



Johnson & Johnson (JNJ)

Updated April 19th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$183	5 Year CAGR Estimate:	7.3%	Market Cap:	\$467 billion
Fair Value Price:	\$174	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/23/22
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	06/07/22
Dividend Yield:	2.5%	5 Year Price Target	\$233	Years Of Dividend Growth:	60
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

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 \$98 billion.

On November 12th, 2021, Johnson & Johnson announced plans to spin off its consumer health business into a standalone company. The transaction is expected to be completed within the next 18 to 24 months.

On April 19th, 2022, Johnson & Johnson released first quarter earnings results for the period ending March 31st, 2022. Revenue increased 5% to \$23.4 billion, but missed estimates by \$210 million. Adjusted earnings-per-share of \$2.67 compared to \$2.59 in the prior year and was \$0.10 better than expected.

Pharmaceutical revenues were up 6.3%, with Oncology leading the way with another quarter of 10%+ growth. *Darzalex*, which treats multiple myeloma, continues to see higher market share in all regions due to higher uptake rates. *Imbruvica*, which treats lymphoma, declined year-over-year due to competition, but remains the top treatment option in its area. Immunology improved 5.2% driven once again by higher demand for *Stelara*, which treats immune-mediated inflammatory diseases, in the areas of Crohn's Disease and Ulcerative Colitis. Infectious Diseases continues to perform well, showing 30% growth. This was again mostly due to the company's Covid-19 vaccine. Consumer revenue fell 1.5% as strength in Over-the-Counter and Women's Health was more than offset by weaker results in the remaining businesses. Skin Health & Beauty fell 13% due to supply constraints and divestitures. MedTech again showed that the recovery from the Covid-19 pandemic continues as sales were higher by 5.9%, a sequential acceleration. Interventional Solutions improved 15.1% and Vision grew nearly 10% due to strength of new products and market recovery. Surgery was higher by 2.6% due to market share gains in several areas.

Johnson & Johnson offered revised guidance for the year. The company now expects adjusted earnings-per-share of \$10.15 to \$10.30 for 2022, down from \$10.40 to \$10.60 previously, and revenue of \$97.3 billion to \$98.3 billion, down from \$98.9 billion and \$100.4 billion. Johnson & Johnson is also suspending its Covid-19 vaccine sales guidance due to a global supply surplus.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.10	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.68	\$8.03	\$9.80	\$10.23	\$13.69
DPS	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	\$4.04	\$4.19	\$4.52	\$6.05
Shares¹	2779	2821	2783	2755	2707	2683	2650	2684	2669	2670	2667	2600

Johnson & Johnson has grown earnings over the past 10 years at a rate of 7.5%. 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 2027 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.

¹ In millions of shares

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



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On April 19th, 2022, Johnson & Johnson announced a 6.6% dividend increase for the June 7th, 2022 payment date, giving the company 60 consecutive years of dividend growth.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.1	15.6	17.7	18.2	19.1	23.9	23.7	15.6	18.2	17.5	17.9	17.0
Avg. Yld.	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.7%	2.8%	2.7%	2.4%	2.5%	2.6%

Shares of Johnson & Johnson have gained \$16, or 9.5% since our January 25th, 2022 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 17.9. We reaffirm 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 2027, then valuation would be a 1% headwind to annual results over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

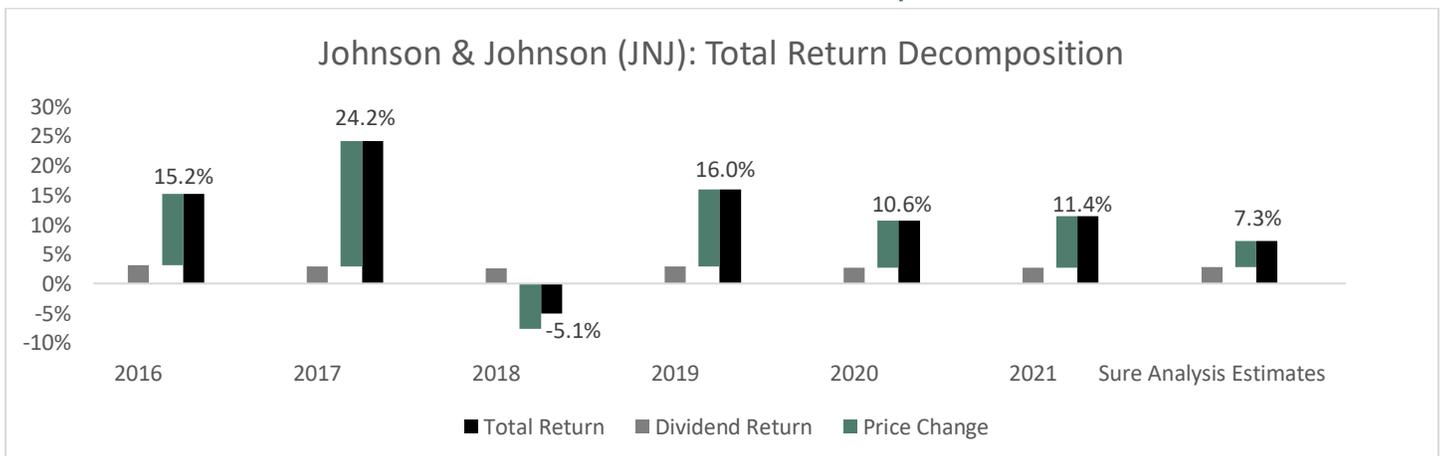
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	47%	47%	48%	54%	53%	46%	43%	44%	50%	43%	44%	44%

