



Johnson & Johnson (JNJ)

Updated April 21st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$168	5 Year CAGR Estimate:	7.5%	Market Cap:	\$441 billion
Fair Value Price:	\$162	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	5/24/2021
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	6/8/2021
Dividend Yield:	2.5%	5 Year Price Target	\$216	Years Of Dividend Growth:	59
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	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). Johnson & Johnson was founded in 1886 and employs more than 125,000 people around the world. The company has annual sales in excess of \$92 billion.

On 4/20/2020, Johnson & Johnson announced first quarter earnings results for the period ending 3/31/2021. Revenue grew 7.9% to \$22.3 billion, beating estimates by \$280 million. Adjusted earnings-per-share of \$2.59 was a \$0.29, or 12.6%, improvement from the prior year and was \$0.24 better than expected.

Pharmaceutical sales grew 9.6%, driven by a 18.5% increase in oncology. *Darzalex*, which treats multiple myeloma, experienced higher uptake rates, allowing for gains in all regions. *Imbruvica*, which treats lymphoma, added to its market share due to longer treatment durations. Immunology was up almost 8% as *Stelara* continues to take market share for treatment for Crohn's Disease and Ulcerative Colitis. *Stelara*, which treats immune-mediated inflammatory diseases, remains the company's top selling product. Consumer revenue declined 2.3%. Over-the-counter decreased nearly 13%, but this was largely attributed to COVID-19 stocking in the same quarter last year. A weaker cold and cough season, due to social distancing, also impacted results. Oral Care continues to performer well, with sales higher by 5.7%. Listerine demand remains elevated. Skin and Beauty grew 4.1% due to product innovation in Neutrogena. After several challenging quarters, Medical Devices returned to growth as sales grew almost 11%. International Solutions increased more than 30% due to gains in atrial fibrillation and new products. Surgery improved 13% as market expansion and new products in international markets, particularly China, offset weakness in the U.S. Orthopaedics grew 3.7% has gains made in hips and trauma offset declines in knees and spine.

Leadership also provided updated guidance for 2021. The company now expects adjusted earnings per share of \$9.42 to \$9.57 for the year, up from \$9.40 to \$9.60 previously. At the midpoint, this would be an 18.3% increase from 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$5.00	\$5.10	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.68	\$8.03	\$9.50	\$12.71
DPS	\$2.25	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	\$4.04	\$4.24	\$5.67
Shares¹	2724	2779	2821	2783	2755	2707	2683	2650	2684	2669	2669	2500

Johnson & Johnson has grown earnings over the past 10 years at a rate of 5.4%. 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 2026 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.

On 4/20/2021, Johnson & Johnson announced a 5% dividend increase for the 6/8/2021 payment date, giving the company 59 consecutive years of dividend growth.

¹ In millions of shares

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



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	12.7	13.1	15.6	17.7	18.2	19.1	23.9	23.7	15.6	18.2	17.7	17.0
Avg. Yld.	3.5%	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.7%	2.8%	2.7%	2.5%	2.6%

Shares of Johnson & Johnson are flat since our 1/28/2021 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 17.7. We are reaffirming our target price-to-earnings ratio of 17 due to the quality of earnings over the past few years. If shares were to reach our target P/E by 2026, then valuation could reduce results by 0.8% annually over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

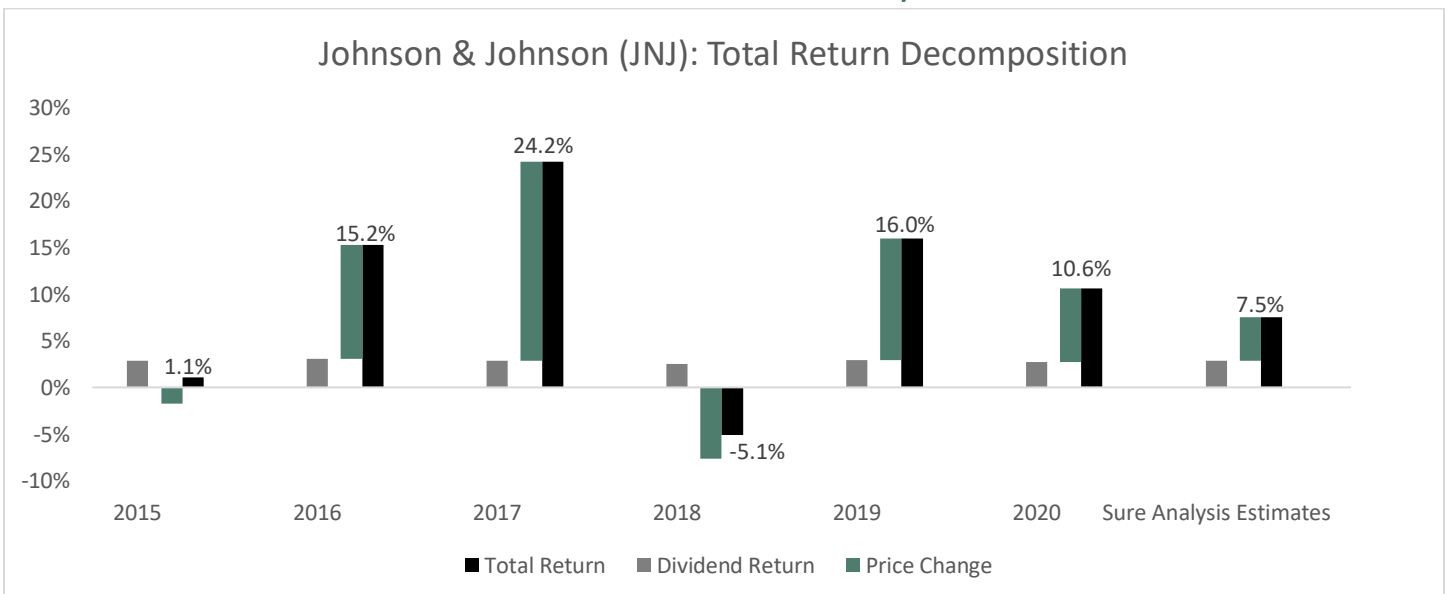
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	45%	47%	47%	48%	54%	53%	46%	43%	44%	50%	45%	45%

