

J&J considers diagnostics sale, but why stop there?



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Johnson & Johnson's sudden announcement that it is considering divesting its diagnostics unit almost looks like a belated attempt to join the cool kids. With Pfizer in the process of sloughing off its animal health business Zoetis, Bristol-Myers Squibb's divestiture of Mead Johnson Nutrition in 2009, and of course Abbott scything itself in two, the trend towards specialisation is unmistakable.

J&J has been somewhat unusual in remaining a conglomerate for so long. The world's largest medtech company has a pharma business that is very nearly as big, as well as consumer health operations. If the company goes ahead with the sale or spinout of its diagnostics unit, its pharma and medical device businesses will swap places in terms of prominence. And if the divestiture is a success, and J&J is no longer wedded to its fingers-in-many-pies strategy, it will surely look into offloading its other medtech units.

Strategic moves

The medtech unit as a whole brought in revenues of \$27.4bn for the full year according to J&J's annual results, released on Tuesday – around 41% of the group's total 2012 sales. Its pharma sales were only slightly lower, at \$25.4bn, with consumer healthcare a distant third at \$14.4bn. At \$2.2bn, J&J's Ortho Clinical Diagnostics division will tip the scales in pharma's favour if it is sold.

And that could make all the difference. In a note Rajeev Jashnani, an analyst at UBS, said that the plans for sale or spinout were “well received” by investors, and if investors feel that J&J is more appealing having refocused on pharma, it could find itself streamlining further.

The advent of the medical device sales tax in the US might provide another catalyst for break-up by making it harder to wring profit from this sector.

According to Mr Jashnani, J&J executives have suggested that more “strategic moves” are possible, and that several would be necessary to affect growth. As well as diagnostics, J&J's medtech operations span orthopaedics, neurosurgery, general surgery, vision care, diabetes care, infection prevention, cardiovascular and aesthetics.

As for potential buyers of Ortho Clinical Diagnostics, the pool is small. Abbott is an obvious possibility, but Roche and Thermo Fisher Scientific are also in the frame.

Good luck, Mr Gorsky

The group's CEO, Alex Gorsky, said that Ortho Clinical Diagnostics was not a leader in its market of screening blood used in transfusions – and sales from the division dropped by 4.3% in the fourth quarter compared with a year earlier.

Speaking at an investor meeting on Tuesday Mr Gorsky said that the division might prefer to focus on increasing its presence in molecular diagnostics or biomarkers.

J&J's \$21bn purchase of the implants business Synthes – the richest medtech acquisition of last year and the largest in J&J's history – has helped the company to grow its medical devices operations quickly; its medtech sales increased 8.7% last year.

With growth like this, the underperforming ortho clinical diagnostics unit is holding it back.

It is unlikely that any divestment will happen for at least a year, if indeed it happens at all. But if it does, it could be the first domino of many to fall as J&J tightens up its business model.

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