



Johnson & Johnson (JNJ)

Updated April 17th, 2019 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|---------------------------------|-------|
| Current Price: | \$139 | 5 Year CAGR Estimate: | 8.1% | Volatility Percentile: | 12.2% |
| Fair Value Price: | \$136 | 5 Year Growth Estimate: | 6.0% | Momentum Percentile: | 56.9% |
| % Fair Value: | 102% | 5 Year Valuation Multiple Estimate: | -0.5% | Growth Percentile: | 52.6% |
| Dividend Yield: | 2.6% | 5 Year Price Target | \$181 | Valuation Percentile: | 52.6% |
| Dividend Risk Score: | A | Retirement Suitability Score: | A | Total Return Percentile: | 47.1% |

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 \$368 billion, with annual sales in excess of \$81 billion. Johnson & Johnson has spent heavily on acquiring companies that fit with its business model. One such 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 24th, 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 first quarter on 4/16/2019. The company earned \$2.10 per share during the quarter, a 2% increase from the previous year and a \$0.06 beat of estimates. Revenue of \$20.02 billion was essentially flat, though this was \$473 million higher than expected by analysts.

As with previous quarters, Pharmaceuticals was the primary driver of growth as revenues for this segment grew 4.1% to \$10.2 billion. Revenue for Immunology grew 6.9% while Oncology improved 9%. *Stelara*, which treats immune-mediated inflammatory diseases and is Johnson & Johnson's top selling product, had sales growth of 36%. Revenues for *Darzalex*, treatment for multiple myeloma, improved 46%. Sales for the Medical Devices segment declined 4.6% to \$6.5 billion, largely due to weakness in Orthopedics. Johnson & Johnson has faced immense competitive pressure from Stryker Corporation (SYK) in the area of knee replacements. The company also saw weakness in Spine surgeries. Consumer revenues dropped 2.4% to \$3.3 billion as gains in Beauty and Over-the-Counter were more than offset by declines in Oral Care, Women's Health and Baby Care. Johnson & Johnson reiterated its revenue guidance of \$80.4 billion to \$81.2 billion, but tightened its earnings-per-share expectations to range of \$8.53 to \$8.63. The midpoint for earnings-per-share guidance remains unchanged at \$8.58, and so has our estimate for 2019.

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 | 2738 | 2724 | 2779 | 2821 | 2783 | 2755 | 2707 | 2683 | 2650 | 2600 | 2500 |

Johnson & Johnson 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 the company's products are in demand regardless of market conditions. We expect earnings-per-share to grow at a rate of 6% per year through 2024 due to gains in revenue and share repurchases. This is consistent with Johnson & Johnson's earnings growth composition in the past, however, most growth will come from revenue expansion as the buyback is good for a low single-digit gain annually.

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



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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 | 16.2 | 15.8 |
| Avg. Yld. | 3.3% | 3.4% | 3.5% | 3.6% | 3.0% | 2.7% | 3.0% | 2.8% | 2.6% | 2.6% | 2.6% | 2.7% |

Shares of Johnson & Johnson have increased \$10, or 7.8%, since our January 22nd update. Using the current share price and midpoint for earnings-per-share, Johnson & Johnson trades with a price-to-earnings ratio of 16.2. The stock has a 10-year average P/E of 15.8. If shares were to revert to this average by 2024, then valuation could be a 0.5% annual headwind to total returns over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 42% | 44% | 45% | 47% | 47% | 48% | 54% | 53% | 46% | 43% | 42% | 42% |

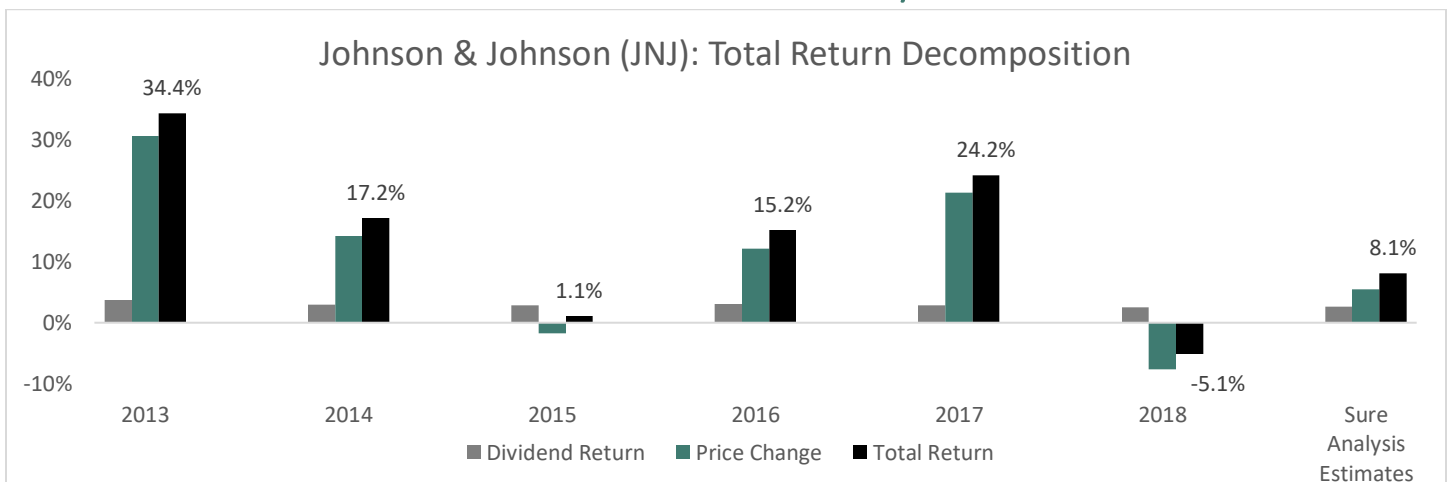
Johnson & Johnson has a reasonably low dividend payout ratio. This gives the company ample room to raise its dividend, even in a prolonged recession. Johnson & Johnson has increased its dividend for the past 56 years and has an average raise of 6.7% over the past 10 years.

