

07 | Johnson & Johnson

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HEADCOUNT	122,000
YEAR ESTABLISHED	1887
PHARMA REVENUES	\$23,237 +4%
TOTAL REVENUES	\$53,324 +6%
NET INCOME	\$11,053 +10%
R&D BUDGET	\$7,125 +10%

DRUGS APPROVED/LAUNCHED

Drug	Indication
invega	schizophrenia
remicade	pediatric Crohn's, rheumatoid arthritis (dose), psoriatic arthritis
levaquin	community-acquired pneumonia (pediatric exclusivity)
risperdal consta	schizophrenia within specific patient populations (dosage)
velcade + doxil	relapsed or refractory multiple myeloma
prezista	HIV/AIDS
jurnista	severe pain treatment (EU recognition)

DRUGS PENDING APPROVAL

Drug	Indication
risperdal	schizophrenia and bipolar I disorder (pediatric exclusivity)
levaquin	pyelonephritis
doxil	multiple myeloma
doripenem	hospital-acquired pneumonia
ceftobiprole	complicated skin and skin structure infections (cSSSI)

DRUGS IN PHASE IIB AND BEYOND

Drug	Indication
invega	bipolar mania
paliperidone palmitate	schizophrenia
risperdal consta	bipolar maintenance
carisbamate	epilepsy
topamax	epilepsy (pediatric exclusivity)
concerta	adult ADHD
remicade	pediatric ulcerative colitis
cnto 1275	psoriasis
cnto 148	rheumatoid arthritis, ankylosing spondylitis, psoriatic arthritis
ica 17043	sickle cell disease
procrit	chronic kidney disease - dose
ceftobiprole	cSSSI, nosocomial pneumonia, hospitalized community acquired pneumonia
doripenem	complicated urinary tract infections, intra-abdominal infections, nosocomial pneumonia
doxil	breast cancer
velcade	non-Hodgkin's lymphoma, multiple myeloma (first line)

zarnestra	acute myeloid leukemia
yondelis	relapsed ovarian cancer
dacogen	myelodysplastic syndromes (MDS), acute myeloid leukemia
tmc125	HIV/AIDS
jurnista	chronic pain
tapentadol	severe acute pain, chronic pain
reopro	facilitated percutaneous coronary intervention
rivaroxaban	VTE prophylaxis
dapoxetine	premature ejaculation

EARLY RESEARCH PROJECTS

Drug	Indication
vx-950	hepatitis C (with Vertex)

DRUGS COMING OFF PATENT

Drug	Indication
risperdal	antipsychotic (2008)
topamax	migraine (2009)

TOP SELLING DRUGS

Drug	Indication	\$	(+/- %)
risperdal	antipsychotic	\$4,183	18%
procrit/eprex	anemia	\$3,180	-4%
remicade	rheumatoid arthritis	\$3,013	19%
topamax	epilepsy	\$2,027	21%
levaquin	infection	\$1,530	3%
duragesic	chronic pain	\$1,295	-18%
aciphex/pariet	acid reflux	\$1,239	6%
concerta	ADHD	\$930	20%

Account for 75% of total pharma sales, up from 72% in 2005.

KEY PERSONNEL

William C. (Bill) Weldon
chairman and chief executive officer

Dominic J. Caruso
chief financial officer

Richard Lopacki
vice president, business development

IN LAST YEAR'S REPORT, I OPINED that Johnson & Johnson may have taken its eye off the Pharma-ball by focusing its efforts on its devices and diagnostics business. By the end of 2006, the company's attention shifted to its third segment, consumer healthcare.

In December 2006, J&J closed on its \$16.6 billion deal to acquire Pfizer's consumer healthcare business. Sans Pfizer, J&J's unit brought in \$9.8 billion in 2006 revenues (+7%) and is now on pace to reach \$13.5 billion in 2007, with leadership positions in 22 consumer categories. J&J also tried to boost its device segment (+6% in 2006) with the \$1.4 billion acquisition of Conor Medsystems, but that backfired when the unit's stents failed a critical trial. J&J contends that the consumer acquisition will enable it to cut \$500 million in its cost structure.

