



Johnson & Johnson (JNJ)

Updated January 22nd, 2018 by Nathan Parsh

Key Metrics

Current Price:	\$129	5 Year CAGR Estimate:	9.8%	Volatility Percentile:	9.3%
Fair Value Price:	\$136	5 Year Growth Estimate:	6.0%	Momentum Percentile:	51.1%
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Growth Percentile:	50.1%
Dividend Yield:	2.8%	5 Year Price Target	\$181	Valuation Percentile:	56.2%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	51.8%

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). Johnson & Johnson was founded in 1886 and employs more than 125,000 people around the world. The company has a market cap of more than \$350 billion.

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.

On December 14th, *Reuters* released research that stated Johnson & Johnson knew its baby powder could be contaminated with asbestos. After examining documents, the report stated that the company discussed ways to address the issue between 1971 and the early 2000s. Johnson & Johnson has denied this report, but the company has more than 12,000 product liability lawsuits related to its baby powder. The stock was down 10% the day of the *Reuters* report. On December 19th, a Missouri circuit court judge dismissed a motion by the company to reverse its \$4.7 billion jury award to plaintiffs claiming that its talc products caused their ovarian cancer. An appeal is likely to occur.

Johnson & Johnson released financial results for the fourth quarter and full year 2018 on January 22nd. For the quarter, earnings-per-share (EPS) totaled \$1.97. This was \$0.02 above estimates and an improvement of 13.2% from the previous year. Revenue grew 0.9% to \$20.4 billion, topping estimates by \$190 million. For the year, EPS was \$8.18, \$0.02 above the company's midpoint for guidance and a 12.1% growth from 2017. Revenue for the year grew nearly 7% to \$81.6 billion.

Looking at results by division, Pharmaceuticals saw a 5.3% increase in sales during the quarter. Oncology (up 24.9% in constant currency) and Immunology (up 9.7%) continue to be this divisions' strongest performers. *Stelara*, which treats immune-mediated inflammatory diseases, saw sales improve 33.6%. *Stelara* is Johnson & Johnson's top grossing pharmaceutical. Revenues for *Darzalex*, treatment for multiple myeloma, improved 57.4%. *Remicade*, which treats rheumatoid arthritis and Crohn's disease, dropped 15.6% after dropping 16% in the third quarter. This division grew revenue 12.4% to almost \$41 billion for the year. Medical Devices had a revenue decline of 2.2%. Interventional solution grew 12.2% as heart related procedures climbed double digits. Sales for the Medical Devices increased 1.5% to \$27 billion in 2018. Currency translation was a major headwind for this division. For the quarter, the Consumer division saw a 3% increase in revenue. Over the counter medicines *Motrin*, *Tylenol* and *Zyrtec* were once again a source of strength during the quarter. OTC sales were up 6.4%. New products, such as Listerine Ready Tabs, helped drive 4.4% growth in oral care. Liners and napkins were the primary reason that women's health had a 7.8% increase in sales. For the year, this division saw growth of 1.8% \$14 billion in sales. Negative currency translation impacted both the Medical Devices and Consumer divisions. Johnson & Johnson expects the midpoint for EPS in 2019 at \$8.58.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$4.63	\$4.76	\$5.00	\$5.10	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.58	\$11.48
DPS	\$1.93	\$2.11	\$2.25	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.60	\$4.82
Shares	2754.3	2738.1	2724.4	2778.5	2820.6	2783.3	2755	2706.5	2682.5	2650	2600	2600

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Johnson & Johnson has grown earnings-per-share 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 the company's products are in demand regardless of market conditions. We expect EPS to grow at a rate of 6% per year through 2024. Johnson & Johnson has increased its dividend for the past 56 years and has an average raise of 6.7% over the past 10 years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Avg. P/E	12.5	13.1	12.7	13.1	15.6	17.7	18.2	19.1	20.9	16.7	15.0	15.8
Avg. Yld.	3.3%	3.4%	3.5%	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.6%	2.8%	2.7%

Shares of Johnson & Johnson have decreased \$8, or 5.8%, since our October 16th update. The stock has a 10-year average P/E of 15.8. If shares were to revert to this average by 2024, the stock's multiple could expand 1% annual.

Safety, Quality, Competitive Advantage, & Recession Resiliency

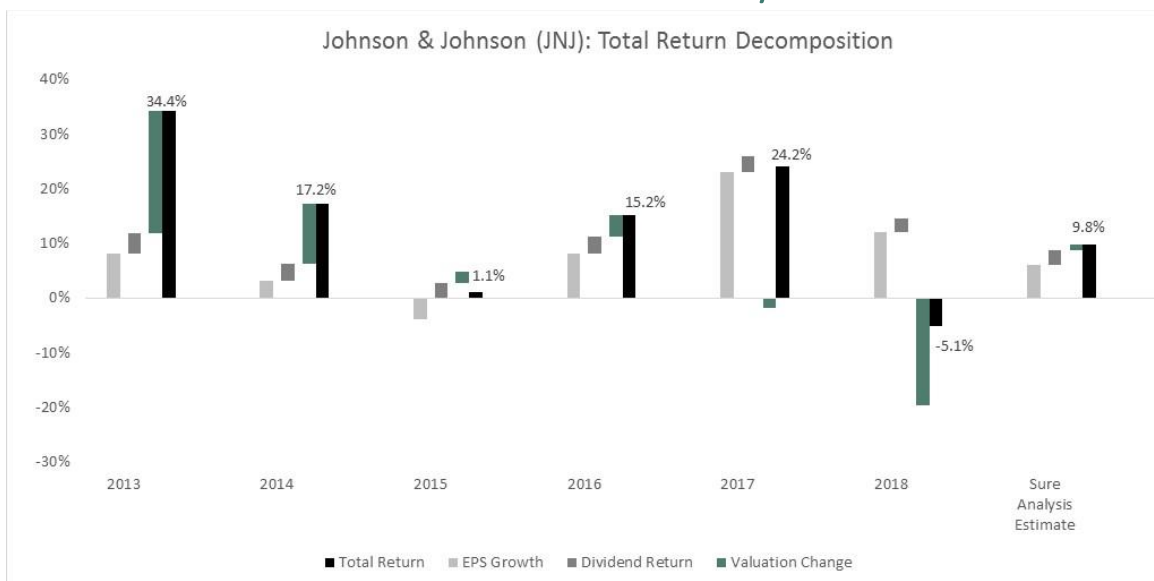
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	41.7%	44.3%	45%	47.1%	46.9%	48.4%	53.8%	53.1%	45.5%	43.3%	42%	42%

Johnson & Johnson has a reasonably low dividend payout ratio. This gives the company ample room to raise its dividend even in a prolonged recession. The company is a strong candidate for risk-averse investors looking to add passive income to their investment portfolios.

Final Thoughts & Recommendation

After fourth quarter and full year results, we now expect that Johnson & Johnson can offer a total return of 9.8% through 2024, up from our previous estimate of 7.5%. This forecast is a combination of earnings growth (6%), dividend yield (2.8%) and multiple expansion (1%). The company's Pharmaceutical division is a major driver of growth, helping to offset slow growth or declines in both the Consumer and Medical Device divisions. While investors should be aware of the lawsuits related to the company's baby powder, we feel that the damage done to the stock is overblown. We recommend investors looking to purchase shares of Johnson & Johnson use the recent weaknesses to do so; it is a buy at current prices for conservative investors.

Total Return Breakdown by Year



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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.

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