One of Johnson & Johnson's key competitive advantages is the size and scale of its business. The company is a worldwide leader in a number of healthcare categories. Johnson & Johnson's diversification allows it to continue to grow even if one of the segments is underperforming. This can be seen in the last quarterly report where declines in Medical Devices and Consumer were offset by Pharmaceuticals.

Final Thoughts & Recommendation

Following first quarter results, we forecast that Johnson & Johnson can offer a total annual return of 8.1% over the next five years, down from our previous estimate of 9.8%. This forecast is a combination of earnings growth (6%), dividend yield (2.6%) and multiple reversion (0.5%). The company's Pharmaceutical division is a major driver of growth, helping to offset slow growth or declines in both Consumer and Medical Device. While shares are higher since our last report and our expected total return has been reduced, we continue to believe that Johnson & Johnson is one stock that dividend growth investors should consider purchasing on any weakness. The company's business model and history of dividend growth should be attractive to income and risk adverse investors. We maintain our 2024 price target of \$181.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 61897 | 61587 | 65030 | 67224 | 71312 | 74331 | 70074 | 71890 | 76450 | 81581 |
| Gross Profit | 43450 | 42795 | 44670 | 45566 | 48970 | 51585 | 48538 | 50101 | 51011 | 54490 |
| Gross Margin | 70.2% | 69.5% | 68.7% | 67.8% | 68.7% | 69.4% | 69.3% | 69.7% | 66.7% | 66.8% |
| SG&A Exp. | 19801 | 19424 | 20969 | 20869 | 21830 | 21954 | 21203 | 20067 | 21520 | 22540 |
| D&A Exp. | 2774 | 2939 | 3158 | 3666 | 4104 | 3895 | 3746 | 3754 | 5642 | 6929 |
| Operating Profit | 16663 | 16527 | 16153 | 15869 | 18377 | 20959 | 18065 | 20862 | 18489 | 20049 |
| Op. Margin | 26.9% | 26.8% | 24.8% | 23.6% | 25.8% | 28.2% | 25.8% | 29.0% | 24.2% | 24.6% |
| Net Profit | 12266 | 13334 | 9672 | 10853 | 13831 | 16323 | 15409 | 16540 | 1300 | 15297 |
| Net Margin | 19.8% | 21.7% | 14.9% | 16.1% | 19.4% | 22.0% | 22.0% | 23.0% | 1.7% | 18.8% |
| Free Cash Flow | 14206 | 14001 | 11405 | 12462 | 13819 | 14996 | 16106 | 15541 | 17777 | 18531 |
| Income Tax | 3489 | 3613 | 2689 | 3261 | 1640 | 4240 | 3787 | 3263 | 16373 | 2702 |

Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 94.7 | 102.9 | 113.6 | 121.3 | 132.7 | 130.4 | 133.4 | 141.2 | 157.3 | 153.0 |
| Cash & Equivalents | 15810 | 19355 | 24542 | 14911 | 20927 | 14523 | 13732 | 18972 | 17824 | 18107 |
| Acc. Receivable | 9646 | 9774 | 10581 | 11309 | 11713 | 10985 | 10734 | 11699 | 13490 | 14098 |
| Inventories | 5180 | 5378 | 6285 | 7495 | 7878 | 8184 | 8053 | 8144 | 8765 | 8599 |
| Goodwill & Int. | 31185 | 32010 | 34276 | 51176 | 50745 | 49054 | 47393 | 49681 | 85134 | 78064 |
| Total Liabilities | 44094 | 46329 | 56564 | 56521 | 58630 | 60606 | 62261 | 70790 | 97143 | 93202 |
| Accounts Payable | 5541 | 5623 | 5725 | 5831 | 6266 | 7633 | 6668 | 6918 | 7310 | 7537 |
| Long-Term Debt | 14541 | 16773 | 19627 | 16165 | 18180 | 18760 | 19861 | 27126 | 34581 | 30480 |
| Total Equity | 50588 | 56579 | 57080 | 64826 | 74053 | 69752 | 71150 | 70418 | 60160 | 59752 |
| D/E Ratio | 0.29 | 0.30 | 0.34 | 0.25 | 0.25 | 0.27 | 0.28 | 0.39 | 0.57 | 0.51 |

Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 13.7% | 13.5% | 8.9% | 9.2% | 10.9% | 12.4% | 11.7% | 12.0% | 0.9% | 9.9% |
| Return on Equity | 26.4% | 24.9% | 17.0% | 17.8% | 19.9% | 22.7% | 21.9% | 23.4% | 2.0% | 25.5% |
| ROIC | 20.5% | 19.3% | 12.9% | 13.8% | 16.0% | 18.1% | 17.2% | 17.5% | 1.4% | 16.5% |
| Shares Out. | 2754 | 2738 | 2724 | 2779 | 2821 | 2783 | 2755 | 2707 | 2683 | 2650 |
| Revenue/Share | 22.19 | 22.08 | 23.43 | 23.90 | 24.79 | 25.95 | 24.91 | 25.78 | 27.85 | 29.90 |
| FCF/Share | 5.09 | 5.02 | 4.11 | 4.43 | 4.80 | 5.24 | 5.73 | 5.57 | 6.48 | 6.79 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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