



Johnson & Johnson (JNJ)

Updated October 13th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$149	5 Year CAGR Estimate:	5.3%	Market Cap:	\$390 billion
Fair Value Price:	\$126	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/25/2020 ¹
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date:	2/10/2020 ²
Dividend Yield:	2.7%	5 Year Price Target	\$169	Years Of Dividend Growth:	58
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	6.3%

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 \$81 billion.

Johnson & Johnson continues to face more than 12,000 lawsuits related its talc products. The company announced on 5/10/2020 that it would stop selling its talcum-based baby powder in the U.S. and Canada.

On 10/13/2020, Johnson & Johnson announced third quarter earnings results. Revenue increased 1.7% to \$21.1 billion, topping estimates by \$930 million. Adjusted earnings-per-share of \$2.20 topped estimates by \$0.22, which was a nearly 4% increase from the previous year.

Global pharmaceutical continues to perform well, with sales growing 5% to \$11.4 billion. Oncology delivered 13.3% growth. *Darzalex*, which treats multiple myeloma, grew 44% due to market share gains in the U.S. and the European Union. This drug also saw increased uptake rates for a method of administering medication that was approved in the second quarter. Revenue for *Imbruvica*, which treats lymphoma, increased 12% due to higher global uptake rates. Immunology grew 2.1% due to market share gains for *Stelara*, especially in the area of Crohn's Disease and Ulcerative Colitis. *Stelara*, which treats immune-mediated inflammatory diseases, remains the company's top selling product. Sales for *Remicade*, which treats arthritis, decreased 19% due to increased discounts and rebates and biosimilar competition. Consumer returned to growth as sales climbed 1.3%. Over-the-counter sales were higher by 4%. Tylenol continues to perform well due to an increased demand related to COVID-19. Oral care sales improved almost 9% due to new product launches. Skin Health and Beauty decreased 0.2% as product share gains and increased retail stocking and were offset by COVID-19 related pressure in Cleaning, Sun Care and Makeup. The Medical Devices segment remains challenged as sales fell 3.6%. Interventional Solutions had revenue growth of 13% due to growth in atrial fibrillation procedures and demand for new products. Surgery fell 7% as COVID-19 led to few procedures being performed. Orthopaedics was down 2.6% as gains made in hips and trauma were offset by knees, spines, sports and others. The company announced on 10/12/2020 that it was pausing its COVID-19 vaccine study following an unexplained illness in a trial participant. Johnson & Johnson once again revised its guidance higher for the second consecutive quarter. Revenue is now expected in a range of \$81.2-\$82 billion, up from \$79.9-\$81.4 billion previously. Adjusted earnings-per-share is now expected in a range of \$7.95-\$8.05, up from \$7.75-\$7.95 previously.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.76	\$5.00	\$5.10	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.68	\$8.00	\$10.71
DPS	\$2.11	\$2.25	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	\$4.04	\$5.41
Shares³	2738	2724	2779	2821	2783	2755	2707	2683	2650	2684	2669	2500

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ 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 6.2%. 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, however, most growth will come from revenue expansion as the buyback is good for a low-single-digit gain annually. The company increased its dividend 6.3% for the 6/9/2020 payment, and has now increased its dividend for the past 58 years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Avg. P/E	13.1	12.7	13.1	15.6	17.7	18.2	19.1	20.9	16.7	16.8	18.6	15.8
Avg. Yld.	3.4%	3.5%	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.6%	2.6%	2.7%	3.2%

Shares of Johnson & Johnson are flat since our 7/16/2020 update. Using the current share price and revised guidance for earnings-per-share for the year, Johnson & Johnson trades with a price-to-earnings ratio of 18.6. 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 3.2% annually over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

