johnson and Johnson's (JNJ) voluntary recall over the weekend of pediatric Tylenol, Motrin and several other products was disappointing. After all, the health-care giant, the subject of a positive profile in this week's Barron's, is still digging out from a January recall involving Tylenol and other over-the counter products for adults.

The market, however, shrugged off the news. Late Monday morning, the shares were trading at 65 and change, up about 1% on the day. And the company's long-term prognosis remains healthy, owing to a diversified product portfolio, a strong balance sheet and a promising pipeline.

Scott Glasser, co-portfolio manager of the Legg Mason ClearBridge Appreciation Fund (ticker: SHAPX), estimates that the affected products generate $200 million to $400 million of annual sales -- or less than 1% of the roughly $64 billion in revenue that the company expects this year.

"While we are dismayed and think it's an unfortunate situation, the issue is limited in scope and it's being addressed immediately," says Glasser. He adds that J&J's diversity of business lines "limits both the revenue and profit impact and, in our view, the economic impact of this."

The company said it was premature to discuss the recall's financial impact, though it did observe that most of its over-the-counter business isn't affected.

The recall, triggered by customer complaints that J&J wouldn't elaborate on, affects seven pediatric products in the McNeil Consumer Healthcare unit. The list includes Concentrated Tylenol, Children's Tylenol, Concentrated Motrin, Children's Motrin, Children's Zyrtec, and Children's Benadryl. These are primarily liquid products. In all, more than 40 variations of these products are affected.

In a press release, the Food and Drug Administration said the recall resulted "because some of these products may not meet required quality standards. It was done as a precaution, not in response to any medical problems.

The federal agency said that "some of the products may contain a higher concentration of active ingredient than is specified." Another potential problem is "inactive ingredients that may not meet internal testing requirements, and others that may contain tiny particles."

The FDA said that "the potential for serious medical events is remote," though it advises customers to stop using these products immediately.

J&J (JNJ) says it "is conducting a comprehensive quality assessment across its manufacturing operations."

In the first quarter, the company's consumer segment, which includes Tylenol and other over-the-counter products, took a big hit, owing to the earlier recall. In the U.S., revenue was down 25.3%, to $542 million. The consumer segment's first-quarter revenue fell 3.7% globally, excluding currency adjustments. The company said that revenue would have been flat without the recall.

The latest recall creates another headwind for the consumer segment, which has had to struggle with a sluggish economy.

But the latest setback, while disappointing, doesn't change our conclusion: Over the long haul, J&J shares still have good upside.

Comments? E-mail us at online.editors@barrons.com

Document BON0000020100503e6530008d

JNJ's Really Tough Day: Of Kickbacks and Recalls

Barron's Blogs, 13:16, 15 January 2010, 287 words, By Johanna Bennett, (English)

The world's most respected company, medical products giant Johnson &Johnson (JNJ), is having a bad day. Federal prosecutors alleged in a civil complaint filed in federal court in Boston today that between 1999 and 2004 J&J paid ...

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