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

Following first quarter earnings results, Johnson & Johnson is expected to offer a total annual return of 7.3% through 2027, down from our prior forecast of 9.5%. Our projected return stems from a 6% earnings growth rate and a starting yield of 2.5%, that are offset by a small headwind from multiple compression. Johnson & Johnson reported a steady quarter, something shareholders have seen many times over the years. This steady growth has enabled the company to extend its dividend growth streak to now six decades. Johnson & Johnson remains on track to divest its consumer business to focus on the faster growing pharmaceutical and medical device segments. We have lowered our 2027 price target \$6 to \$233 due to revised guidance and now rate shares of Johnson & Johnson as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	71312	74331	70074	71890	76450	81581	82059	82584	82584	93775
Gross Profit	48970	51585	48538	50101	51011	54490	54503	54157	54157	63920
Gross Margin	68.7%	69.4%	69.3%	69.7%	66.7%	66.8%	66.4%	65.6%	65.6%	68.2%
SG&A Exp.	21830	21954	21203	20067	21520	22540	22178	22084	22084	24659
D&A Exp.	4104	3895	3746	3754	5642	6929	7009	7231	7231	7390
Operating Profit	18957	21137	18289	20891	18897	21175	20970	19914	19914	24547
Op. Margin	26.6%	28.4%	26.1%	29.1%	24.7%	26.0%	25.6%	24.1%	24.1%	26.2%
Net Profit	13831	16323	15409	16540	1300	15297	15119	14714	14714	20878
Net Margin	19.4%	22.0%	22.0%	23.0%	1.7%	18.8%	18.4%	17.8%	17.8%	22.3%
Free Cash Flow	13819	14996	16106	15541	17777	18531	19918	20189	20189	19758
Income Tax	1640	4240	3787	3263	16373	2702	2209	1783	1783	1898

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	121347	132683	130358	133411	141208	157303	152954	157728	174894	182018
Cash & Equivalents	14911	20927	14523	13732	18972	17824	18107	17305	13985	14487
Acc. Receivable	11309	11713	10985	10734	11699	13490	14098	14481	13576	15283
Inventories	7495	7878	8184	8053	8144	8765	8599	9020	9344	10387
Goodwill & Int.	51176	50745	49054	47393	49681	85134	78064	81282	89795	81638
Total Liabilities	56521	58630	60606	62261	70790	97143	93202	98257	111616	107995
Accounts Payable	5831	6266	7633	6668	6918	7310	7537	8544	9505	11055
Long-Term Debt	16165	18180	18760	19861	27126	34581	30480	27696	35266	33751
Total Equity	64826	74053	69752	71150	70418	60160	59752	59471	63278	74023
LTD/E Ratio	0.25	0.25	0.27	0.28	0.39	0.57	0.51	0.47	0.56	0.46

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	9.2%	10.9%	12.4%	11.7%	12.0%	0.9%	9.9%	9.7%	8.8%	11.7%
Return on Equity	17.8%	19.9%	22.7%	21.9%	23.4%	2.0%	25.5%	25.4%	24.0%	30.4%
ROIC	13.8%	16.0%	18.1%	17.2%	17.5%	1.4%	16.5%	17.0%	15.8%	20.2%
Shares Out.	2779	2821	2783	2755	2707	2683	2650	2684	2669	2667
Revenue/Share	23.90	24.79	25.95	24.91	25.78	27.85	29.90	30.57	30.92	35.07
FCF/Share	4.43	4.80	5.24	5.73	5.57	6.48	6.79	7.42	7.56	7.39

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

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