



# Johnson & Johnson (JNJ)

Updated January 25<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$159	<b>5 Year CAGR Estimate:</b>	11.2%	<b>Market Cap:</b>	\$383 billion
<b>Fair Value Price:</b>	\$181	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	02/16/24
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.6%	<b>Dividend Payment Date:</b>	03/05/24
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$242	<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 \$89 billion in revenue this year.

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 January 23<sup>rd</sup>, 2024, Johnson & Johnson announced fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2023. For the quarter, revenue grew 7.3% to \$21.4 billion, which was \$380 million more than expected. Adjusted earnings-per-share of \$2.29 compared to \$2.35 in the prior year, but was \$0.01 ahead of estimates. For the year, revenue grew 6.5% to \$85.2 billion while adjusted earnings-per-share of \$9.92 compared to \$10.15. Adjusting for the spinoff off Kenvue, adjusted earnings-per-share increased 11.1% from \$8.93 in the prior year.

Excluding Covid-19 vaccine sales, the company's top-line improved 9.5% in the fourth quarter. Pharmaceutical revenues grew 4.2% on a reported basis. Infectious disease fell nearly 45%, mostly due to reduced Covid-19 vaccine revenue. Oncology performed well, with sales up 17.6% due to continued strength in *Darzalex*, which treats multiple myeloma. *Imbruvica*, which treats lymphoma, still leads in market share, but has suffered declines due to competitive pressures. Immunology was higher by 11.6%. *Stelara*, which treats immune-mediated inflammatory diseases, once again benefited from market growth and share gains. Revenue for MedTech improved 13.3%. Interventional Solutions was the primary contributor to results as sales were up 51.9% from the prior year. New products and an increase in global procedures drove growth for the quarter. All other businesses were up a mid-single-digit growth rate.

Johnson & Johnson offered guidance for 2024 as well. The company expects revenue in a range of \$88.2 billion to \$89 billion, representing sales growth of 5% to 6%, and adjusted earnings-per-share in a range of \$10.55 to \$10.75 for the year. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.68	\$8.03	\$9.80	\$10.15	\$9.92	<b>\$10.65</b>	<b>\$14.25</b>
<b>DPS</b>	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	\$4.04	\$4.19	\$4.45	\$4.70	<b>\$4.76</b>	<b>\$6.37</b>
<b>Shares<sup>1</sup></b>	2783	2755	2707	2683	2650	2684	2669	2670	2661	2431	<b>2431</b>	<b>2415</b>

Johnson & Johnson has grown earnings over the past 10 years at a rate of 6.3%. 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 2029 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.7	18.2	19.1	23.9	23.7	15.6	18.2	17.5	17.4	15.8	14.9	17.0
Avg. Yld.	2.7%	3.0%	2.8%	2.6%	2.7%	2.8%	2.7%	2.4%	2.5%	3.0%	3.0%	2.6%

Shares of Johnson & Johnson have increased \$6, or 3.9%, since our October 20<sup>th</sup>, 2023 update. Using the current share price and guidance for earnings-per-share for the year, Johnson & Johnson trades with a price-to-earnings ratio of 14.9, which is below our target price-to-earnings ratio of 17. Multiple expansion could add 2.6% to annual returns through 2029.

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

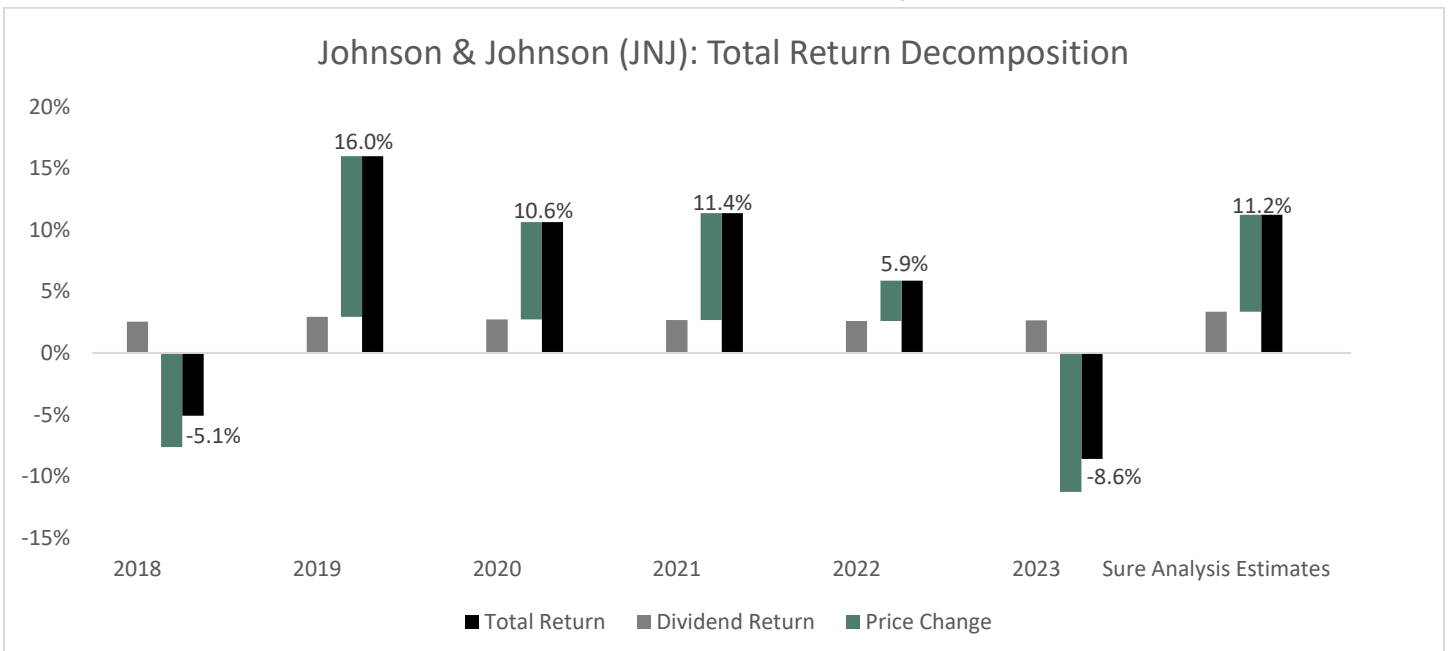
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	48%	54%	53%	46%	43%	44%	50%	43%	44%	47%	45%	45%

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 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

After fourth quarter earnings results, Johnson & Johnson is expected to offer a total annual return of 11.2% through 2029, up slightly from our prior forecast of 11.0%. Our projected return stems from a 6% earnings growth rate, a starting yield of 3.0%, and a small contribution from multiple expansion. Johnson & Johnson continues to post solid results following the spinoff of its consumer business. We have raised our five-year price target \$12 to \$242 due to guidance for 2024, 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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