



# Johnson & Johnson (JNJ)

Updated January 22<sup>nd</sup>, 2020 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$148	<b>5 Year CAGR Estimate:</b>	7.6%	<b>Market Cap:</b>	\$393 billion
<b>Fair Value Price:</b>	\$143	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	2/24/2020
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.7%	<b>Dividend Payment Date:</b>	3/10/2020
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$191	<b>Years Of Dividend Growth:</b>	57
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	5.6%

## 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 annual sales in excess of \$85 billion.

There have been recent developments with regards to the lawsuits Johnson & Johnson is facing over the acquisitions that it's talc powder can cause cancer over long periods of use. An appeals court in Missouri overturned a 2017 case that awarded \$110 million verdict to a Virginia woman who said she developed cancer after decades of using the company's talc powder. The case was overturned due to a limit on how much out of state plaintiffs are able to sue for in the state of Missouri. Johnson & Johnson continues to face more than 12,000 other lawsuits related its talc products.

Johnson & Johnson reported earnings results for the fourth quarter and full year results on 1/22/2020. Adjusted earnings-per-share totaled \$1.88 for the quarter, which topped estimates by \$0.01, but was 4.6% lower than the previous year. Revenues improved 1.7% to \$20.8 billion, but was \$80 million lower than expected. For the year, adjusted earnings-per-share was \$8.68, \$0.03 above our estimates and a 6% increase from the previous year. Revenue increased 0.6% to \$82.1 billion. Currency reduced revenue by 2.6% for the year.

Pharmaceutical sales grew 3.5% on a reported basis. Immunology had another solid quarter, with 5.4% growth for the group. *Stelara*, which treats immune-mediated inflammatory diseases and is the company's top grossing product, increased 18% due the continued strength of uptake in Crohn's disease treatments. Oncology showed the most growth within Pharmaceuticals, with sales increasing 9.1% as *Darzalex*, which treats multiple myeloma, grew 42% due to market share gains in the U.S. and the European Union. Sales for *Imbruvica*, which treats lymphoma, were higher by 25% on increased market share. Johnson & Johnson shares ownership of *Imbruvica* with AbbVie (ABBV) through that company's purchase of Pharamcyclics in 2015. Revenues for the Consumer segment were up 0.9%. Beauty continued its string of strong quarters as Neutrogena and Aveeno have increased market share. Over-the-counter sales remain driven by Tylenol as well as Pepcid. This product group had sales growth of 4.1% in the fourth quarter. Medical Devices were down 0.5% for the second consecutive quarter. Johnson & Johnson's surgery business remains challenged, posting a 5.6% decline in revenues. Orthopedics, which returned to growth in the third quarter, were up 0.5%. Hips and knees were higher for the quarter, but were offset by a 6% decline in spine. Johnson & Johnson expects adjusted earnings-per-share in a range of \$8.95 to \$9.10 for 2020. At the midpoint, this would be an 4% increase from results for 2019. Revenue is seen as falling between \$85.4 billion to \$86.2 billion. The midpoint of revenue guidance would be a 4.5% improvement from the prior year.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$4.76	\$5.00	\$5.10	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.68	<b>\$9.03</b>	<b>\$12.08</b>
<b>DPS</b>	\$2.11	\$2.25	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	<b>\$3.80</b>	<b>\$5.09</b>
<b>Shares<sup>1</sup></b>	2738	2724	2779	2821	2783	2755	2707	2683	2650	2684	<b>2670</b>	<b>2500</b>

<sup>1</sup> In millions of shares

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



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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 2025 due to gains in revenue and share repurchases. This is consistent with Johnson & Johnson's earnings growth composition in the past, and most growth will come from revenue expansion as the buyback is good for a low-single-digit gain annually. The company increased its dividend 5.6% for the 6/11/2019 payment, and has now increased its dividend for the past 57 years.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>Avg. P/E</b>	13.1	12.7	13.1	15.6	17.7	18.2	19.1	20.9	16.7	16.8	<b>16.4</b>	<b>15.8</b>
<b>Avg. Yld.</b>	3.4%	3.5%	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.6%	2.6%	<b>2.6%</b>	<b>2.7%</b>

Shares of Johnson & Johnson are higher by \$15, or 11.3%, since our 10/16/2019 update. Using the current share price and guidance for earnings-per-share for the year, Johnson & Johnson trades with a price-to-earnings ratio of 16.4. The stock has a 10-year average P/E of 15.8. If shares were to reach our target P/E by 2025, then valuation could reduce results by 0.7% annually over this period of time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

