



# Johnson & Johnson (JNJ)

Updated October 20<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

|                             |       |  |       |                                  |               |
|-----------------------------|-------|--|-------|----------------------------------|---------------|
| <b>Current Price:</b>       | \$153 | <b>5 Year CAGR Estimate:</b>               | 11.0% | <b>Market Cap:</b>               | \$369 billion |
| <b>Fair Value Price:</b>    | \$172 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date:</b>         | 11/20/23      |
| <b>% Fair Value:</b>        | 89%   | <b>5 Year Valuation Multiple Estimate:</b> | 2.3%  | <b>Dividend Payment Date:</b>    | 12/05/23      |
| <b>Dividend Yield:</b>      | 3.1%  | <b>5 Year Price Target</b>                 | \$230 | <b>Years Of Dividend Growth:</b> | 61            |
| <b>Dividend Risk Score:</b> | A     | <b>Retirement Suitability Score:</b>       | A     | <b>Rating:</b>                   | Buy           |

## Overview & Current Events

Johnson & Johnson is a diversified health care company and a leader in the area of pharmaceuticals and medical devices. Johnson & Johnson was founded in 1886 and employs more than 152,000 people around the world. The company is projected to generate approximately \$84 billion in revenue this year.

On January 4<sup>th</sup>, 2023, Kenvue filed to be listed as an independent company.

On April 18<sup>th</sup>, 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.

On May 4<sup>th</sup>, 2023, Kenvue, began trading on the New York Stock Exchange under the ticker symbol KVUE.

On October 17<sup>th</sup>, 2023, Johnson & Johnson reported results for the third quarter for the period ending September 30<sup>th</sup>, 2023. For the quarter, revenue grew 6.8% to \$21.35 billion, which was \$300 million above estimates. Adjusted earnings-per-share of \$2.66 compared favorably to \$2.55 in the prior year and was \$0.14 higher than expected.

Pharmaceutical revenues grew 5.1% on a reported basis. Infectious disease fell nearly 34%, mostly due to reduced Covid-19 vaccine revenue. Oncology was higher by 11.5% as *Darzalex*, which treats multiple myeloma, continues to increase market share. *Imbruvica*, which treats lymphoma, still leads in market share, but has suffered declines due to competitive pressures. Immunology increased 13.1%. *Stelara*, which treats immune-mediated inflammatory diseases, benefited from market growth and patient mix. MedTech had sales growth of 10% for the period. Interventional Solutions surged 47% due to strong demand for new products. All other businesses were up a low single-digit percentage.

Johnson & Johnson offered revised guidance for 2023 as well. The company now expects revenue of \$83.6 billion to \$84 billion for the year. Adjusting for the spinoff of Kenvue, prior guidance had called for revenue of \$83.2 billion to \$84 billion. Adjusted earnings-per-share is projected in a range of \$10.07 to \$10.13. Again adjusting for the spinoff, this compared to \$10.00 to \$10.10 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           |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|----------------|----------------|
| <b>EPS</b>                | \$5.52 | \$5.70 | \$5.48 | \$5.93 | \$7.30 | \$8.18 | \$8.68 | \$8.03 | \$9.80 | \$10.15 | <b>\$10.10</b> | <b>\$13.52</b> |
| <b>DPS</b>                | \$2.59 | \$2.76 | \$2.95 | \$3.15 | \$3.32 | \$3.54 | \$3.80 | \$4.04 | \$4.19 | \$4.45  | <b>\$4.76</b>  | <b>\$6.37</b>  |
| <b>Shares<sup>1</sup></b> | 2821   | 2783   | 2755   | 2707   | 2683   | 2650   | 2684   | 2669   | 2670   | 2661    | <b>2557</b>    | <b>2535</b>    |

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.