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 Consumer were offset by gains in Medical Devices and Pharmaceuticals.

Final Thoughts & Recommendation

After first quarter earnings results, Johnson & Johnson is expected to offer a total annual return of 7.5% through 2026, up slightly from our previous estimate of 7.4%. Our projected return stems from a 6% earnings growth rate and starting yield of 2.5% offset by a small valuation reversion headwind. Pharmaceuticals remain a significant source of growth for the company. Consumer did decline, mostly due to tough comparisons, but Medical Devices had its first quarter of growth in some time. Johnson & Johnson remains one of our favorite companies in the entire market due to its business model and nearly six decades of dividend growth. Income investors should consider making the stock a core position while total return investors may prefer to wait for a pullback prior to purchase.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	65030	67224	71312	74331	70074	71890	76450	81581	82059	82584
Gross Profit	44670	45566	48970	51585	48538	50101	51011	54490	54503	54157
Gross Margin	68.7%	67.8%	68.7%	69.4%	69.3%	69.7%	66.7%	66.8%	66.4%	65.6%
SG&A Exp.	20969	20869	21830	21954	21203	20067	21520	22540	22178	22084
D&A Exp.	3158	3666	4104	3895	3746	3754	5642	6929	7009	7231
Operating Profit	16153	17032	18957	21137	18289	20891	18897	21175	20970	19914
Op. Margin	24.8%	25.3%	26.6%	28.4%	26.1%	29.1%	24.7%	26.0%	25.6%	24.1%
Net Profit	9672	10853	13831	16323	15409	16540	1300	15297	15119	14714
Net Margin	14.9%	16.1%	19.4%	22.0%	22.0%	23.0%	1.7%	18.8%	18.4%	17.8%
Free Cash Flow	11405	12462	13819	14996	16106	15541	17777	18531	19918	20189
Income Tax	2689	3261	1640	4240	3787	3263	16373	2702	2209	1783

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	113644	121347	132683	130358	133411	141208	157303	152954	157728	174894
Cash & Equivalents	24542	14911	20927	14523	13732	18972	17824	18107	17305	13985
Acc. Receivable	10581	11309	11713	10985	10734	11699	13490	14098	14481	13576
Inventories	6285	7495	7878	8184	8053	8144	8765	8599	9020	9344
Goodwill & Int.	34276	51176	50745	49054	47393	49681	85134	78064	81282	89795
Total Liabilities	56564	56521	58630	60606	62261	70790	97143	93202	98257	111616
Accounts Payable	5725	5831	6266	7633	6668	6918	7310	7537	8544	9505
Long-Term Debt	19627	16165	18180	18760	19861	27126	34581	30480	27696	35266
Total Equity	57080	64826	74053	69752	71150	70418	60160	59752	59471	63278
D/E Ratio	0.34	0.25	0.25	0.27	0.28	0.39	0.57	0.51	0.47	0.56

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.9%	9.2%	10.9%	12.4%	11.7%	12.0%	0.9%	9.9%	9.7%	8.8%
Return on Equity	17.0%	17.8%	19.9%	22.7%	21.9%	23.4%	2.0%	25.5%	25.4%	24.0%
ROIC	12.9%	13.8%	16.0%	18.1%	17.2%	17.5%	1.4%	16.5%	17.0%	15.8%
Shares Out.	2724	2779	2821	2783	2755	2707	2683	2650	2684	2669
Revenue/Share	23.43	23.90	24.79	25.95	24.91	25.78	27.85	29.90	30.57	30.92
FCF/Share	4.11	4.43	4.80	5.24	5.73	5.57	6.48	6.79	7.42	7.56

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

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