



Johnson & Johnson (JNJ)

Updated January 24th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$166	5 Year CAGR Estimate:	10.0%	Market Cap:	\$435 billion
Fair Value Price:	\$179	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/17/23
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	03/07/23
Dividend Yield:	2.7%	5 Year Price Target	\$240	Years Of Dividend Growth:	60
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

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 141,000 people around the world. The company is projected to generate approximately \$97 billion in revenue this year.

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 in 2023. The new company will be called Kenvue.

On December 22nd, 2022, Johnson & Johnson announced that it had completed its \$16.6 billion acquisition of Abiomed, Inc. Abiomed will operate as a standalone business within MedTech.

On January 24th, 2023, Johnson & Johnson released fourth quarter and full year earnings results for the period ending December 31st, 2022. For the quarter, revenue declined 4.4% to \$23.7 billion, which was \$200 million less than expected. Adjusted earnings-per-share of \$2.35 compared favorably to \$2.13 in the prior year and was \$0.11 more than anticipated. For 2022, revenue grew 1.3% to \$94.9 billion. Adjusted earnings-per-share totaled \$10.15 compared to \$9.80 in the prior year.

Unfavorable currency exchange and lower Covid-19 vaccine sales impacted results. Excluding these factors, revenue grew 4.6%. Pharmaceutical revenues fell 7.4% on a reported basis (down 2.5% excluding currency exchange), primarily due to a sharp decline in Covid-19 vaccine sales. Infectious Diseases fell 36% as a result. Oncology was up 3.9% as *Darzalex*, which treats multiple myeloma, continues to increase market share. *Imbruvica*, which treats lymphoma, led in market share once again, but had declines due to competitive pressures. Immunology was down 5.4% (down 1.8% excluding currency) as market share gains for *Stelara*, which treats immune-mediated inflammatory diseases, was offset by unfavorable patient mix and higher rebates. Consumer revenue improved 1.0% (but grew 6.4% excluding currency exchange) due to strength in OTC and a small gain in Skin Health & Beauty. All over businesses were down for the period. MedTech was lower by 1.2% (up 4.9% excluding currency exchange) for the quarter, led by strength in Interventional Solutions that was offset by weakness in all other areas.

Johnson & Johnson released guidance for 2023 as well. The company expects revenue in a range of \$96.9 billion to \$97.9 billion and adjusted earnings-per-share of \$10.45 to \$10.65 for the year. At the midpoints, this would be growth of 2.6% and 3.9%, respectively. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.68	\$8.03	\$9.80	\$10.15	\$10.55	\$14.12
DPS	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	\$4.04	\$4.19	\$4.45	\$4.52	\$6.05
Shares¹	2821	2783	2755	2707	2683	2650	2684	2669	2670	2661	2661	2600

Johnson & Johnson has grown earnings over the past 10 years at a rate of 7.0%. 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

¹ In millions of shares.

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



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conditions. We expect earnings-per-share to grow at a rate of 6% per year through 2028 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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.6	17.7	18.2	19.1	23.9	23.7	15.6	18.2	17.5	17.4	15.7	17.0
Avg. Yld.	3.0%	2.7%	3.0%	2.8%	2.6%	2.7%	2.8%	2.7%	2.4%	2.5%	2.7%	2.5%

Shares of Johnson & Johnson are unchanged since our October 18th, 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 15.7, which is below our target price-to-earnings ratio of 17. Multiple expansion could add 1.6% to annual returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

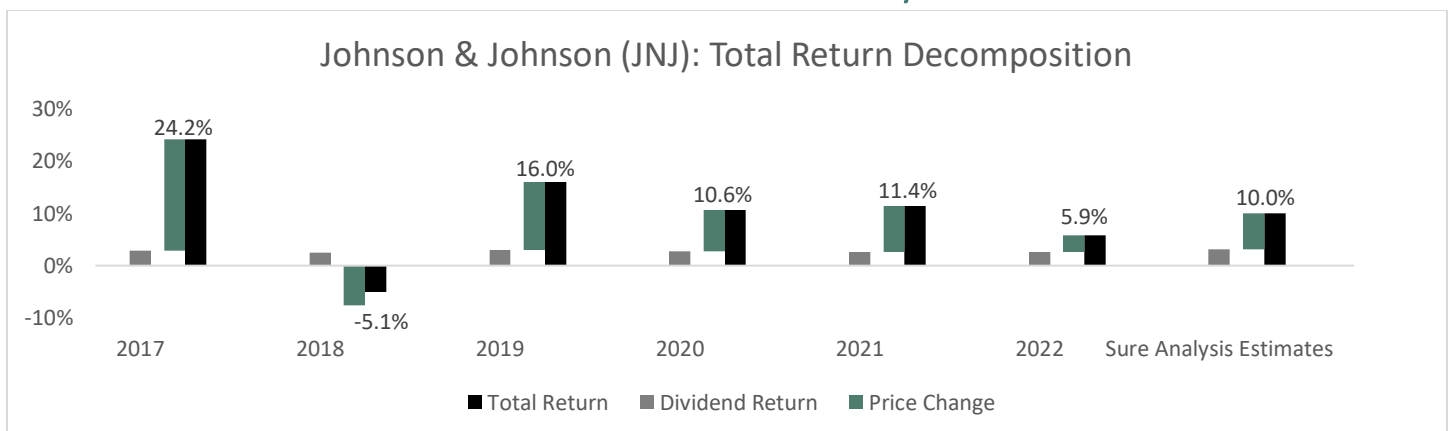
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	47%	48%	54%	53%	46%	43%	44%	50%	43%	44%	43%	43%

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. The upcoming planned separation of businesses should allow the faster growing segments should allow the company to unlock value for shareholders as the faster growing segments, Pharmaceutical and MedTech, could receive a higher multiple from the market.

Final Thoughts & Recommendation

Following fourth quarter earnings results, Johnson & Johnson is expected to offer a total annual return of 10.0% through 2028, up from our prior forecast of 9.0%. Our projected return stems from a 6% earnings growth rate, a starting yield of 2.7%, and a small contribution from multiple expansion. Johnson & Johnson had a solid quarter that was greatly impacted by a strong U.S. dollar. Johnson & Johnson remains on track to divest its Consumer business by mid-to-late 2023 to focus on the faster growing Pharmaceutical and MedTech segments. We have raised our five-year price target \$11 to \$240 due to guidance for 2023 and now rate shares of Johnson & Johnson as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	71,312	74,331	70,074	71,890	76,450	81,581	82,059	82,584	93,775	94,943
Gross Profit	48,970	51,585	48,538	50,101	51,011	54,490	54,503	54,157	63,920	63,854
Gross Margin	68.7%	69.4%	69.3%	69.7%	66.7%	66.8%	66.4%	65.6%	68.2%	67.3%
D&A Exp.	4,104	3,895	3,746	3,754	5,642	6,929	7,009	7,231	7,390	6,970
Operating Profit	18,957	21,137	18,289	20,891	18,897	21,175	20,970	19,733	23,647	23,703
Operating Margin	26.6%	28.4%	26.1%	29.1%	24.7%	26.0%	25.6%	23.9%	25.2%	25.0%
Net Profit	13,831	16,323	15,409	16,540	1,300	15,297	15,119	14,714	20,878	17,941
Net Margin	19.4%	22.0%	22.0%	23.0%	1.7%	18.8%	18.4%	17.8%	22.3%	18.9%
Free Cash Flow	13,819	14,996	16,106	15,541	17,777	18,531	19,918	20,189	19,758	17,185
Income Tax	1,640	4,240	3,787	3,263	16,373	2,702	2,209	1,783	1,898	3,784

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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