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EARNINGS

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Medical Device Firms Should Post Strong Results for First Quarter

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DOW JONES NEWSWIRE

CHICAGO -- U.S. medical device companies should post impressive results for the first quarter, which probably represents the last reporting period before the U.S. introduction of drug-eluting stents.

Though medical industry giant **Johnson & Johnson** is expected to be first to market with a drug-eluting stent, its main competitors in the stent field -- **Guidant** Corp. and **Boston Scientific** Corp. -- did quite well for themselves with first-quarter stent sales, analysts said. Both companies are expected to be hurt when J&J introduces its Cypher product, but analysts believe traditional stent sales increased 20% or more industrywide during the quarter.

Stents are tiny wire mesh tubes inserted into an artery to prop it open after angioplasty. Drug-eluting stents, not yet approved in the U.S., are expected to drastically cut down on the number of repeat procedures. Bare metal stents have a relatively high rate of restenosis, or relogging of arteries, forcing doctors to go back in on a patient. Tests have shown much lower restenosis for drug-eluting stents.

Realizing that bare metal stents soon may be an outdated technology, companies did what they could to get the product out the door in the first quarter, and that should be reflected in their first-quarter numbers.

"Certain companies were very generous with their pricing to stock shelves before Cypher arrives," Mark Landy, analyst with Leerink Swann & Co., said without naming names.

He acknowledged that some physicians might have held back on stent procedures during the quarter, hoping Cypher would soon become available. Nevertheless, he doesn't expect any measurable dent in the stent market due to that.

"Doctors are still doing angioplasty," Mr. Landy said. "People still need stents."

They also need implantable cardiac defibrillators, or ICDs, and that also should help Guidant, as well as **St. Jude Medical** Inc. and **Medtronic** Inc., analysts said.

The ICD market grew dramatically last year in response to Guidant's Madit II study, which showed a 31% mortality benefit for heart attack patients with weak heart function who were given

an ICD. The study effectively doubled the number of patients who could be seen as eligible for the product, which costs \$20,000 and up, and momentum carried over into the first quarter.

"There's no sign that the market has slowed at all," said Bruce Jacobs, analyst with Deutsche Bank-North America. "We expect a strong first quarter for Guidant, with results fueled by really strong momentum in the cardiac rhythm management (CRM) business. St. Jude has also clearly benefited to a great degree from robust CRM. We expect tachycardia growth to continue to drive results." ICDs treat tachycardia, an abnormally rapid and potentially fatal heartbeat.

Mr. Jacobs rates both Guidant and St. Jude stock at hold. He doesn't own shares of either, and his firm does not have a banking relationship with the companies.

Analyst Sees 50% ICD Growth

Matt Dodds, analyst with SG Cowen, expects a second straight quarter of 50% or better growth for the worldwide ICD market. He said cardiovascular companies in general will see their business increase 22% to 25% in the first quarter.

He believes Guidant could meet or exceed the company's previous top-end guidance for first-quarter sales of \$895 million when it reports earnings April 16. He said Guidant's earnings per share for the quarter could be 60 cents, at the top end of the company's guidance for earnings of 54 cents to 60 cents a share. The consensus estimate of analysts surveyed by Thomson First Call is for earnings of 57 cents a share, up from 47 cents a share a year ago.

Guidant, the biggest stent seller, benefited during the quarter from the slow U.S. government approval process for J&J's Cypher, which kept a potentially fierce competitor from coming to market. Approval is expected later this month.

Mr. Dodds expects St. Jude sales to come in at \$423 million, with earnings per share possibly beating the consensus of 40 cents "by a penny or two" thanks to a foreign currency benefit. A year ago, the company earned 34 cents a share.

Analyst Mr. Jacobs said St. Jude's heart valve business is still struggling, but that should be offset by the CRM business. He said market watchers will keep their eyes on pacemaker sales from St. Jude, Guidant and Medtronic -- which reports fiscal fourth-quarter results next month -- after sales appeared to level off for St. Jude and Medtronic in their most recent earnings reports.

Medtronic, whose fiscal fourth quarter ends in April, is expected to earn 40 cents a share, versus 34 cents in the year-ago period.

For Boston Scientific, which also benefited during the quarter from the absence of Cypher, Mr. Dodds sees sales of \$805 million, a rise of 19% year over year, with earnings per share of 28 cents. The consensus estimate is for earnings of 29 cents a share, according to First Call. Last year, the company earned 22 cents a share.

Mr. Dodds rates Guidant stock at market perform, St. Jude's at strong buy and Boston Scientific's at strong buy. He doesn't own any of the shares. SG Cowen wasn't immediately able to provide information on whether it has banking relationships with the companies.

Baxter International Inc. is slated to report April 16, but no major changes are expected from the

midquarter update investors got a month ago at the company's annual growth conference. At that time, Baxter lowered its first-quarter sales growth estimate to between 5% and 7%, from 7% to 10%, and it revised its first-quarter earnings outlook to between 36 cents and 38 cents a share, from 42 cents to 45 cents a share. A year ago, Baxter earned 41 cents a share.

While Baxter is expected to meet the consensus earnings estimate of 37 cents a share, the big question is how well Baxter's new Advate hemophilia product will do upon its expected summer introduction.

There's also not much surprise expected from the orthopedic companies **Stryker Corp.** and **Zimmer Holdings Inc.**, which plan to report April 16 and April 24, respectively. Last month, Zimmer raised its first-quarter guidance, saying it expects to earn 4 cents to 5 cents a share more than its previous guidance of 33 cents a share.

The new projection is for sales to be \$15 million to \$20 million more than the high end of previous guidance, which was \$367 million.

Analysts see Zimmer earning 38 cents a share, compared with 28 cents a share a year ago.

Stryker hasn't made any projections about the quarter, but analysts expect another strong performance from the company's reconstructive implant products. Analysts surveyed by First Call expect Stryker to earn 48 cents a share, compared with 40 cents a year ago.

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