<sup>1</sup> 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      | 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 | 15.1 | 17.0 |
| Avg. Yld. | 3.0% | 2.7% | 3.0% | 2.8% | 2.6% | 2.7% | 2.8% | 2.7% | 2.4% | 2.5% | 3.1% | 2.8% |

Shares of Johnson & Johnson are down \$15, or 8.9%, since our July 20<sup>th</sup>, 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 15.1, which is below our target price-to-earnings ratio of 17. Multiple expansion could add 2.3% to annual returns through 2028.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

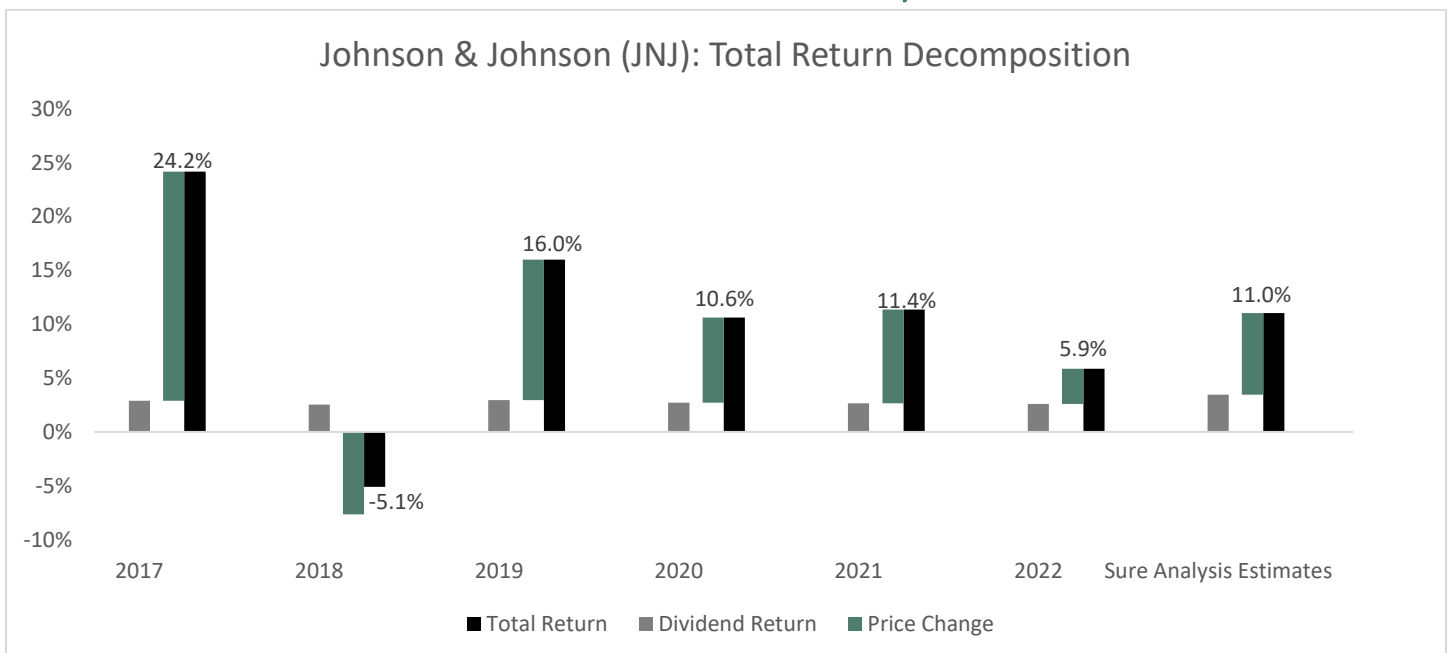
| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 47%  | 48%  | 54%  | 53%  | 46%  | 43%  | 44%  | 50%  | 43%  | 44%  | 47%  | 47%  |

