

J&J's rumoured Cordis sale would go against the flow



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If it worked once, there is a decent chance it will work again, right? After last year's sale of Ortho-Clinical Diagnostics to the private equity company Carlyle Group, Johnson & Johnson is rumoured to be considering divesting its Cordis subsidiary, which makes up nearly half of its cardiovascular operations.

While such a deal is by no means definite, it would make sense. Unlike Ortho-Clinical, Cordis's sales are not actually shrinking, but they are sluggish (see tables). More importantly, should the whispers prove true, J&J will have taken another step towards streamlining its medtech efforts – and at a time when the prevalent trend in the industry is strongly towards consolidation.

Still, the company has made a success of the conglomerate model, and is highly unlikely to split in the manner of Abbott Laboratories and AbbVie. A tightening of focus through smaller divestments – though at \$4.2bn the diagnostics sale was sizeable by medtech standards – is far more plausible.

Johnson & Johnson's medtech operations					
	WW annual sales (\$bn)				
Business unit	2013	2014	2017	2020	CAGR
Orthopaedics (DePuy/Synthes)	9.5	9.8	11.0	12.2	+3.6%
Specialty Surgery	3.5	3.6	4.0	4.4	+3.4%
Surgical Care	6.3	6.3	6.8	7.4	+2.3%
Vision Care (Vistakon)	2.9	3.0	3.3	3.6	+3.1%
Diabetic Care (LifeScan)	2.3	2.1	2.2	2.3	-0.1%
Cardiovascular Care	2.1	2.2	2.6	3.0	+5.2%
Diagnostics (Ortho-Clinical Diagnostics)	1.9	0.9	-	-	N/A
MedTech sales	28.5	27.9	29.9	32.8	+2.0%
Total company sales	71.3	74.9	81.6	88.4	+3.1%

Glory days

Of J&J's subsidiaries, Cordis would probably be the obvious choice for a divestment. J&J's cardiovascular care unit brought in \$2.1bn last year and is forecast to grow at a healthy annual rate of 5.2% to 2020.

Within that, though, there are two subsidiaries: the ablation catheter specialist Biosense Webster is set to do very nicely, growing at nearly 8%, whereas Cordis's growth is forecast at just 1.4%, according to *EvaluateMedTech's* consensus analyst figures.

This is because Cordis's glory days – and they were pretty glorious – are largely over. The company's star product was Cypher, the world's first drug-eluting stent, which helped revolutionise the treatment of coronary artery disease and had peak sales of \$2.6bn in 2006.

But in a sense Cypher was a victim of its own success, as it spurred Boston Scientific, Medtronic and, most notably, Abbott to develop DESs of their own, which outcompeted Cypher on efficacy.

After manufacturing issues that undermined Cypher's remaining selling point – its claim to be the gold-standard DES when it came to safety – Cordis exited the stent market in 2011. It has shown flickers of life

since, for example by developing a renal denervation system called Renlane.

But the entire area of renal denervation was called into question earlier this year after the trial failure of a rival product, and Renlane's status is now uncertain ([Failure of Medtronic's Symplicity trial exacerbates concerns over renal denervation, January 9, 2014](#)).

Johnson & Johnson's Cardiovascular Care unit						
		WW Annual Sales (\$bn)				
Business	EvaluateMedTech Device Classification - L3	2013	2014	2017	2020	CAGR
Biosense Webster*	Electrophysiology	1.13	1.25	1.59	1.92	+7.9%
Cordis*	Interventional Cardiology	0.95	0.96	1.02	1.04	+1.4%
Cardiovascular Care	Cardiology	2.08	2.21	2.61	2.96	+5.2%

*Sales figures obtained from analyst estimates

Bucking the trend

The Cordis unit has been valued at \$1.5-\$2bn, which would imply a similar sales multiple as was seen in the case of Ortho-Clinical. Again, private equity companies are in the frame as buyers, as well as other device makers.

If J&J does continue down the road of slow, steady streamlining, it will be bucking the current industry trend. Ten medtech acquisitions have closed since the half-year point and at least four more have been announced. Both Medtronic and Covidien have bought bolt-on businesses even as they are themselves in the process of combining.

All of which does not mean that J&J would be wrong to sell Cordis; there are good reasons to go ahead with the divestment, but it takes courage to flout trends. This one could go either way.

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