

## Equity Research

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**JNJ**

12 month target

**\$101.97**

\$115.00

**BUY**

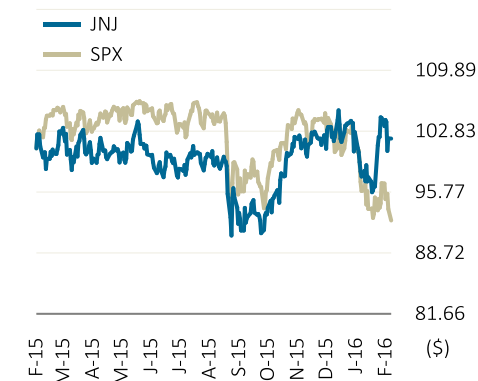
52 week range

\$90.73 - \$105.25

Market Cap (m)

\$285,853

### Price Performance



Source: IDC

## Life Sciences and Diagnostic Tools

### Johnson & Johnson

#### FDA Panel Backing of Biosimilar Remicade

#### Expected – Patent Litigation will be the Key

Today the US FDA Arthritis Advisory Committee voted 21-3 in support of Celltrion's biologics license application for CT-P13, a biosimilar to JNJ's Remicade. The supportive vote was expected, and attention will now focus on the patent litigation between JNJ and Celltrion. JNJ has asserted that key patents will allow prevention of biosimilar competition to Remicade until 2H2018. Our model is in-line with the Street for Remicade sales of ~\$6.17bn during 2018.

► **We Forecast a -15% Decline in US Remicade Sales between 2018 and 2020:** JNJ management has asserted that ~70% of current Remicade patients are stable on therapy and would be unlikely to switch to a biosimilar – leaving the initial risk to new patient adds.

► **European Markets offer Anecdotes to US but have Limits of Comparison:** During February 2015 biosimilar Remicade began being sold in Europe by Hospira (Private) under the drug name Inflectra, with Celltrion following suit with another biosimilar version of the drug. Within the first 3-months of launch the biosimilars gained 10 – 15% market share at a 30 – 45% price discount.

► **JNJ will need an Injunction Against Celltrion Near Term:** Our numbers would prove incorrect if Celltrion is able to launch CP-P13 ahead of the Remicade patent expirations during 3Q2018. Given the existing patents and process of litigation, we do think JNJ has a credible position to defend Celltrion's launch until patent expiration in 2018.

## Company Overview

Johnson & Johnson is a multinational manufacturer and distributor of medical devices, pharmaceutical and healthcare consumer-packaged products. The company can be delineated into 3 business segments: Consumer (19.5%), Medical Devices (37%), and Pharmaceutical (43.5%). JNJ has >265 operating companies in >60 countries. Johnson & Johnson was incorporated in the state of New Jersey during 1887, and is headquartered in New Brunswick, NJ. Below we provide a breakdown of the company by operating segment (Figure 1).

Figure 1. Johnson and Johnson Company Breakdown by Operating Segment

Johnson and Johnson Operating Segment Breakdown		
Operating Segment	2014 Revenues (US\$m)	% of Total
<b>Consumer Segment</b>		
Baby Care	2,239	15.4%
Oral Care	1,647	11.4%
OTC	4,106	28.3%
Skin Care	3,758	25.9%
Women's Health	1,302	9.0%
Wound Care/Other	1,444	10.0%
Total	14,496	19.5%
<b>Pharmaceutical</b>		
Immunology	10,193	31.5%
Infectious Disease	5,599	17.3%
Neuroscience	6,487	20.1%
Oncology	4,457	13.8%
Cardiovascular/Metabolism/Other	5,577	17.3%
Total	32,313	43.5%
<b>Medical Devices</b>		
Cardiovascular Care	2,208	8.0%
Diabetes Care	2,142	7.8%
Diagnostics	962	3.5%
Infection Prevention/Other	-	0.0%
Othopaedics	9,675	35.2%
Specialty Surgery/Other	3,541	12.9%
Surgical Care	6,176	22.4%
Vision Care	2,818	10.2%
Total	27,522	37.0%
<b>Total Company Sales</b>	<b>74,331</b>	<b>100.0%</b>

Source: Company Reports, FactSet, BTIG Research estimates, February 2016

## Appendix: Analyst Certification and Other Important Disclosures

### Analyst Certification

I, Dane Leone, CFA, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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#### Johnson & Johnson (JNJ, Buy)

**Valuation:** Our \$115 price target values JNJ at 12x EV/ 2016 EBITDA.

**Risks:** Key Risks to our Buy Rating and Recommendation: 1) JNJ faces significant competitive pressures and may not be able to grow revenues at the rates we currently forecast. Specifically, the company faces numerous generic competitors on key drug sales such as Remicade that could cause revenues to be below our current forecasts. 2) JNJ sources +20% of sales from Emerging Markets that can be volatile, and may fail to grow versus our current expectations. 3) Management execution is critical to JNJ's M&A strategy, and failure to close important transactions could negatively impact our forecasts. 4) Internal cost initiatives may provide less operating leverage than we anticipate and cause EBITDA margins to below our current forecasts.

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