



Kenvue Inc. (KVUE)

Updated February 12th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$19.56	5 Year CAGR Estimate:	3.3%	Market Cap:	\$37.5 B
Fair Value Price:	\$16.10	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	02/13/24
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	02/28/24
Dividend Yield:	4.1%	5 Year Price Target	\$19	Years Of Dividend Growth:	61
Dividend Risk Score:	A	Retirement Suitability Score:	A	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. While Kenvue is a new, standalone business, it carries Johnson & Johnson's 61-year dividend increase streak.

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 January 25th, 2024, Kenvue announced its third-ever quarterly dividend of \$0.20 per share to be distributed on February 28th, 2024.

On February 8th, 2024, Kenvue announced fourth quarter and full year earnings results for the period ending December 31st, 2023. Revenue declined 2.7% to \$3.7 billion and was \$90 million below estimates. Adjusted earnings-per-share totaled \$0.31. For 2023, revenue grew 3.3% to \$15.4 billion while adjusted earnings-per-share totaled \$1.29.

Organic sales fell 2.4% for the quarter, but were higher by 5% for the year. For the quarter, pricing added 5.8% to results, but this was more than offset by an 8.2% decrease in volume. Results were up against a tough comparable period due to lapping a strong and early start to the cold, cough, and flu season in 2022. Gross profit margin expanded 140 basis points to 54.3%.

Kenvue also provided an outlook for 2024. The company expects revenue growth to be in a range of 1.0% to 3.0%. Kenvue projects adjusted earnings-per-share to be in a range of \$1.10 to \$1.20 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
EPS	---	---	---	---	---	---	---	---	---	\$1.29	\$1.15	\$1.33
DPS	---	---	---	---	---	---	---	---	---	\$0.40	\$0.80	\$0.93
Shares¹	---	---	---	---	---	---	---	---	---	1,919	1,919	1,919

Johnson & Johnson produced annual earnings growth of 7% over the last decade 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 2029.

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 4.1%, which is nearly three times 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	---	---	---	---	---	16.0	17.0	14.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	1.9%	4.1%	5.0%

Shares of Kenvue have increased 2.1% since our November 12th, 2023 report. The stock is trading at 17 times expected earnings-per-share for 2024. For context, Johnson & Johnson shares have an average price-to-earnings ratio of close to 19 over the last decade. 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 14.0 for the stock. This implies a headwind from multiple contraction. Therefore, valuation could reduce annual returns by 3.8% through 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

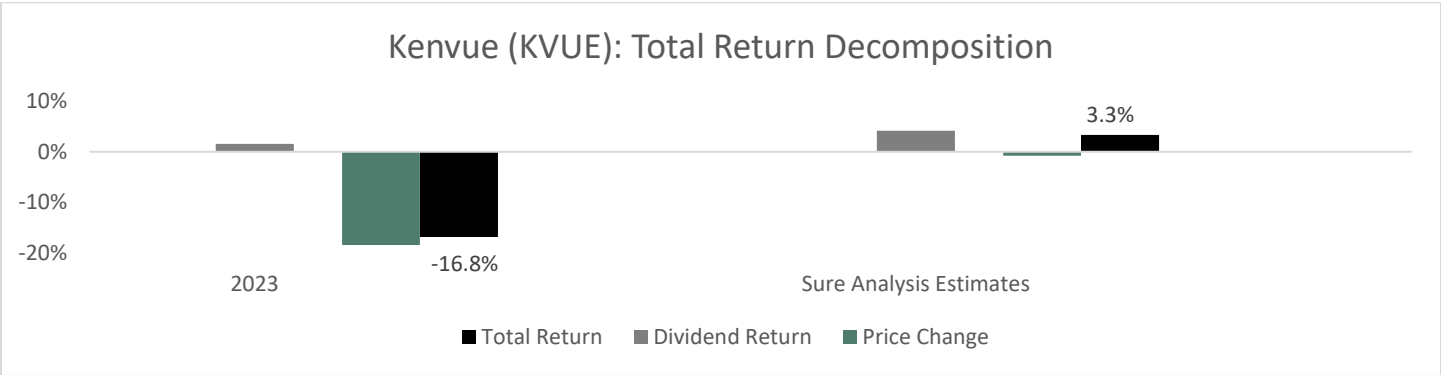
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	---	---	---	31%	70%	70%

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 fourth quarter results, Kenvue is projected to offer an annual return of 3.3% through 2029, down from 5.5% previously. This return stems from 3% earnings growth and a starting yield of 4.1% that are offset by a valuation headwind. After decades as part of Johnson & Johnson, Kenvue became an independent entity early in the second quarter of 2023. The company produced decent first year results. 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 \$19, but we now view shares of Kenvue as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	---	---	---	---	14,324	14,467	15,054	14,950	15,444
Gross Profit	---	---	---	---	---	7,662	7,848	8,419	8,220	8,643
Gross Margin	---	---	---	---	---	53.5%	54.2%	55.9%	55.0%	56.0%
SG&A Exp.	---	---	---	---	---	5,198	4,956	5,484	5,767	6,141
D&A Exp.	---	---	---	---	---	709	746	731	644	
Operating Profit	---	---	---	---	---	2,399	2,988	3,012	2,469	2,512
Operating Margin	---	---	---	---	---	16.7%	20.7%	20.0%	16.5%	16.3%
Net Profit	---	---	---	---	---	1,435	(879)	2,031	1,455	1,664
Net Margin	---	---	---	---	---	10.0%	-6.1%	13.5%	9.7%	10.8%
Free Cash Flow	---	---	---	---	---	2,709	3,168	39	2,150	
Income Tax	---	---	---	---	---	685	(137)	894	454	526

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	---	---	---	---		29,177	27,929	27,358	
Cash & Equivalents	---	---	---	---	---		618	740	1,170	
Acc. Receivable	---	---	---	---	---		1,858	2,074	2,034	
Inventories	---	---	---	---	---		1,685	1,702	2,189	
Goodwill & Int.	---	---	---	---	---		21,936	20,511	19,038	
Total Liabilities	---	---	---	---	---		10,821	7,530	16,361	
Accounts Payable	---	---	---	---	---		1,579	1,827	1,821	
Long-Term Debt	---	---	---	---	---	-	-	-	8,930	-
Total Equity	---	---	---	---	---		18,356	20,399	10,997	
LTD/E Ratio	---	---	---	---	---		-	-	0.81	

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	---	---	---			7.1%	5.3%	
Return on Equity	---	---	---	---	---			10.5%	9.3%	
ROIC	---	---	---	---	---			10.5%	7.2%	
Shares Out.	---	---	---	---	---					1,919
Revenue/Share	---	---	---	---	---	7.58	7.66	7.97	7.91	8.35
FCF/Share	---	---	---	---	---	1.43	1.68	0.02	1.14	

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

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