



# Johnson & Johnson (JNJ)

Updated July 22<sup>nd</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$169	<b>5 Year CAGR Estimate:</b>	7.5%	<b>Market Cap:</b>	\$444 billion
<b>Fair Value Price:</b>	\$162	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	8/23/2021
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.8%	<b>Dividend Payment Date:</b>	9/7/2021
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$217	<b>Years Of Dividend Growth:</b>	59
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	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 134,000 people around the world. The company has annual sales in excess of \$94 billion.

On 7/21/2021, Johnson & Johnson released second quarter earnings results for the period ending 6/30/2021. Revenue increased 27.1% to \$23.3 billion, which was \$770 million above what analysts had anticipated. Adjusted earnings-per-share of \$2.48 was an \$0.81, or 49%, improvement from the prior year and \$0.19 better than expected.

Pharmaceutical sales remain strong, with revenue growing 17.2% year-over-year. Oncology was up almost 27%. *Darzalex*, which treats multiple myeloma, continues to see high uptake rates and had an increase in market share in all regions. *Imbruvica*, which treats lymphoma, also acquired additional market share even as COVID-19 related delays were a headwind. Immunology was up just over 20% as *Stelara*, which treats immune-mediated inflammatory diseases, once again saw elevated uptake rates in Crohn's Disease and Ulcerative Colitis. Consumer returned to growth with revenue advancing more than 13%. Over-the-counter erased a double-digit decline in the first quarter of the year and was up nearly 14% due to allergy care, pain and digestive health. Skin Health & Beauty grew 16.2% due to weak comparable results, a recovery from COVID-19 in top markets and strength in Neutrogena. After an extremely soft second quarter last year due to COVID-19, Medical Devices posted reported revenue growth of 62.7%. Interventional Solutions was the top performing business, with growth reaching 77.4%. The company attributed market recoveries and new products as key to the year-over-year gains. Surgery was up 63%, also due to market recovery and new products. Orthopaedics improved 53% due to gains in hips, knees, trauma and spine.

Johnson & Johnson also provided updated guidance for the year. The company now expects to earn \$9.50 to \$9.60 per share in 2021, up from \$9.42 to \$9.57 previously. At the midpoint, this would be an 19% increase from 2020.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$5.00	\$5.10	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.68	\$8.03	<b>\$9.55</b>	<b>\$12.78</b>
<b>DPS</b>	\$2.25	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	\$4.04	<b>\$4.24</b>	<b>\$5.67</b>
<b>Shares<sup>1</sup></b>	2724	2779	2821	2783	2755	2707	2683	2650	2684	2669	<b>2669</b>	<b>2500</b>

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.

<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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## 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	<b>17.7</b>	<b>17.0</b>
Avg. Yld.	3.5%	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.7%	2.8%	2.7%	<b>2.5%</b>	<b>2.6%</b>

Shares of Johnson & Johnson are up \$1, or 0.6%, since our 4/21/2021 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

