



Johnson & Johnson (JNJ)

Updated October 16th, 2018 by Nate Parsh

Key Metrics

Current Price:	\$137	5 Year CAGR Estimate:	7.5%	Volatility Percentile:	6.4%
Fair Value Price:	\$130	5 Year Growth Estimate:	6.0%	Momentum Percentile:	48.3%
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.1%	Growth Percentile:	48.1%
Dividend Yield:	2.6%	5 Year Price Target	\$173	Valuation Percentile:	43.9%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	40.5%

Overview & Current Events

Johnson & Johnson is a diversified health care company and a leader in the area of pharmaceuticals (~49% of sales), medical devices (~34% of sales) and consumer products (~17% of sales). JNJ was founded in 1886 and employs more than 125,000 people around the world. The company generated more than \$76 billion in revenues in 2017.

Johnson & Johnson has spent heavily on acquiring companies that fit with its business model. One such is example is the company's \$30 billion all-cash purchase of Actelion, which is already contributing to earnings.

JNJ released 3rd quarter earnings on October 16th. Excluding one-time charges, JNJ earned \$2.05 per share, an 8% improvement from last year and topping estimates by \$0.02. Revenue grew 3.6% to \$20.3 billion, coming in \$300 million ahead of expectations. Overall, domestic sales increased 3.6%, while international sales grew 3.5%. International sales were negatively impacted by 4% as currency exchange rates were a headwind.

Pharmaceutical sales increased 6.7% to \$10.3 billion. Even with a currency headwind, this division delivered almost 10% international growth. JNJ's immunology and oncology drugs continue to be strong. *Stelara*, which treats immune-mediated inflammatory diseases, had another strong quarter, posting sales increases of 16%. *Zytiga*, treatment for prostate cancer, had sales increase more than 43%. These gains were offset by a 16% decline in sales for *Remicade*, JNJ's treatment for rheumatoid arthritis and Crohn's disease. Sales for the Medical Device segment was \$6.6 billion, a 0.2% decrease year over year. Growth in Acuvue contact lenses and the Interventional Solutions business were offset by JNJ's Diabetes Care portfolio. The Consumer segment had revenue growth of 1.8% to \$3.4 billion. Over the counter medicines *Motrin*, *Tylenol*, *Zyrtec* and *Imodium* were also sources of strength during the quarter. After increasing its guidance last quarter, JNJ raised its expected EPS for the year to a midpoint of \$8.16, up from \$8.12 previously. If achieved, this would be 11.2% growth from 2017.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$4.57	\$4.63	\$4.76	\$5.00	\$5.10	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.16	\$10.92
DPS	\$1.80	\$1.93	\$2.11	\$2.25	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$5.06
Shares	2769.2	2754.3	2738.1	2724.4	2778.5	2820.6	2783.3	2755	2706.5	2682.5	2650	2700

JNJ has grown earnings over the past 10 years at a rate of 4.8%. The company managed to grow earnings before, during and after the last recession, showing that JNJ's products are in demand regardless of market conditions. Because of improving business performance and tax reform, we are inching up our expected EPS growth rate through 2023 to 6%, up from 4.8% previously.

JNJ has increased its dividend for the past 55 years and has an average raise of 7.4% over the past 10 years. JNJ gave shareholders a 7.1% increase on April 26th. The company has an expected payout ratio below 50%.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.3	12.5	13.1	12.7	13.1	15.6	17.7	18.2	19.1	20.9	16.7	15.8
Avg. Yld.	2.8%	3.3%	3.4%	3.5%	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.6%	2.9%

Disclosure: This analyst has a long position in the security discussed in this research report.



