

Johnson & Johnson, Under Fire, Has Track Record Of Weathering Trouble

[Scott Horsley](#) June 3, 2019 5:00 AM ET



Johnson & Johnson faces multiple lawsuits, including one over the opioid epidemic. A reputation for corporate responsibility, dating back to the Tylenol scandal, offers a measure of protection, but no guarantee, analysts say.

Mike Blake/Reuters

In the health care industry, there are few brands more well known than Johnson & Johnson. The maker of consumer staples ranging from Band-Aids to baby shampoo has faced a number of controversies in its 133-year history. Now it is contesting charges that it contributed to the nation's opioid epidemic.

Stock in Johnson & Johnson took a beating last week, as [a trial got](#)

[underway](#) in Oklahoma. State officials there allege the giant company sparked a deadly public health crisis. The company's shares fell 4% last Wednesday and regained less than 1% the following day.

The state of Oklahoma has accused the company of creating a "public nuisance" by oversupplying prescription painkillers.

"If you oversupply, people will die," said attorney Brad Beckworth, who is representing the state.

Johnson & Johnson denies any wrongdoing.

Wednesday's stock drop knocked about \$20 billion off J&J's market value — a sizable decline for the company.

Credit Suisse analyst Vamil Divan thinks the market overreacted. He noted that J&J was responsible for a tiny fraction of the prescription painkillers sold in Oklahoma, and the company's drugs were mainly prescribed to patients who were already using other opioids.

"Obviously, the opioid epidemic is a major epidemic," Divan said. "I'm certainly not trying to minimize that. And I don't think the company is either. But the role that Johnson & Johnson specifically played here seems to be relatively limited."

Divan said Johnson & Johnson could have more exposure from a different series of lawsuits involving its baby powder. Last year, a jury in St. Louis ordered Johnson & Johnson [to pay \\$4.7 billion](#) to women who developed ovarian cancer after using its talcum powder. The company is appealing.

The stakes in this and similar cases are particularly high for the company, because they threaten its trustworthiness. Consumers

know Johnson & Johnson best through its array of baby products — baby oil, baby shampoo and baby powder — that have been around for generations.

In December, [Reuters reported](#) that Johnson & Johnson had known for decades that the raw material in talcum powder could be contaminated with asbestos and sought to cover it up. The report triggered a 10% drop in the company's stock price. J&J called the report "[false and inflammatory](#)."

"We unequivocally believe that our talc, our baby powder, does not contain asbestos," CEO Alex Gorsky [told CNBC](#).

Decades ago, Johnson & Johnson was at the center of another, more dramatic health scare. In 1982, seven people died after taking extra-strength Tylenol capsules that someone had laced with cyanide.

Johnson & Johnson, which makes Tylenol, ordered a nationwide recall and redesigned its packaging to prevent future tampering. The costly and proactive response is often held up as a model of corporate responsibility.

"The Tylenol episode created what might still be characterized as the standard for how to deal with a crisis," said Harvard Business School professor Stephen Greyser, who [documented the episode](#).

He said the company was guided by its [official credo](#), which says Johnson & Johnson's first responsibility is to patients, doctors, nurses, and the mothers and fathers who use its products.

"The credo has historically made it clear that if one focuses on customers, down the road, profits will come," Greyser said.

Tylenol recovered and is now one of the top-selling over-the-counter pain medications.

In the years since, Johnson & Johnson has grown far beyond its roots in the consumer medicine cabinet. Household brands, including Listerine and Lubriderm, accounted for just 14% of the company's U.S. sales last year. Fully half of its revenue now comes from pharmaceuticals, used to treat everything from depression to blood clots.

These products are not as identified with Johnson & Johnson as Band-Aids or baby powder. But they're much bigger moneymakers. And even though the drug business packs its own challenges — including generic competition, government regulation and lawsuits like the one in Oklahoma — Credit Suisse analyst Divan is bullish on Johnson & Johnson's future.

"Nothing is ever 100%. There's always some uncertainty," he said. "But you have relative comfort that this is a company that can deal with some of these things that may come up along the way. And if you look at its track record also, over one year, three years, five years, 10 years, generally this company has delivered."

That famous Johnson & Johnson credo concludes, when the company operates according to its principles, stockholders should realize a fair return.