



Johnson & Johnson (JNJ)

Updated October 15th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$164	5 Year CAGR Estimate:	9.3%	Market Cap:	\$396 B
Fair Value Price:	\$169	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/26/24
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	12/10/24
Dividend Yield:	3.0%	5 Year Price Target	\$226	Years Of Dividend Growth:	62
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Johnson & Johnson is a diversified health care company and a leader in the area of innovative medicines and medical devices Johnson & Johnson was founded in 1886 and employs nearly 132,000 people around the world. The company is projected to generate more than \$89 billion in revenue this year.

On April 16th, 2024, Johnson & Johnson announced that it was increasing its quarterly dividend 4.2% to \$1.24, extending the company's dividend growth streak to 62 consecutive years.

On May 31st, 2024, Johnson & Johnson completed its \$13.1 billion purchase of cardiovascular medical device company Shockwave Medical.

On October 15th, 2024, Johnson & Johnson reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue increased 5.4% to \$22.5 billion, which topped estimates by \$330 million. Adjusted earnings-per-share of \$2.42 compared to \$2.82 in the prior year, but this was \$0.21 better than expected.

Excluding Covid-19 vaccine sales, the company's revenue grew 5.6% in the third quarter. Revenue for Innovative Medicines grew 4.9% on a reported basis, but improved 6.3% when excluding currency translation. Infectious Disease fell 2.7% on a reported basis, mostly due to reduced Covid-19 vaccine revenue, though the year-over-year declines are becoming less pronounced. Oncology was higher by 18.7% due to market share gains for *Darzalex*, which treats multiple myeloma. Immunology was down 4.7%. *Stelara*, which treats immune-mediated inflammatory diseases, was impacted by unfavorably patient mix and due to biosimilars that were introduced in the EU. Revenue for MedTech increased 5.8% on a reported basis and 6.4% when excluding the impact of currency exchange. Cardiovascular continues to post strong results, as sales were up 26.2% due to gains in both global procedures and new products.

Johnson & Johnson offered revised guidance for 2024 as well. The company now expects revenue in a range of \$89.4 billion to \$89.8 billion, up from \$89.2 billion to \$89.6 billion, \$88.7 billion to \$89.1 billion, and \$88.2 billion to \$89 billion previously. Adjusted earnings-per-share is now projected to be in a range of \$9.88 to \$9.98, down from \$10.00 to \$10.10, \$10.60 to \$10.75, and \$10.55 to \$10.75 previously. The company's earnings forecast was adjusted to include the costs of acquisitions. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.70	\$5.48	\$5.93	\$7.30	\$8.18	\$8.68	\$8.03	\$9.80	\$10.15	\$9.92	\$9.93	\$13.29
DPS	\$2.76	\$2.95	\$3.15	\$3.32	\$3.54	\$3.80	\$4.04	\$4.19	\$4.45	\$4.70	\$4.96	\$6.64
Shares¹	2783	2755	2707	2683	2650	2684	2669	2670	2661	2431	2428	2415

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, acquisitions, and share repurchases. This is consistent with Johnson & Johnson's earnings growth composition in the

¹ In millions of shares.

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



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past, however, most growth will come from revenue expansion as the buyback is good for a low-single-digit share reduction annually.

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	16.5	17.0
Avg. Yld.	2.7%	3.0%	2.8%	2.6%	2.7%	2.6%	2.5%	2.5%	3.0%	3.1%	3.0%	2.9%

Shares of Johnson & Johnson have increased \$8, or 5.1%, since our July 17th, 2024 update. Using guidance for earnings-per-share for the year, Johnson & Johnson trades with a price-to-earnings ratio of 16.5, which is below our target price-to-earnings ratio of 17.0. Multiple expansion could add 0.6% to annual returns through 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