Johnson & Johnson (JNJ)

Updated October 16th, 2018 by Nate Parsh

Shares of JNJ have increased \$8, or 6.2%, since our July 17th update. JNJ has an average P/E of 15.8 over the last decade. If shares were to revert to this average by 2023, the stock's multiple could contract 1.1% per year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

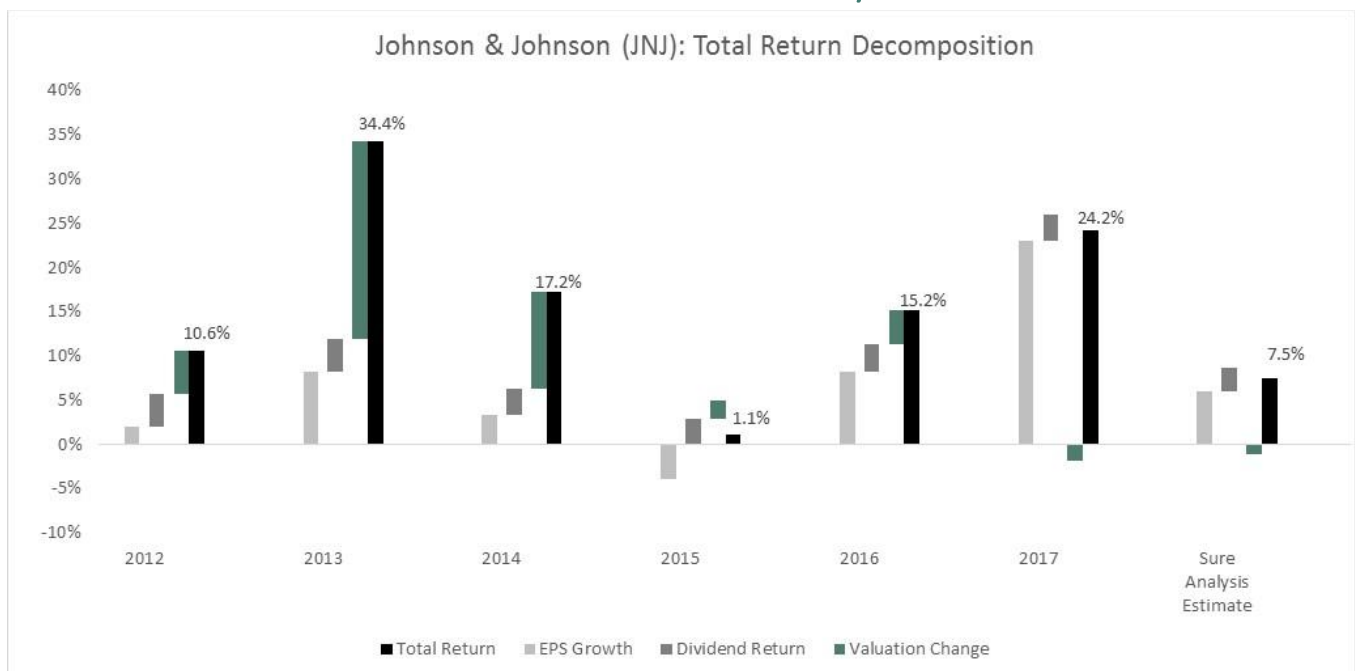
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2019	2018	2023
GP/A	53.4%	45.9%	41.6%	39.3%	37.6%	36.9%	39.6%	36.4%	35.6%	32.5%	34%	39.9%
Debt/A	49.9%	46.6%	45%	49.8%	46.6%	44.2%	46.5%	46.7%	50.1%	61.8%	59.2%	48.7%
Int. Cov.	234.6	44.9	50	26.9	30.6	39.1	45.3	46.6	57.3	33.9	39.3	60.9
Payout	39.4%	41.7%	44.3%	45%	47.1%	46.9%	48.4%	53.8%	53.1%	45.5%	43.4%	46.3%
Std. Dev.	30.4%	17.8%	13%	17.5%	9.8%	12.8%	14.7%	16.4%	13.3%	11.5%	12.3%	15.7%

By having a diversified business model of drugs, devices and consumer products, JNJ is insulated to a certain degree from business slowdowns in any one division. JNJ has a reasonably low dividend payout ratio. This gives JNJ ample room to raise its dividend even in a prolonged recession. The company earns a C rating for both Dividend Safety and Retirement Suitability, which makes it a strong candidate for risk-averse investors looking to add passive income to their investment portfolios.