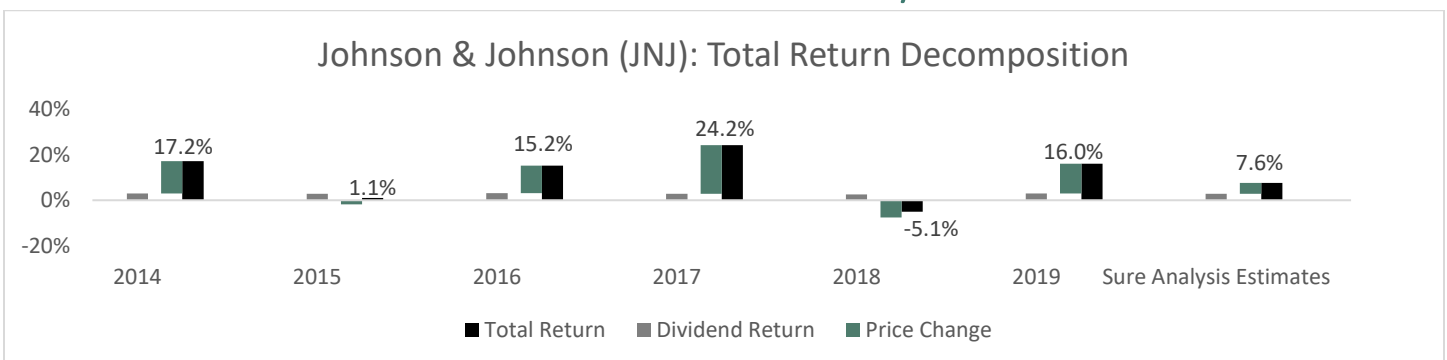
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>Payout</b>	44%	45%	47%	47%	48%	54%	53%	46%	43%	44%	<b>42%</b>	<b>42%</b>

Johnson & Johnson has a reasonably low dividend payout ratio. This gives the company ample room to raise its dividend, even in a prolonged recession. 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

Johnson & Johnson is expected to offer a total annual return of 7.6% through 2025, down from our previous estimate of 9.1%. The company's fourth quarter was mixed, but saw top and bottom-line growth for the full year. Pharmaceuticals continue to perform well while certain business within Medical Devices have struggled. Shares offer a yield above that of the average yield within the S&P 500, and the company has nearly six decades of dividend growth. While projected returns are slightly below our usual threshold to earn a buy recommendation, Johnson & Johnson's track record of dividend growth is almost without equal. Therefore, we maintain our buy rating on the stock and have increased our 2025 price target \$8 to \$191 due to guidance for 2020.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	61,897	61,587	65,030	67,224	71,312	74,331	70,074	71,890	76,450	81,581
<b>Gross Profit</b>	43,450	42,795	44,670	45,566	48,970	51,585	48,538	50,101	51,011	54,490
<b>Gross Margin</b>	70.2%	69.5%	68.7%	67.8%	68.7%	69.4%	69.3%	69.7%	66.7%	66.8%
<b>SG&amp;A Exp.</b>	19,801	19,424	20,969	20,869	21,830	21,954	21,203	20,067	21,520	22,540
<b>D&amp;A Exp.</b>	2,774	2,939	3,158	3,666	4,104	3,895	3,746	3,754	5,642	6,929
<b>Operating Profit</b>	16,663	16,527	16,153	15,869	18,377	20,959	18,065	20,862	18,489	20,049
<b>Op. Margin</b>	26.9%	26.8%	24.8%	23.6%	25.8%	28.2%	25.8%	29.0%	24.2%	24.6%
<b>Net Profit</b>	12,266	13,334	9,672	10,853	13,831	16,323	15,409	16,540	1,300	15,297
<b>Net Margin</b>	19.8%	21.7%	14.9%	16.1%	19.4%	22.0%	22.0%	23.0%	1.7%	18.8%
<b>Free Cash Flow</b>	14,206	14,001	11,405	12,462	13,819	14,996	16,106	15,541	17,777	18,531
<b>Income Tax</b>	3,489	3,613	2,689	3,261	1,640	4,240	3,787	3,263	16,373	2,702

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	94,682	102,908	113,644	121,347	132,683	130,358	133,411	141,208	157,303	152,954
<b>Cash &amp; Equivalents</b>	15,810	19,355	24,542	14,911	20,927	14,523	13,732	18,972	17,824	18,107
<b>Acc. Receivable</b>	9,646	9,774	10,581	11,309	11,713	10,985	10,734	11,699	13,490	14,098
<b>Inventories</b>	5,180	5,378	6,285	7,495	7,878	8,184	8,053	8,144	8,765	8,599
<b>Goodwill &amp; Int.</b>	31,185	32,010	34,276	51,176	50,745	49,054	47,393	49,681	85,134	78,064
<b>Total Liabilities</b>	44,094	46,329	56,564	56,521	58,630	60,606	62,261	70,790	97,143	93,202
<b>Accounts Payable</b>	5,541	5,623	5,725	5,831	6,266	7,633	6,668	6,918	7,310	7,537
<b>Long-Term Debt</b>	14,541	16,773	19,627	16,165	18,180	18,760	19,861	27,126	34,581	30,480
<b>Total Equity</b>	50,588	56,579	57,080	64,826	74,053	69,752	71,150	70,418	60,160	59,752
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	13.7%	13.5%	8.9%	9.2%	10.9%	12.4%	11.7%	12.0%	0.9%	9.9%
<b>Return on Equity</b>	26.4%	24.9%	17.0%	17.8%	19.9%	22.7%	21.9%	23.4%	2.0%	25.5%
<b>ROIC</b>	20.5%	19.3%	12.9%	13.8%	16.0%	18.1%	17.2%	17.5%	1.4%	16.5%
<b>Shares Out.</b>	2789	2738	2724	2779	2821	2783	2755	2707	2683	2650
<b>Revenue/Share</b>	22.19	22.08	23.43	23.90	24.79	25.95	24.91	25.78	27.85	29.90
<b>FCF/Share</b>	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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