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 recent separation of the consumer businesses 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 third quarter earnings results, Johnson & Johnson is expected to offer a total annual return of 11.0% through 2028, up slightly from our prior forecast of 10.2%. Our projected return stems from a 6% earnings growth rate, a starting yield of 3.1%, and a small contribution from multiple expansion. Johnson & Johnson continues to post solid results following the spinoff of its consumer business. We have lowered our five-year price target \$15 to \$230 due to revised guidance for 2023, but we continue to 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   |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b>          | 71,312 | 74,331 | 70,074 | 71,890 | 76,450 | 81,581 | 82,059 | 82,584 | 93,775 | 94,943 |
| <b>Gross Profit</b>     | 48,970 | 51,585 | 48,538 | 50,101 | 51,011 | 54,490 | 54,503 | 54,157 | 63,920 | 63,854 |
| <b>Gross Margin</b>     | 68.7%  | 69.4%  | 69.3%  | 69.7%  | 66.7%  | 66.8%  | 66.4%  | 65.6%  | 68.2%  | 67.3%  |
| <b>D&amp;A Exp.</b>     | 4,104  | 3,895  | 3,746  | 3,754  | 5,642  | 6,929  | 7,009  | 7,231  | 7,390  | 6,970  |
| <b>Operating Profit</b> | 18,957 | 21,137 | 18,289 | 20,891 | 18,897 | 21,175 | 20,970 | 19,733 | 23,647 | 23,703 |
| <b>Operating Margin</b> | 26.6%  | 28.4%  | 26.1%  | 29.1%  | 24.7%  | 26.0%  | 25.6%  | 23.9%  | 25.2%  | 25.0%  |
| <b>Net Profit</b>       | 13,831 | 16,323 | 15,409 | 16,540 | 1,300  | 15,297 | 15,119 | 14,714 | 20,878 | 17,941 |
| <b>Net Margin</b>       | 19.4%  | 22.0%  | 22.0%  | 23.0%  | 1.7%   | 18.8%  | 18.4%  | 17.8%  | 22.3%  | 18.9%  |
| <b>Free Cash Flow</b>   | 13,819 | 14,996 | 16,106 | 15,541 | 17,777 | 18,531 | 19,918 | 20,189 | 19,758 | 17,185 |
| <b>Income Tax</b>       | 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   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>           | 132683 | 130358 | 133411 | 141208 | 157303 | 152954 | 157728 | 174894 | 182018 | 187378 |
| <b>Cash &amp; Equivalents</b> | 20927  | 14523  | 13732  | 18972  | 17824  | 18107  | 17305  | 13985  | 14487  | 14127  |
| <b>Acc. Receivable</b>        | 11713  | 10985  | 10734  | 11699  | 13490  | 14098  | 14481  | 13576  | 15283  | 16160  |
| <b>Inventories</b>            | 7878   | 8184   | 8053   | 8144   | 8765   | 8599   | 9020   | 9344   | 10387  | 12483  |
| <b>Goodwill &amp; Int.</b>    | 50745  | 49054  | 47393  | 49681  | 85134  | 78064  | 81282  | 89795  | 81638  | 93556  |
| <b>Total Liabilities</b>      | 58630  | 60606  | 62261  | 70790  | 97143  | 93202  | 98257  | 111616 | 107995 | 110574 |
| <b>Accounts Payable</b>       | 6266   | 7633   | 6668   | 6918   | 7310   | 7537   | 8544   | 9505   | 11055  | 11703  |
| <b>Long-Term Debt</b>         | 18180  | 18760  | 19861  | 27126  | 34581  | 30480  | 27696  | 35266  | 33751  | 39659  |
| <b>Total Equity</b>           | 74053  | 69752  | 71150  | 70418  | 60160  | 59752  | 59471  | 63278  | 74023  | 76804  |
| <b>LTD/E Ratio</b>            | 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  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 10.9% | 12.4% | 11.7% | 12.0% | 0.9%  | 9.9%  | 9.7%  | 8.8%  | 11.7% | 9.7%  |
| <b>Return on Equity</b> | 19.9% | 22.7% | 21.9% | 23.4% | 2.0%  | 25.5% | 25.4% | 24.0% | 30.4% | 23.8% |
| <b>ROIC</b>             | 16.0% | 18.1% | 17.2% | 17.5% | 1.4%  | 16.5% | 17.0% | 15.8% | 20.2% | 16.0% |
| <b>Shares Out.</b>      | 2821  | 2783  | 2755  | 2707  | 2683  | 2650  | 2684  | 2669  | 2667  | 2661  |
| <b>Revenue/Share</b>    | 24.79 | 25.95 | 24.91 | 25.78 | 27.85 | 29.90 | 30.57 | 30.92 | 35.07 | 35.64 |
| <b>FCF/Share</b>        | 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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