Kenvue Inc. (KVUE)

Updated July 31st, 2023 by Nathan Parsh

Key Metrics

Current Price:	$24.40	**5 Year CAGR Estimate:**	0.7%	**Market Cap:**	$45 B
Fair Value Price:	$18.06	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	08/25/23
% Fair Value:	135%	**5 Year Valuation Multiple Estimate:**	5.8%	**Dividend Payment Date:**	09/07/23
Dividend Yield:	3.3%	**5 Year Price Target**	$21	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

On May 4th, 2023, Johnson & Johnson (JNJ) completed its split off of its consumer healthcare group, called Kenvue Inc. Kenvue has three segments, including Self Care, Skin Health and Beauty, and Essential Health. Self Care's product portfolio includes cough, cold, allergy, smoking cessation, and pain care products among others. Skin Health and Beauty holds products such as face, body, hair, and sun care. Essential Health contains products for women's health, wound care, oral care, and baby care. Well-known brands in Kenvue's product line up include Tylenol, Listerine, Band-Aid, Neutrogena, Nicorette, and Zyrtec. These businesses contributed approximately 17% of Johnson & Johnson's annual revenue.

On July 24th, 2023, Johnson & Johnson announced that it will offer at least 80.1% of its Kenvue stake, roughly 1.5 billion shares, in exchange for JNJ common stock. The parent company currently holds an 89.6% ownership stake in Kenvue. The exchange offer is voluntary for Johnson & Johnson investors as they can elect to exchange all, some, or none of their shares.

On July 20th, 2023, Kenvue announced its first-ever quarterly dividend of $0.20 per share to be distributed on September 7th, 2023.

Also on July 20th, 2023, Kenvue reported second quarter earnings results for the period ending July 2nd, 2023. Revenue grew 5.4% to $4 billion, which was $40 million above what analysts had anticipated. Adjusted earnings-per-share of $0.32 was $0.02 more than expected.

Organic sales grew 7.7% as currency exchange was a headwind during the period. Growth came from price increases and better product mix, especially in the pain care and cough, cold, and flu product lines. Volume did decline 1.7% from the prior year. However, much of this volume decline was due to portfolio changes as well as the suspension of selling personal care products in Russia due to that country's invasion of Ukraine. Removing these items, volume was essentially unchanged. Kenvue also provided an outlook for 2023. The company expects revenue growth to be in a range of 4.5% to 5.5%, with organic growth to be up 5.5% to 6.5%. Kenvue projects adjusted earnings-per-share to be in a range of $1.26 to $1.31 for the year, slightly ahead of consensus estimates of $1.25.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	---	---	---	---	***$1.29***	***$1.50***
DPS	---	---	---	---	---	---	---	---	---	---	***$0.80***	***$0.93***
Shares[1]	---	---	---	---	---	---	---	---	---	---	***1,855***	***1,855***

Johnson & Johnson produced annual earnings growth of 7% for the 2013 to 2022 period as the company's diversification allowed it to be one of the more stable companies in the market place. Kenvue consists of just the consumer products businesses, which were often produced the lowest levels of growth. Therefore, we expect that Kenvue will grow earnings-per-share by 3% annually through 2028.

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[1] In millions of shares.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Johnson & Johnson's dividend growth streak of 61 consecutive years is one of the longest in the market place. The company is both a Dividend King and a Dividend Aristocrat. We believe that penchant for dividend growth is in Kenvue's business DNA. The annualized dividend of $0.80 per share represents a dividend yield of 3.3%, which is twice the average of the S&P 500 Index. We also note that this yield is above Johnson & Johnson's 10-year average yield of 2.7%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	---	---	---	*18.9*	*14.0*
Avg. Yld.	---	---	---	---	---	---	---	---	---	---	*3.3%*	*4.4%*

Shares of Kenvue have declined almost 8% since the IPO and the stock is trading at nearly 19 times expected earnings-per-share for 2023. For context, Johnson & Johnson shares have an average price-to-earnings ratio of close to 19 since 2013. Countering the fact that Kenvue holds some of the industry leading brands with that its products were the lower margin businesses within the parent company, we have a target price-to-earnings ratio of 14 for the stock. This implies a headwind from multiple contraction. Therefore, valuation could reduce annual returns by 5.8% were the stock to reach our target multiple by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