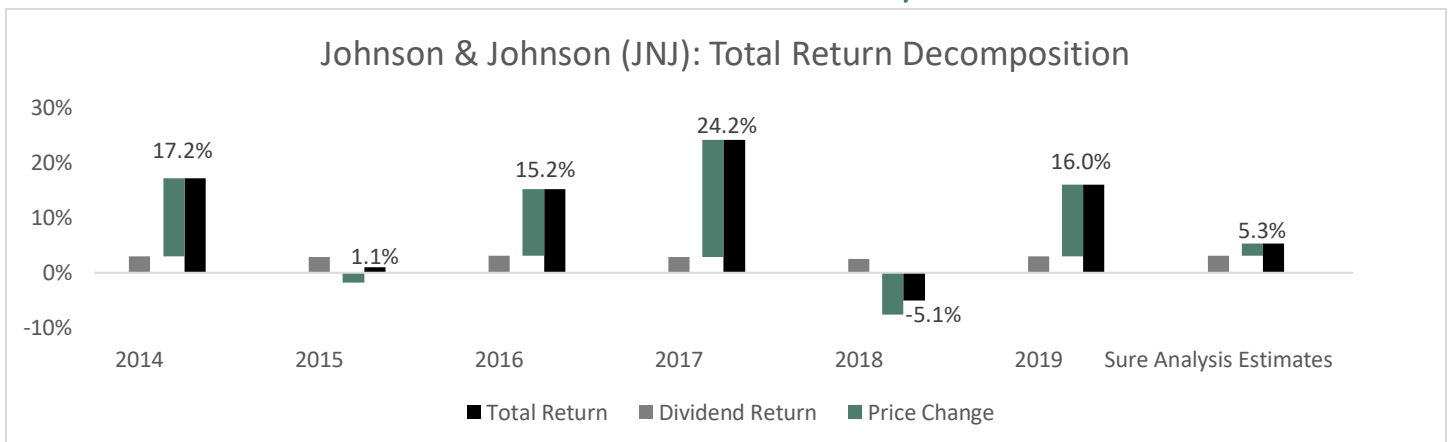
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	44%	45%	47%	47%	48%	54%	53%	46%	43%	44%	51%	51%

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 were offset by gains in Consumer and Pharmaceuticals.

Final Thoughts & Recommendation

After reviewing Q3 earnings results, Johnson & Johnson is expected to offer a total annual return of 5.3% through 2025, down slightly from our previous estimate of 5%. Pharmaceutical sales remain strong and the Consumer segment returned to growth. Medical Devices remain weak as the COVID-19 pandemic continues to pressure this segment. We maintain our hold position on the stock due to projected returns, but feel that Johnson & Johnson should be considered a cornerstone of any dividend growth portfolio. We have raised our 2025 price target \$3 due to higher EPS estimates.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	61587	65030	67224	71312	74331	70074	71890	76450	81581	82059
Gross Profit	42795	44670	45566	48970	51585	48538	50101	51011	54490	54503
Gross Margin	69.5%	68.7%	67.8%	68.7%	69.4%	69.3%	69.7%	66.7%	66.8%	66.4%
SG&A Exp.	19424	20969	20869	21830	21954	21203	20067	21520	22540	22178
D&A Exp.	2939	3158	3666	4104	3895	3746	3754	5642	6929	7009
Operating Profit	16527	16153	17032	18957	21137	18289	20891	18897	21175	20970
Op. Margin	26.8%	24.8%	25.3%	26.6%	28.4%	26.1%	29.1%	24.7%	26.0%	25.6%
Net Profit	13334	9672	10853	13831	16323	15409	16540	1300	15297	15119
Net Margin	21.7%	14.9%	16.1%	19.4%	22.0%	22.0%	23.0%	1.7%	18.8%	18.4%
Free Cash Flow	14001	11405	12462	13819	14996	16106	15541	17777	18531	19918
Income Tax	3613	2689	3261	1640	4240	3787	3263	16373	2702	2209

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	102908	113644	121347	132683	130358	133411	141208	157303	152954	157728
Cash & Equivalents	19355	24542	14911	20927	14523	13732	18972	17824	18107	17305
Acc. Receivable	9774	10581	11309	11713	10985	10734	11699	13490	14098	14481
Inventories	5378	6285	7495	7878	8184	8053	8144	8765	8599	9020
Goodwill & Int.	32010	34276	51176	50745	49054	47393	49681	85134	78064	81282
Total Liabilities	46329	56564	56521	58630	60606	62261	70790	97143	93202	98257
Accounts Payable	5623	5725	5831	6266	7633	6668	6918	7310	7537	8544
Long-Term Debt	16773	19627	16165	18180	18760	19861	27126	34581	30480	27696
Total Equity	56579	57080	64826	74053	69752	71150	70418	60160	59752	59471
D/E Ratio	0.30	0.34	0.25	0.25	0.27	0.28	0.39	0.57	0.51	0.47

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.5%	8.9%	9.2%	10.9%	12.4%	11.7%	12.0%	0.9%	9.9%	9.7%
Return on Equity	24.9%	17.0%	17.8%	19.9%	22.7%	21.9%	23.4%	2.0%	25.5%	25.4%
ROIC	19.3%	12.9%	13.8%	16.0%	18.1%	17.2%	17.5%	1.4%	16.5%	17.0%
Shares Out.	2738	2724	2779	2821	2783	2755	2707	2683	2650	2684
Revenue/Share	22.08	23.43	23.90	24.79	25.95	24.91	25.78	27.85	29.90	30.57
FCF/Share	5.02	4.11	4.43	4.80	5.24	5.73	5.57	6.48	6.79	7.42

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

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