



Johnson & Johnson (JNJ)

Updated October 20th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$164	5 Year CAGR Estimate:	8.6%	Market Cap:	\$432 billion
Fair Value Price:	\$167	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/23/2021
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	12/08/2021
Dividend Yield:	2.6%	5 Year Price Target	\$223	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 134,000 people around the world. The company has annual sales in excess of \$94 billion.

On 10/19/2021, Johnson & Johnson released third quarter earnings results for the period ending 9/30/2021. Revenue grew 10.7% to \$23.3 billion, but missed estimates by \$380 million. Adjusted earnings-per-share of \$2.60 was a \$0.40, or 18.2%, improvement from the prior year and \$0.25 better than expected.

Leadership stated that the revenue miss was due largely to the timing of vaccine shipments. Pharmaceutical continued its streak of double-digit growth as revenue improved nearly 14%. Oncology was higher by 17.1%. *Darzalex*, which treats multiple myeloma, saw another quarter of market share growth in all regions. *Imbruvica*, which treats lymphoma, had higher demand even as new patient starts have been limited due to COVID-19 related restrictions. Immunology increased 12.2%, driven by higher demand for *Stelara*, which treats immune-mediated inflammatory diseases, in Crohn's Disease and Ulcerative Colitis. Consumer sales were up more than 5%. Over-the-counter improved 20.1% due to gains in pediatric fever and strength in cold, cough and flu. Skin Health & Beauty fell 2.2% due to supply constraints and the recall of the company's Sun aerosol products. Medical Devices continues to see a rebound from COVID-19 related surgical procedure postponements as sales were up 8%. Interventional Solutions was the top performing business again, growing 14.5% due to new products. Surgery grew 11.8%, with double-digit growth seen in endcutters, biosurgery and energy.

Johnson & Johnson also provided updated guidance for the year. The company now expects adjusted earnings-per-share of \$9.77 to \$9.82 for the year, up from \$9.50 to \$9.60 and \$9.42 to \$9.57 previously. At the midpoint, this would be a 22% increase from 2020. Revenue is now expected to be between \$92.8 billion to \$93.3 billion, up from prior estimates of \$92.5 billion to \$93.3 billion.

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	\$9.80	\$13.11
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	16.7	17.0
Avg. Yld.	3.5%	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.7%	2.8%	2.7%	2.6%	2.5%

Shares of Johnson & Johnson are down \$5, or 3.0%, since our 7/22/2021 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 16.7. 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 add 0.3% to results annually over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

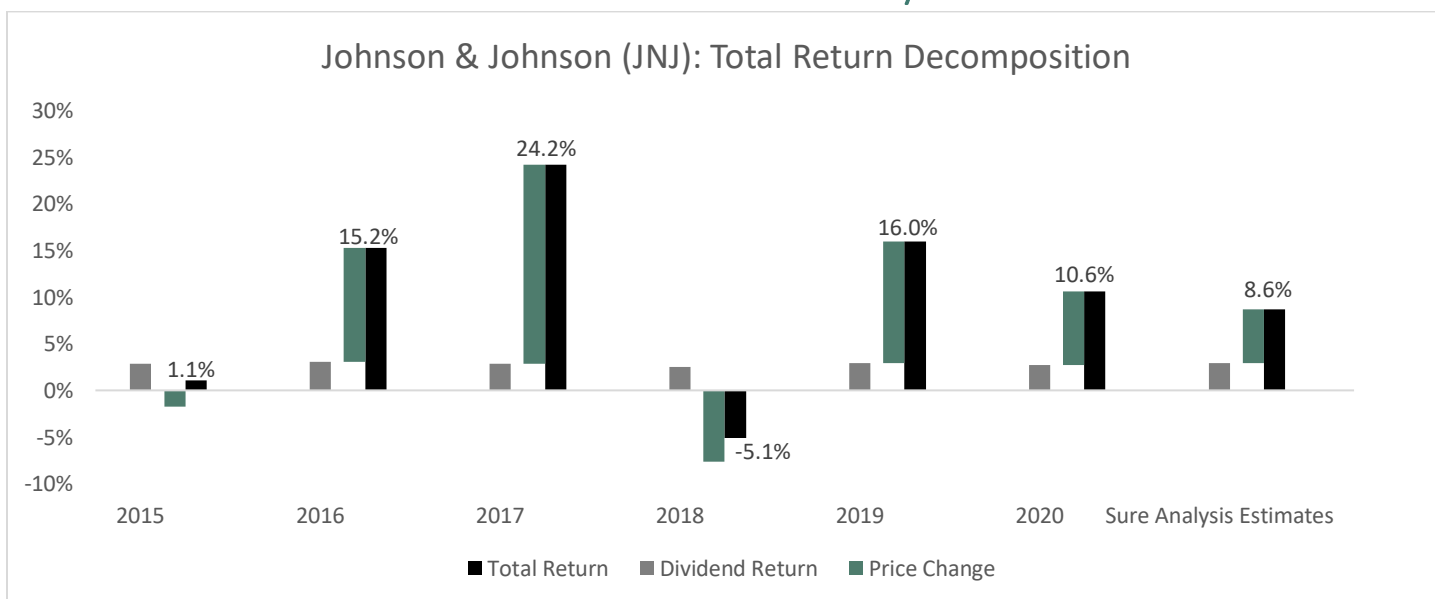
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	45%	47%	47%	48%	54%	53%	46%	43%	44%	50%	43%	43%

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 third quarter earnings results, Johnson & Johnson is expected to offer a total annual return of 8.6% through 2026, up from our prior forecast of 7.5%. Our projected return stems from a 6% earnings growth rate, a starting yield of 2.6% and a small tailwind from multiple expansion. Johnson & Johnson's business continues to perform well. Even removing the COVID-19 vaccine, revenue still grew more than 8% year-over-year as all three segments performed well during the quarter. We have raised our 2026 price target \$6 to \$223 due to revised earnings estimates. Income focused investors will likely be attracted to the company's dividend growth streak and the stock's yield. For all others, a slight pullback in the name might be a preferred entry point. We rate the stock at hold following Q3 results.

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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