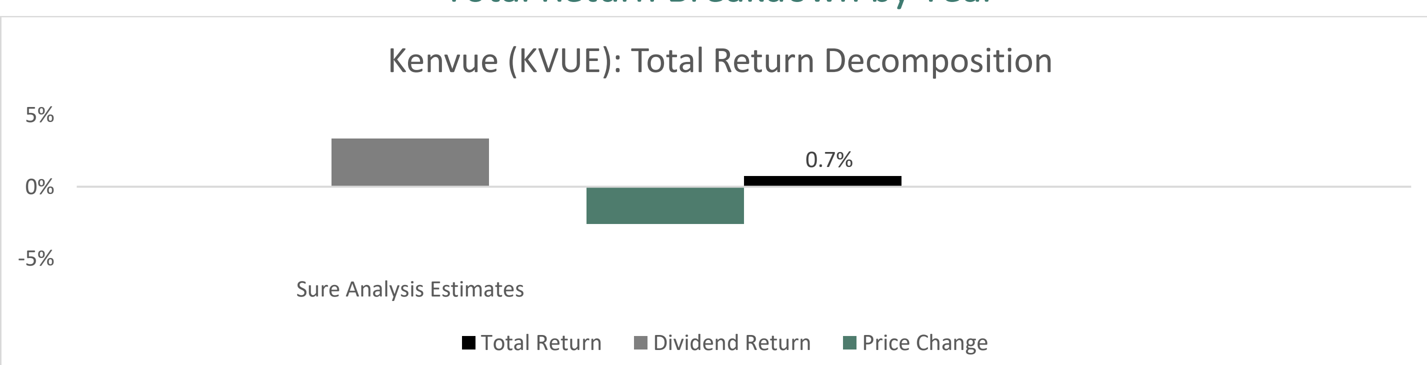
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	---	---	*62%*	*62%*

Johnson & Johnson has proven to be one of the most successful companies at navigating recessions. Though Kenvue no longer benefits from its parent company's diversification, we believe that it would prove equally effective at handling economic downturns. The company's products, such as Band-Aid and Tylenol, are needed regardless of the state of the economy as they deal directly with consumers' health and well-being. As trusted products, they would like continue to perform well even under adverse conditions.

Final Thoughts & Recommendation

Following second quarter results, Kenvue is projected to offer an annual return of 0.7% through 2028. This return stems from 3% earnings growth and a starting yield of 3.3% that are offset by a valuation headwind. After decades as part of Johnson & Johnson, Kenvue became an independent entity early in the second quarter. The company produced a solid initial quarter, beating both revenue and earnings estimates. Shareholders will also receive their first dividend, something the parent company investors have enjoyed for more than six decades. While we find the legacy business to be recession-resistant and the yield to be generous, the total return profile is unattractive at the current time. We have a five-year price target of $21. We initiate coverage of Kenvue with a sell rating 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	---	---	---	---	---	---	---	---	---	---
Gross Profit	---	---	---	---	---	---	---	---	---	---
Gross Margin	---	---	---	---	---	---	---	---	---	---
D&A Exp.	---	---	---	---	---	---	---	---	---	---
Operating Profit	---	---	---	---	---	---	---	---	---	---
Operating Margin	---	---	---	---	---	---	---	---	---	---
Net Profit	---	---	---	---	---	---	---	---	---	---
Net Margin	---	---	---	---	---	---	---	---	---	---
Free Cash Flow	---	---	---	---	---	---	---	---	---	---
Income Tax	---	---	---	---	---	---	---	---	---	---

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	---	---	---	---	---	---	---
Cash & Equivalents	---	---	---	---	---	---	---	---	---	---
Acc. Receivable	---	---	---	---	---	---	---	---	---	---
Inventories	---	---	---	---	---	---	---	---	---	---
Goodwill & Int.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	---	---	---	---	---	---	---	---	---	---
Accounts Payable	---	---	---	---	---	---	---	---	---	---
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Total Equity	---	---	---	---	---	---	---	---	---	---
LTD/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	---	---	---	---	---	---
Return on Equity	---	---	---	---	---	---	---	---	---	---
ROIC	---	---	---	---	---	---	---	---	---	---
Shares Out.	---	---	---	---	---	---	---	---	---	---
Revenue/Share	---	---	---	---	---	---	---	---	---	---
FCF/Share	---	---	---	---	---	---	---	---	---	---

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