



Johnson & Johnson (JNJ)

Updated April 18th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$162	5 Year CAGR Estimate:	10.8%	Market Cap:	\$419 billion
Fair Value Price:	\$181	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/22/23
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	06/06/23
Dividend Yield:	2.9%	5 Year Price Target	\$242	Years Of Dividend Growth:	61
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 \$98 to \$99 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 4th, 2023, Kenvue filed to be listed as an independent company.

On April 18th, 2023, Johnson & Johnson announced that it was increasing its quarterly dividend 5.3% to \$1.19, extending the company's dividend growth streak to 61 consecutive years.

Also on April 18th, 2023, Johnson & Johnson released first quarter results for the period ending March 31st, 2023. For the quarter, revenue grew 5.6% to \$24.7 billion, which was \$1.1 billion better than expected. Adjusted earnings-per-share of \$2.68 compared favorably to \$2.67 in the prior year and was \$0.18 more than anticipated.

Excluding unfavorably currency exchange, revenue grew 9%. Pharmaceutical revenues improved 4.2% on a reported basis (up 7.2% excluding currency exchange). Infectious disease surged 22.3% due to Covid-19 vaccines. Oncology was up 4.1% (+7.7%) as *Darzalex*, which treats multiple myeloma, continues to increase market share. *Imbruvica*, which treats lymphoma, led in market share once again, but suffered declines due to competitive pressures. Immunology was down 0.2% (+2.5%) as market share gains for *Stelara*, which treats immune-mediated inflammatory diseases, was offset by unfavorable patient mix and higher rebates. Consumer revenue improved 7.4% (+ 11.3%) as Skin Health/Beauty and OTC performed very well and Baby Care inched higher. Excluding the impact of currency exchange, all business lines showed growth from the prior year. MedTech was higher by 7.3% (+11%) for the quarter, led by a nearly 39% increase in interventional solutions. All other businesses were flat or up low single-digits.

Johnson & Johnson offered revised guidance for 2023 as well. The company now expects revenue in a range of \$97.9 billion to \$98.9 billion, up from \$96.9 billion to \$97.9 billion previously. Adjusted earnings-per-share is forecasted to be in a range of \$10.60 to \$10.70, up from of \$10.45 to \$10.65 previously. We have updated 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	\$10.65	\$14.25
DPS	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	\$4.04	\$4.19	\$4.45	\$4.76	\$6.37
Shares¹	2821	2783	2755	2707	2683	2650	2684	2669	2670	2661	2606	2575

¹ In millions of shares.

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



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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 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.

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	15.2	17.0
Avg. Yld.	3.0%	2.7%	3.0%	2.8%	2.6%	2.7%	2.8%	2.7%	2.4%	2.5%	2.9%	2.6%

Shares of Johnson & Johnson are down \$4, or 2.4%, since our January 24th, 2023 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 15.2, which is below our target price-to-earnings ratio of 17. Multiple expansion could add 2.2% to annual returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

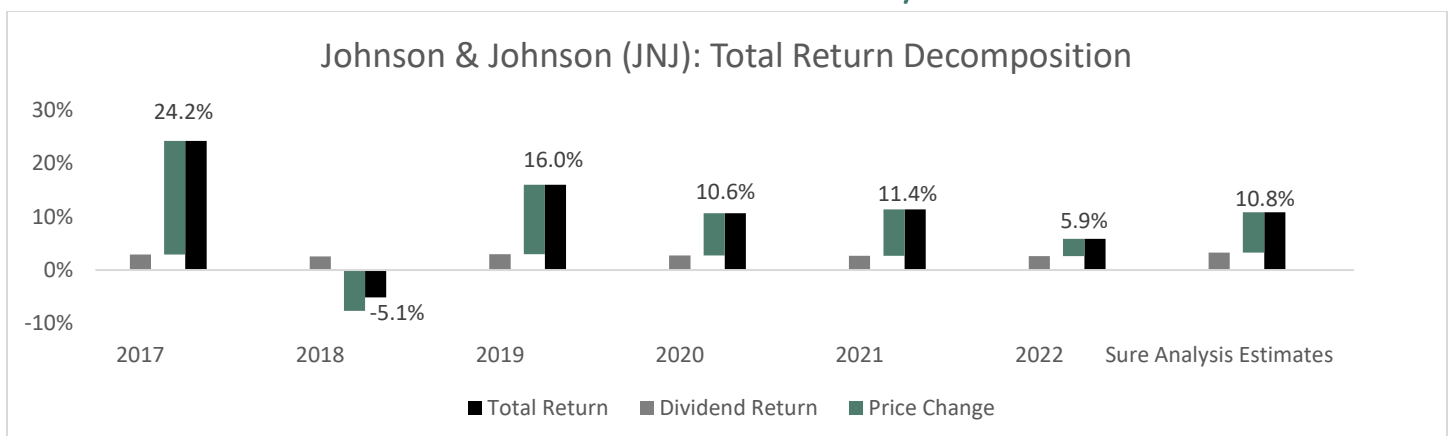
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	47%	48%	54%	53%	46%	43%	44%	50%	43%	44%	45%	45%

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. 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

After first quarter earnings results, Johnson & Johnson is expected to offer a total annual return of 10.8% through 2028, up from our prior forecast of 10.0%. Our projected return stems from a 6% earnings growth rate, a starting yield of 2.9%, and a small contribution from multiple expansion. Johnson & Johnson showed strength in all areas, particularly the medical device segment. 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 \$2 to \$242 due to guidance for 2023 and continue 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	132683	130358	133411	141208	157303	152954	157728	174894	182018	187378
Cash & Equivalents	20927	14523	13732	18972	17824	18107	17305	13985	14487	14127
Acc. Receivable	11713	10985	10734	11699	13490	14098	14481	13576	15283	16160
Inventories	7878	8184	8053	8144	8765	8599	9020	9344	10387	12483
Goodwill & Int.	50745	49054	47393	49681	85134	78064	81282	89795	81638	93556
Total Liabilities	58630	60606	62261	70790	97143	93202	98257	111616	107995	110574
Accounts Payable	6266	7633	6668	6918	7310	7537	8544	9505	11055	11703
Long-Term Debt	18180	18760	19861	27126	34581	30480	27696	35266	33751	39659
Total Equity	74053	69752	71150	70418	60160	59752	59471	63278	74023	76804
LTD/E Ratio	0.25	0.27	0.28	0.39	0.57	0.51	0.47	0.56	0.46	0.52

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.9%	12.4%	11.7%	12.0%	0.9%	9.9%	9.7%	8.8%	11.7%	9.7%
Return on Equity	19.9%	22.7%	21.9%	23.4%	2.0%	25.5%	25.4%	24.0%	30.4%	23.8%
ROIC	16.0%	18.1%	17.2%	17.5%	1.4%	16.5%	17.0%	15.8%	20.2%	16.0%
Shares Out.	2821	2783	2755	2707	2683	2650	2684	2669	2667	2661
Revenue/Share	24.79	25.95	24.91	25.78	27.85	29.90	30.57	30.92	35.07	35.64
FCF/Share	4.80	5.24	5.73	5.57	6.48	6.79	7.42	7.56	7.39	6.45

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

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