



## **ANALYSIS-J&J troubles could boost generic drugmaker Perrigo**

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- \* Analysts see short-term sales boost for rival Perrigo
- \* Perrigo shares have doubled in last year
- \* Novartis also stands to get "nice little bump"

By Jon Lentz

WASHINGTON (Reuters) - Johnson & Johnson's deepening recall troubles -- a dark spot on the drugmaker's sterling reputation -- may prove to be a bright spot for a pint-sized competitor.

Analysts are predicting a sales boost for smaller rival Perrigo Co, whose widely available store-brand alternatives are filling the gap left by Children's Tylenol and other children's medicines J&J recalled.

"Perrigo is very likely to benefit the most from J&J's sales decline following the recalls, as the two companies jointly account for the majority of the pediatric liquid market," Shuang Lewis, an analyst with IHS Global Insight, said in an e-mail.

The extent of J&J's woes came into sharper focus Tuesday, when the company reported that its revenue missed expectations, and it again cut its 2010 profit forecast, citing the recalls.

J&J also revealed that its recalls are the subject of a U.S. criminal investigation.

The drugmaker -- whose products make up an estimated 70 percent of liquid, over-the-counter medications for children -- has said it will not be able to resume production of those medications until at least next year.

That could translate into a nice bump in sales for Perrigo, J&J's main competitor on many nonprescription drugs. The extent of the boost will be clearer when the company reports its earnings on Aug. 17.

"A consumer walks into the drugstore and can't find the product they're used to buying, they'll probably consider the alternative store brand version if there's no branded version there," said Derek Leckow, a Barrington Research analyst.

The biggest maker of generic, nonprescription drugs, Perrigo markets its products through Wal-Mart Stores Inc, CVS Caremark Corporation and other chains under store brand labels.

New products and a move among consumers to cheaper generics during the economic downturn have aided Perrigo's growth in recent years. Its shares have more than doubled from their year-low of \$25.91 on Aug. 14.

The troubles at J&J could continue the trend.

One of the biggest J&J recalls was on April 30, when J&J took 40 widely used children's medications off the market, including painkillers Tylenol and Motrin and allergy treatments Benadryl and Zyrtec.

J&J closed its plant in Fort Washington, Pennsylvania, where those medicines were produced and where the FDA said it found thick dust, grime and contaminated ingredients.

Average annual sales of those products amount to about \$650 million -- only about 1 percent of expected sales this year for the diversified healthcare company.

The much smaller Perrigo had just over \$2 billion in total sales last year.

To be sure, Perrigo has had some of its own headaches.

Its shares fell on Monday after a Goldman Sachs analyst downgraded its stock, saying it had become too expensive. Shares closed down 3.5 percent on Monday to \$55.28.

It also received a warning letter from the FDA on April 29 after the agency found violations during an inspection of a facility in Allegan, Michigan.

#### SHORT-TERM BENEFIT

Pharmacy chains are relying on generic drugs to keep up with the demand for children's over-the-counter medicines.

"We've had to ship more of our own CVS brand to try and meet the demand for these pain relievers," said Mike DeAngelis, a spokesperson for CVS Pharmacy, whose store-brand drugs are manufactured by Perrigo.

"The nice thing about the situation was that the generic was still available the whole time," said Dr. Daniel Frattarelli, chairman of a drug committee at the American Academy of Pediatrics. "If the only thing we could use was name-brand Tylenol, let's say, then the impact would've been a whole lot greater."

Perrigo is not the only drug company seen benefiting from J&J's troubles.

Novartis AG rushed its new children's Triaminic pain reliever to market last month, calling it "the only branded over-the-counter children's liquid acetaminophen product currently available nationwide." Acetaminophen is the active ingredient in Tylenol.

"I wouldn't anticipate a huge contribution to earnings from it," said Damien Conover, an analyst with Morningstar Inc. "It'll be a nice little bump, but nothing all that material."

The benefit to J&J's competitors may not last long, said Mayank Gandhi, an analyst with Cowen and Co.

"Obviously J&J will come back and invest in these products once they are back on line," Gandhi said. "Maybe there's some short-term impact, but eventually probably they'll be able to recover most of it."

In afternoon U.S. trading, J&J shares were down 2.1 percent to \$58.32, while Perrigo shares were unchanged at \$55.28. Novartis shares closed down 1.1 percent in Switzerland.

(Reporting by Jon Lentz, editing by Gerald E. McCormick)

## ANALYSIS-J&J TROUBLES COULD BOOST GENERIC DRUGMAKER PERRIGO by Jon Lentz

I chose to report this story because it seemed that it would be interesting regardless of what I discovered in my reporting. The recalls at Johnson & Johnson were a major ongoing story when I started my internship at Reuters, and I wondered how they were affecting the pharmaceutical company's competitors. I had seen little coverage of this issue, and the story also seemed like a good way to do a more financially focused story than what I was typically doing.

I learned a lot as I reported the story. For the first time I learned how to track down and interview financial analysts, a staple of financial reporting. The analysts brought valuable insight and context to my story, especially since both Johnson & Johnson and the Perrigo Company declined to comment before their earnings statements would come out. I interviewed other sources too, including patient advocates and pharmacy chains, adding more depth to the story. I also read through financial statements on each company in my background reporting. That deeper level of research allowed me to make an informed judgment as to who would benefit and the piece got designated as an analysis, also a first for me.

I got a lot of positive feedback on the story from editors and colleagues. I was also proud of my reporting. For example, in the story I broke the news that another major pharmaceutical company was introducing an alternative for the recalled Children's Tylenol, though an analyst downplayed the impact of the new product. A later New York Times story covered the same news but failed to explain the product's limited effect financially and served as little more than a free advertisement.

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