

Johnson & Johnson

Strengthening prostate cancer franchise via Ambrx acquisition

Maintain Rating: NEUTRAL | PO: 180.00 USD | Price: 161.13 USD

Adding ADC capability/ prostate cancer franchise for \$2B

J&J announced this morning that it has entered into a definitive agreement to acquire Ambrx Biopharma (AMAM), a clinical stage biotech company that focused on the development of next-generation antibody drug conjugates (ADCs), for \$28/share in cash (or \$2.0B in equity value; \$1.9B net of cash acquired), a 105% premium to AMAM share price as of 1/5. While the deal is relatively small, we see the acquisition as a signal by J&J that it intends to put in more resources in the solid tumor development, which is not surprising given management's aspiration to be the No.1 cancer company by the end of the decade (see our takeaways from [Enterprise Business Review Day](#)). Indeed, while J&J's oncology effort in recent years has mostly been in the heme-onc space (multiple myeloma and CLL), the deal makes a lot of sense strategically since the lead asset ARX517 (PSMA ADC) complements J&J's existing prostate cancer franchise (Zytiga) and competes with up-and-coming radiopharmaceuticals by Novartis' (covered by Sachin/Graham) Pluvicto and Lilly/Point's PNT2002. Importantly, the deal adds ADC technology capability and programs to J&J's pipeline with the addition of ARX788 (HER2 ADC) for HER2+ breast cancer an ARX305 (CD70 ADC) for renal cell carcinoma. That said, while we like the science and portfolio differentiation in J&J Innovative Medicine, we don't see an event outside of a major talc settlement to drive shares significantly higher (Ambrx cons 2030 sales of \$660M; see our [2024 Outlook – J&J](#)). Maintain Neutral, \$180 PO.

08 January 2024

Equity

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Stock Data

Price	161.13 USD
Price Objective	180.00 USD
Date Established	18-Apr-2023
Investment Opinion	A-2-7
52-Week Range	144.95 USD - 179.76 USD
Mrkt Val (mn) / Shares Out (mn)	430,475 USD / 2,671.6
Free Float	99.9%
Average Daily Value (mn)	1153.63 USD
BofA Ticker / Exchange	JNJ / NYS
Bloomberg / Reuters	JNJ US / JNJ.N
ROE (2023E)	33.9%
Net Dbt to Eqty (Dec-2022A)	33.2%
ESGMeter™	High

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Abbreviation:

ADC: antibody-drug conjugate

PSMA: Prostate-Specific Membrane Antigen

HER2: human epidermal growth factor receptor 2

CLL: Chronic lymphocytic leukemia

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Timestamp: 08 January 2024 09:31AM EST

Price objective basis & risk

Johnson & Johnson (JNJ)

Our price objective of \$180/share is based on a sum of the parts (SOTP) of roughly 18x MedTech multiple, and 14x pharma '24 multiple, slightly below peers given looming loss of exclusivity (LOE) and talc uncertainty, yielding \$57/share, and \$123/share, respectively.

The downside risks to our PO are slower growth in MedTech due to competitive pressure and faster-than-expected erosion from biosimilars to the pharma business.

Upside risks to our PO are better-than-expected launch of new products, better-than-expected clinical data for the pharma pipeline, quick resolution of talc litigation, and constructive M&A.

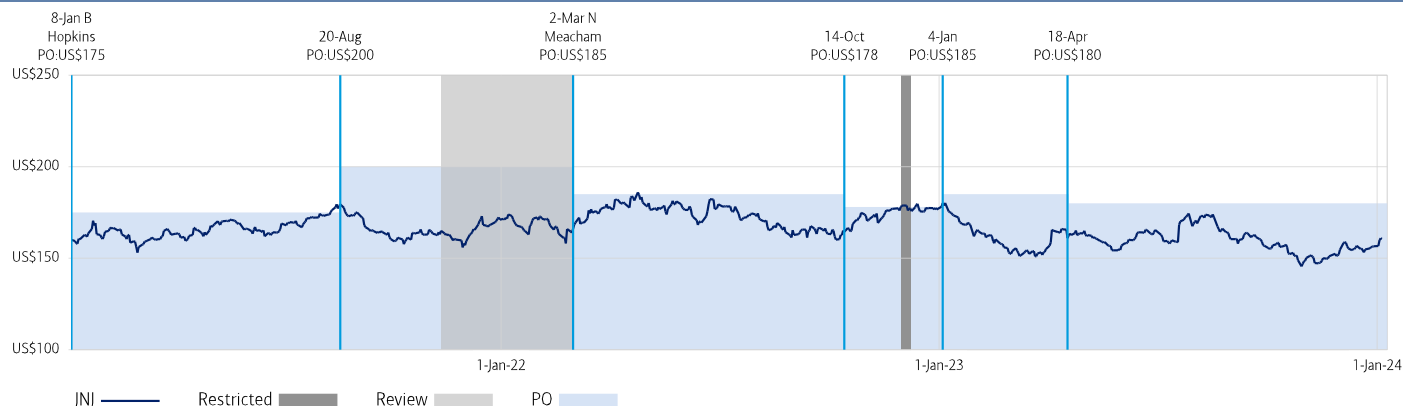
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Disclosures

Important Disclosures

Johnson & Johnson (JNJ) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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