



# Kenvue Inc. (KVUE)

Updated November 8<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

|                             |         |  |       |                                  |          |
|-----------------------------|---------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$23.48 | <b>5 Year CAGR Estimate:</b>               | -0.3% | <b>Market Cap:</b>               | \$45 B   |
| <b>Fair Value Price:</b>    | \$16.10 | <b>5 Year Growth Estimate:</b>             | 3.0%  | <b>Ex-Dividend Date:</b>         | 11/13/24 |
| <b>% Fair Value:</b>        | 146%    | <b>5 Year Valuation Multiple Estimate:</b> | -7.3% | <b>Dividend Payment Date:</b>    | 11/27/24 |
| <b>Dividend Yield:</b>      | 3.5%    | <b>5 Year Price Target</b>                 | \$19  | <b>Years Of Dividend Growth:</b> | 62       |
| <b>Dividend Risk Score:</b> | A       | <b>Retirement Suitability Score:</b>       | A     | <b>Rating:</b>                   | Sell     |

## Overview & Current Events

On May 4<sup>th</sup>, 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 60+ year dividend increase streak.

On July 25<sup>th</sup>, 2024, Kenvue announced that it was raising its quarterly dividend 2.5% to \$0.205.

On November 7<sup>th</sup>, 2024, Kenvue reported third quarter earnings results for the period ending September 30<sup>th</sup>, 2024. Revenue decreased 0.5% to \$3.9 billion, which was \$20 million less than expected. Adjusted earnings-per-share of \$0.28 compared unfavorably to \$0.31 last year, but this was \$0.01 above estimates.

Organic sales were up 0.9% for the quarter, which follows a 3.6% improvement last year. For the quarter, pricing and mix benefit of 2.5% was offset by a 1.6% decline in volume. Once again, volume growth in Essential Health was offset by weakness in Skin Health and Beauty and Self Care. Gross profit margin expanded 100 basis points to 58.5%.

Kenvue also reaffirmed prior guidance for 2024. The company continues to expect revenue growth to be in a range of 1.0% to 3.0% and adjusted earnings-per-share in a range of \$1.10 to \$1.20 for the year.

## Growth on a Per-Share Basis

| Year                      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023   | 2024          | 2029          |
|---------------------------|------|------|------|------|------|------|------|------|------|--------|---------------|---------------|
| <b>EPS</b>                | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | \$1.29 | <b>\$1.15</b> | <b>\$1.33</b> |
| <b>DPS</b>                | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | \$0.40 | <b>\$0.82</b> | <b>\$0.95</b> |
| <b>Shares<sup>1</sup></b> | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 1,919  | <b>1,924</b>  | <b>1,920</b>  |

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 often produced the lowest levels of growth. Therefore, we expect that Kenvue will grow earnings-per-share by 3% annually through 2029.

Johnson & Johnson's dividend growth streak of more than six decades 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 \$0.82 per share represents a dividend yield of 3.5%, 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% for additional context.

<sup>1</sup> In millions of shares.

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## Valuation Analysis

| Year      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now         | 2029        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 16.0 | <b>20.4</b> | <b>14.0</b> |
| Avg. Yld. | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 1.9% | <b>3.5%</b> | <b>5.1%</b> |

Shares of Kenvue have increased 14% since our August 6<sup>th</sup>, 2024 report. The stock is trading at more than 20 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 7.3% through 2029.