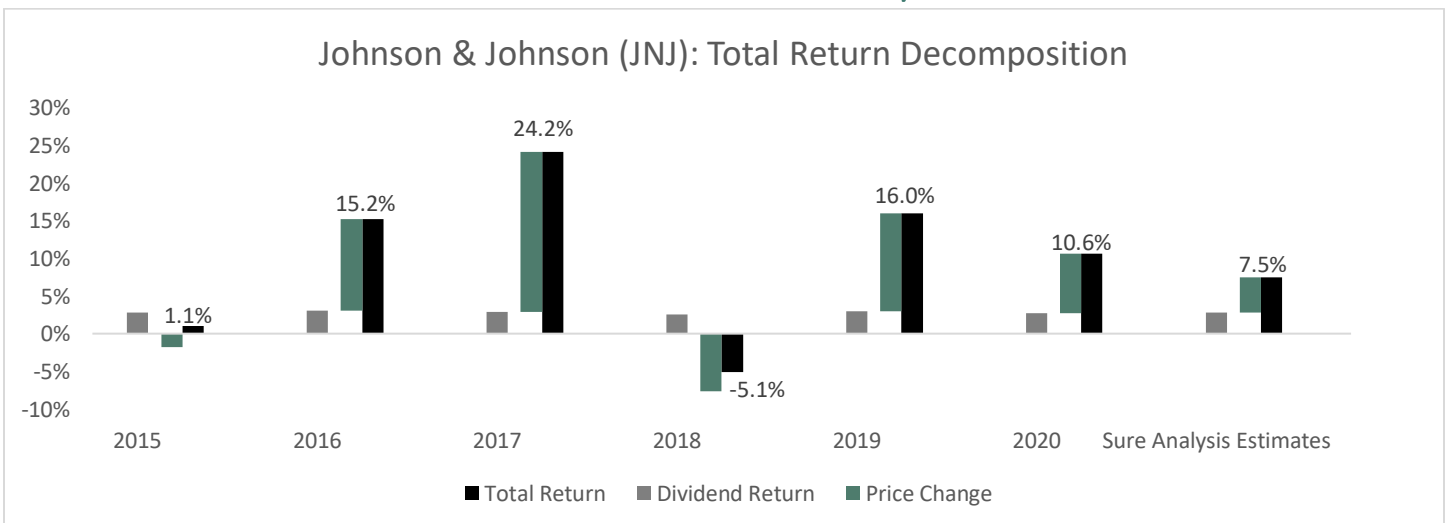
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	45%	47%	47%	48%	54%	53%	46%	43%	44%	50%	<b>44%</b>	<b>44%</b>

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 Consumer were offset by gains in Medical Devices and Pharmaceuticals.

## Final Thoughts & Recommendation

After second quarter earnings results, Johnson & Johnson is expected to offer a total annual return of 7.5% through 2026, matching our previous estimate at the time of our last report. Our projected return stems from a 6% earnings growth rate and starting yield of 2.5% offset by a small valuation reversion headwind. The second quarter of 2020 was the company's weakest in several years. Johnson & Johnson easily topped heightened estimates, as each segment posted double-digit growth. We continue to believe that Johnson & Johnson is one of the best investments in the market place due to its diversified business model, leadership position in the fairly recession proof healthcare sector and long track record of dividend growth. We have raised our 2026 price target \$1 to \$217 due to revised guidance and believe income orientated investors should consider adding Johnson & Johnson at current levels. Investors looking for higher total returns might prefer to wait for a pullback before adding. We rate shares a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	113644	121347	132683	130358	133411	141208	157303	152954	157728	174894
<b>Cash &amp; Equivalents</b>	24542	14911	20927	14523	13732	18972	17824	18107	17305	13985
<b>Acc. Receivable</b>	10581	11309	11713	10985	10734	11699	13490	14098	14481	13576
<b>Inventories</b>	6285	7495	7878	8184	8053	8144	8765	8599	9020	9344
<b>Goodwill &amp; Int.</b>	34276	51176	50745	49054	47393	49681	85134	78064	81282	89795
<b>Total Liabilities</b>	56564	56521	58630	60606	62261	70790	97143	93202	98257	111616
<b>Accounts Payable</b>	5725	5831	6266	7633	6668	6918	7310	7537	8544	9505
<b>Long-Term Debt</b>	19627	16165	18180	18760	19861	27126	34581	30480	27696	35266
<b>Total Equity</b>	57080	64826	74053	69752	71150	70418	60160	59752	59471	63278
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	8.9%	9.2%	10.9%	12.4%	11.7%	12.0%	0.9%	9.9%	9.7%	8.8%
<b>Return on Equity</b>	17.0%	17.8%	19.9%	22.7%	21.9%	23.4%	2.0%	25.5%	25.4%	24.0%
<b>ROIC</b>	12.9%	13.8%	16.0%	18.1%	17.2%	17.5%	1.4%	16.5%	17.0%	15.8%
<b>Shares Out.</b>	2724	2779	2821	2783	2755	2707	2683	2650	2684	2669
<b>Revenue/Share</b>	23.43	23.90	24.79	25.95	24.91	25.78	27.85	29.90	30.57	30.92
<b>FCF/Share</b>	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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