Final Thoughts & Recommendation

After examining 3rd quarter earnings and increasing our expected EPS growth, we now forecast that shares of Johnson & Johnson could return 7.5% annually, down slightly from our previous estimate of 7.6%. This is a combination of earnings growth (6%), dividend yield (2.6%) and multiple reversion (1.1%). While currency was an issue during the quarter, the Pharmaceutical division continues to show strong growth rates for several of drugs in the portfolio. The company also offers one of the longest dividend growth streaks available to investors and has a AAA credit rating from Standard & Poor's (one of just two companies). While this remarkable steady and safe company has increased in price slightly, we continue to recommend investors consider purchasing Johnson & Johnson. We have raised our 2023 price target \$11 to \$173 due to increased EPS guidance and our increase in expected earnings growth.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has a long position in the security discussed in this research report.



Johnson & Johnson (JNJ)

Updated October 16th, 2018 by Nate Parsh

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	63.75	61.90	61.59	65.03	67.22	71.31	74.33	70.07	71.89	76.45
Gross Profit	45.24	43.45	42.80	44.67	45.57	48.97	51.59	48.54	50.21	51.10
Gross Margin	71.0%	70.2%	69.5%	68.7%	67.8%	68.7%	69.4%	69.3%	69.8%	66.8%
SG&A Expense	21.49	19.80	19.42	20.97	20.87	21.83	21.95	21.20	19.95	21.42
D&A Expense	2.83	2.77	2.94	3.16	3.67	4.10	3.90	3.75	3.75	5.64
Operating Profit	16.17	16.66	16.53	16.15	15.87	18.38	20.96	18.07	21.14	18.71
Operating Margin	25.4%	26.9%	26.8%	24.8%	23.6%	25.8%	28.2%	25.8%	29.4%	24.5%
Net Profit	12.95	12.27	13.33	9.67	10.85	13.83	16.32	15.41	16.54	1.30
Net Margin	20.3%	19.8%	21.7%	14.9%	16.1%	19.4%	22.0%	22.0%	23.0%	1.7%
Free Cash Flow	11.91	14.21	13.96	10.63	12.46	13.55	14.70	16.00	15.42	17.54
Income Taxes	3.98	3.49	3.61	2.69	3.26	1.64	4.24	3.79	3.26	16.37

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	84.91	94.68	102.91	113.64	121.35	132.68	130.36	133.41	141.21	157.30
Cash & Equivalents	10.77	15.81	19.36	24.54	14.91	20.93	14.52	13.73	18.97	17.82
Accounts Receivable	9.72	9.65	9.77	10.58	11.31	11.71	10.99	10.73	11.70	13.49
Inventories	5.05	5.18	5.38	6.29	7.50	7.88	8.18	8.05	8.14	8.77
Goodwill & Int. Ass.	27.70	31.19	32.01	34.28	51.18	50.75	49.05	47.39	49.68	85.13
Total Liabilities	42.40	44.09	46.33	56.56	56.52	58.63	60.61	62.26	70.79	97.14
Accounts Payable	7.50	5.54	5.62	5.73	5.83	6.27	7.63	6.67	6.92	7.31
Long-Term Debt	11.85	14.54	16.77	19.63	16.17	18.18	18.76	19.86	27.13	34.58
Shareholders' Equity	42.51	50.59	56.58	57.08	64.83	74.05	69.75	71.15	70.42	60.16
D/E Ratio	0.28	0.29	0.30	0.34	0.25	0.25	0.27	0.28	0.39	0.57

Profitability Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	15.6%	13.7%	13.5%	8.9%	9.2%	10.9%	12.4%	11.7%	12.0%	0.9%
Return on Equity	30.2%	26.4%	24.9%	17.0%	17.8%	19.9%	22.7%	21.9%	23.4%	2.0%
ROIC	24.2%	20.5%	19.3%	12.9%	13.8%	16.0%	18.1%	17.2%	17.5%	1.4%

Note: All figures in billions of U.S. Dollars unless per share or stated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.