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

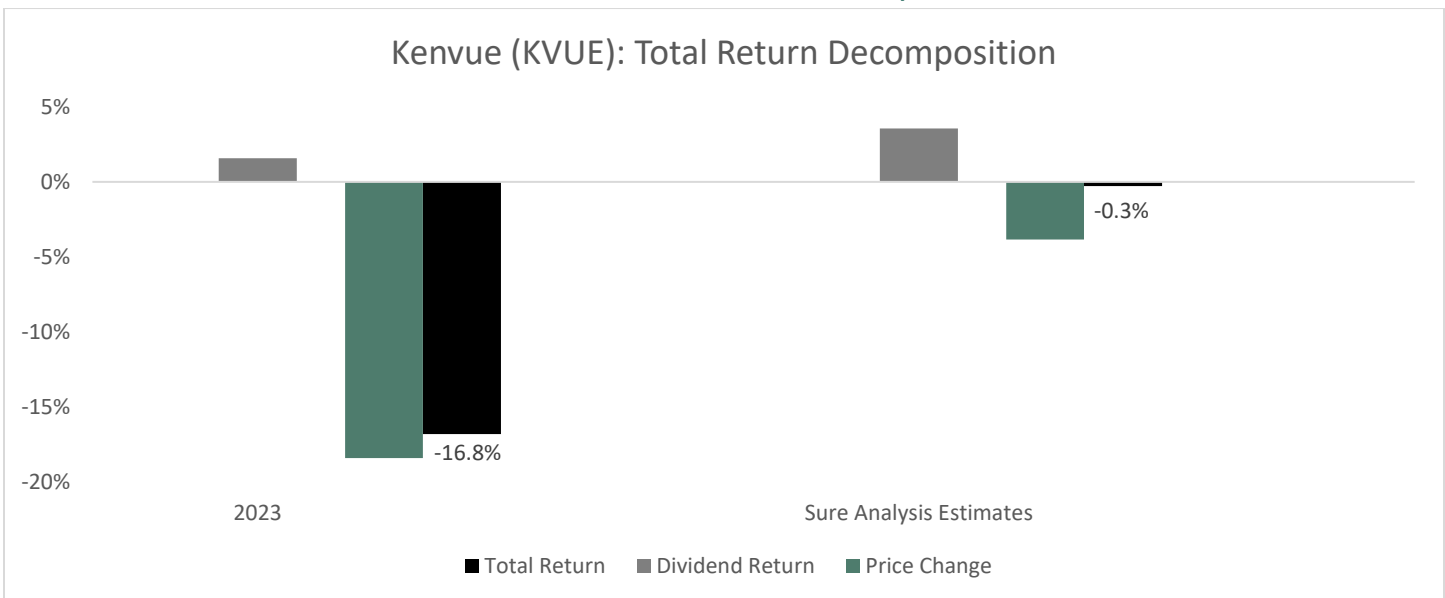
| Year   | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024       | 2029       |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 31%  | <b>71%</b> | <b>71%</b> |

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

After third quarter results, Kenvue is projected to offer an annual return of -0.3% through 2029, down from 2.4% previously. This return stems from 3% earnings growth and a starting yield of 3.5% that are offset by a valuation headwind. After decades as part of Johnson & Johnson, Kenvue became an independent entity early in 2023. The company has produced decent results in its infancy as a standalone company. 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 reaffirm our five-year price target of \$19. We continue to 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    | 627    |
| Operating Profit | ---  | ---  | ---  | ---  | ---  | 2,399  | 2,988  | 3,012  | 2,469  | 2,484  |
| Operating Margin | ---  | ---  | ---  | ---  | ---  | 16.7%  | 20.7%  | 20.0%  | 16.5%  | 16.1%  |
| 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  | 2,699  |
| 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 | 27,851 |
| Cash & Equivalents | ---  | ---  | ---  | ---  | ---  | ---  | 618    | 740    | 1,170  | 1,382  |
| Acc. Receivable    | ---  | ---  | ---  | ---  | ---  | ---  | 1,858  | 2,074  | 2,034  | 2,073  |
| Inventories        | ---  | ---  | ---  | ---  | ---  | ---  | 1,685  | 1,702  | 2,189  | 1,851  |
| Goodwill & Int.    | ---  | ---  | ---  | ---  | ---  | ---  | 21,936 | 20,511 | 19,038 | 18,890 |
| Total Liabilities  | ---  | ---  | ---  | ---  | ---  | ---  | 10,821 | 7,530  | 16,361 | 16,640 |
| Accounts Payable   | ---  | ---  | ---  | ---  | ---  | ---  | 1,579  | 1,827  | 1,821  | 2,489  |
| Long-Term Debt     | ---  | ---  | ---  | ---  | ---  | -    | -      | -      | 8,930  | 8,286  |
| Total Equity       | ---  | ---  | ---  | ---  | ---  | ---  | 18,356 | 20,399 | 10,997 | 11,211 |
| LTD/E Ratio        | ---  | ---  | ---  | ---  | ---  | ---  | -      | -      | 0.81   | 0.74   |

## Profitability & Per Share Metrics

| Year             | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021  | 2022 | 2023  |
|------------------|------|------|------|------|------|------|------|-------|------|-------|
| Return on Assets | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 7.1%  | 5.3% | 6.0%  |
| Return on Equity | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 10.5% | 9.3% | 10.7% |
| ROIC             | ---  | ---  | ---  | ---  | ---  | ---  | ---  | 10.5% | 7.2% | 8.4%  |
| 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 | 1.46  |

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

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