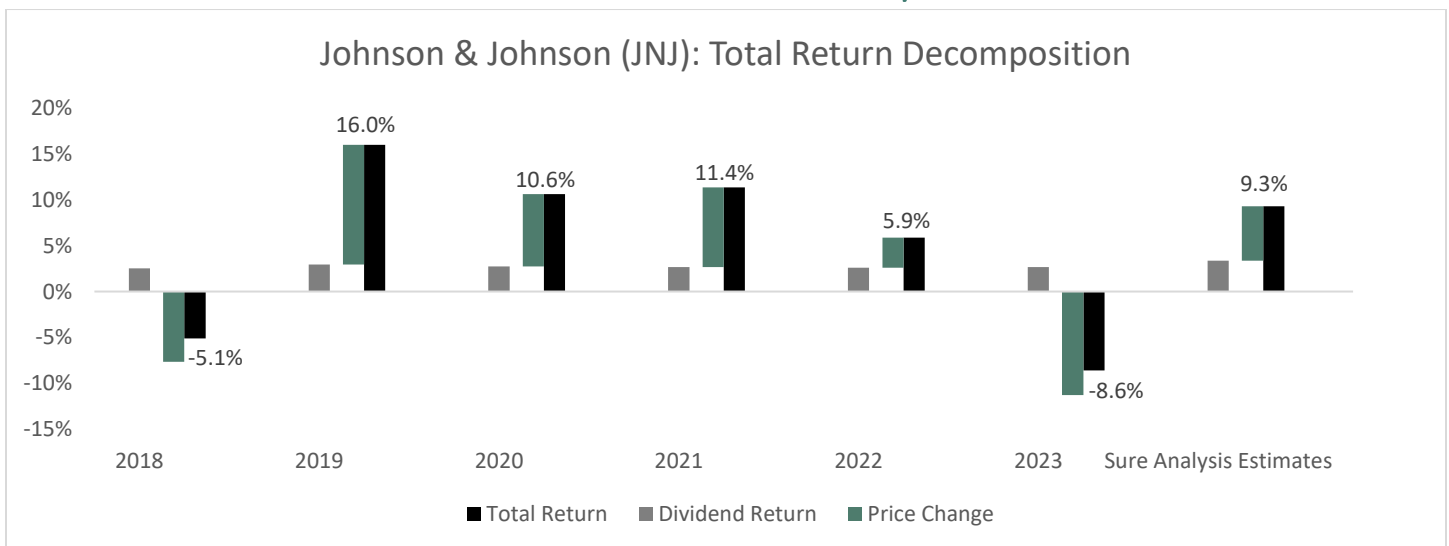
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	48%	54%	53%	46%	43%	44%	50%	43%	44%	47%	50%	50%

Even after 60+ years of dividend growth, 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, Innovative Medicines 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 9.3% through 2029, down from our prior forecast of 10.6%. 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 see solid results in both of its business segments. Shares trade at a slightly discounted valuation as well. However, we have lowered our five-year price target \$3 to \$226 due to revised guidance for 2024. We now rate shares of Johnson & Johnson as a hold 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	74,331	70,074	71,890	76,450	81,581	82,059	82,584	93,775	94,943	85,159
Gross Profit	51,585	48,538	50,101	51,011	54,490	54,503	54,157	63,920	63,854	58,606
Gross Margin	69.4%	69.3%	69.7%	66.7%	66.8%	66.4%	65.6%	68.2%	67.3%	68.8%
D&A Exp.	3,895	3,746	3,754	5,642	6,929	7,009	7,231	7,390	6,970	7,486
Operating Profit	21,137	18,289	20,891	18,897	21,175	20,970	19,733	23,647	23,703	22,009
Operating Margin	28.4%	26.1%	29.1%	24.7%	26.0%	25.6%	23.9%	25.2%	25.0%	25.8%
Net Profit	16,323	15,409	16,540	1,300	15,297	15,119	14,714	20,878	17,941	35,153
Net Margin	22.0%	22.0%	23.0%	1.7%	18.8%	18.4%	17.8%	22.3%	18.9%	41.3%
Free Cash Flow	14,996	16,106	15,541	17,777	18,531	19,918	20,189	19,758	17,185	17,778
Income Tax	4,240	3,787	3,263	16,373	2,702	2,209	1,783	1,898	3,784	1,736

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	130.4	133.4	141.2	157.3	153.0	157.7	174.9	182.0	187.4	167.6
Cash & Equivalents	14,523	13,732	18,972	17,824	18,107	17,305	13,985	14,487	14,127	21,859
Acc. Receivable	10,985	10,734	11,699	13,490	14,098	14,481	13,576	15,283	16,160	14,873
Inventories	8,184	8,053	8,144	8,765	8,599	9,020	9,344	10,387	12,483	11,181
Goodwill & Int.	49,054	47,393	49,681	85,134	78,064	81,282	89,795	81,638	93,556	70,733
Total Liabilities	60,606	62,261	70,790	97,143	93,202	98,257	111,616	107,995	110,574	98,784
Accounts Payable	7,633	6,668	6,918	7,310	7,537	8,544	9,505	11,055	11,703	9,632
Long-Term Debt	18,760	19,861	27,126	34,581	30,480	27,696	35,266	33,751	39,659	29,332
Total Equity	69,752	71,150	70,418	60,160	59,752	59,471	63,278	74,023	76,804	68,774
LTD/E Ratio	0.27	0.28	0.39	0.57	0.51	0.47	0.56	0.46	0.52	0.43

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.4%	11.7%	12.0%	0.9%	9.9%	9.7%	8.8%	11.7%	9.7%	19.8%
Return on Equity	22.7%	21.9%	23.4%	2.0%	25.5%	25.4%	24.0%	30.4%	23.8%	48.3%
ROIC	18.1%	17.2%	17.5%	1.4%	16.5%	17.0%	15.8%	20.2%	16.0%	32.8%
Shares Out.	2783	2755	2707	2683	2650	2684	2669	2667	2661	2560
Revenue/Share	25.95	24.91	25.78	27.85	29.90	30.57	30.92	35.07	35.64	33.26
FCF/Share	5.24	5.73	5.57	6.48	6.79	7.42	7.56	7.39	6.45	6.94

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

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