J&J's drug revenues, on the other hand, only grew 4% last year, the lowest rate of its three segments. Significant growth came from three products: Risperdal, Remicade and Topamax. That anemic rate of growth facilitated its drop from the #5 slot in last year's ranks, as Novartis and Merck both passed it (just barely, and thanks to a boost from vaccine revenues, but they still passed it). With patent expirations pending and an FDA warning about its #2 moneymaker, J&J may find itself struggling for sales growth in the years ahead.

The company's top seller, Risperdal, will lose its patent protection in June 2008 (after receiving a six-month extension), while #4 seller Topamax will face generic competition in the U.S. in the spring of 2009. Meanwhile, Procrit is facing restricted labeling that will narrow its usage, and is also the center of

the biogenerics/biosimilars storm in Europe (more on the EPO story in Amgen's profile). The controversy surrounding heart failure drug Natrecor has submarined that drug's sales. Once expected to be a blockbuster, it has negligible sales (by Top Companies standards).

The bright spot among its top products is Remicade, a biologic TNF blocker. And that one's duking it out with Humira and Enbrel, while next-generation treatments are on the rise.

Segue Away

So what's a struggling drug company to do? Reorganize! In 2006, J&J restructured its pharma business into three segments: central nervous system and internal medicine (CNS/IM), biotech, immunology and oncology (B.I.O.), and virology. Those units are responsible for executing J&J's plans to submit 10 to 13 NMEs by the end of 2007.

It's an ambitious plan — even though some of those NMEs are awfully close to being line extensions — but the company's on a pace to pull it off, with four approvals in 2006 and two more drugs — both antibiotics — presently in the FDA's dock.

Invega, one of the four new approvals, will be the company's followup to soon-to-be-generic Risperdal, but with an indication as sensitive as schizophrenia, it could be a very difficult task to get psychiatrists and patients to move to a "new, improved" treatment.

Approval of HIV treatment Prevista let J&J kick off its new virology group, which has two more HIV drugs in late-stage development, as well as a hepatitis C treatment in-licensed from Vertex Pharmaceuticals.

License To Ill

J&J is rightly proud of its program to file all those NMEs by the end of this year, but the company's Near-Term Pipeline feature in its annual report reveals a significant weakness. In the table "Projected Filings, 2006-2009," J&J lists 15 compounds that will file by 2009, but a footnote points out that 10 of them are in-licensed.

Don't get me wrong: it's an achievement to get that many projects into late-stage trials. In-licensed products can be major successes — J&J has made billions from Procrit, which was licensed from Amgen — but it doesn't speak wonders for J&J's internal development efforts. The company prides itself on decentralization, but it appears that its prospects for success are tied into its enormous scale and the cash that allows it to buy into others' development programs.

In a letter to shareholders, chairman and chief executive officer William Weldon remarked, "We manage our business as a marathon, rather than a sprint." While the company looks unstoppable on the consumer front, that business has much lower margins than the drug and device units. I can't see how it's going to replace the generic losses that are looming in the next few years. Combined with EPO restrictions and the uncertainty in the stent market, J&J may be in for a bumpy ride. Or it may be looking for a pharma-acquisition or two. . . ■

THE LOWE DOWN

JUST HOW SOON DOES JOHNSON & JOHNSON's name come to mind when you start listing big industry players? They're a big deal, but the medical devices business tends to obscure that. When they're out there in the front of the business section of the paper, fighting yet another huge battle over stents or the like, it's hard to remember that this is a company that sells some serious drugs.

They do that with a serious marketing arm, but you don't hear much about that either, compared to all the stories about (say) Pfizer's army of drug reps. And they have no problem at all throwing big bricks of cash down for in-licensing deals: if you're negotiating in the same space as J&J, you'd better prepare your accountants for a real workout.

Of course, some of that in-licensing activity goes on because the supply of home-grown drugs is (I believe) not quite as steady as the company would like. They've been doing a lot of nervous shifting around in the research labs the last year or two, which might be a reflection of the situation. Will they rev up the labs, or rev up the checkbook?

—Derek Lowe