

# EQUITY RESEARCH REPORT

ATLANTIC FINANCIAL RESEARCH  
Healthcare & Pharmaceuticals Division

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## JOHNSON & JOHNSON (NYSE: JNJ)

**Rating:** BUY

**Price Target:** \$175.00

**Current Price:** \$148.75 (as of December 1, 2024)

**Analyst:** Dr. Michael Thompson, CFA

**Date:** November 20, 2024

**Sector:** Healthcare & Pharmaceuticals

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## EXECUTIVE SUMMARY

We initiate coverage of Johnson & Johnson (JNJ) with a BUY rating and \$175 price target, representing 17.6% upside potential. Following the Kenvue consumer spin-off, the “new” JNJ emerges as a focused pharmaceutical and medical device powerhouse with compelling growth prospects:

- **Pure-Play Healthcare Focus:** Post-Kenvue spin creates focused pharma/MedTech entity
- **Robust Pipeline:** 70+ compounds in development with multiple potential blockbusters
- **Medical Device Recovery:** Resumption of elective procedures driving MedTech growth
- **Strong Capital Returns:** \$15B+ annual dividend payments with 62-year increase streak

## KEY INVESTMENT HIGHLIGHTS

**1. Pharmaceutical Portfolio Strength** JNJ's pharmaceutical segment demonstrates exceptional quality and diversity: - STELARA (psoriasis/IBD): \$9.1B annual revenue, growing 5.8% despite biosimilar competition - DARZALEX (multiple myeloma): \$8.9B revenue, +19.2% growth as treatment paradigm expands - TREMFYA (psoriasis): \$3.2B revenue, +37% growth with new indications driving adoption - ERLEADA (prostate cancer): \$2.1B revenue, +23% growth in competitive oncology market

**2. Innovation Pipeline Delivering** Strong R&D capabilities with \$15.2B annual investment yielding promising results: - **Tecvayli** (multiple myeloma): FDA approval driving new revenue stream - **Rybrevant** (lung cancer): Expanding indications in EGFR+ NSCLC - **Bedaquiline** (tuberculosis): Global access programs expanding addressable market - **JNJ-2113** (depression): Phase III results expected Q2 2025, potential \$5B+ opportunity

**3. Medical Device Market Leadership** MedTech segment recovering strongly from COVID impact: - Q3 2024 MedTech revenue: \$7.9B (+8.1% YoY) - Surgery segment: +9.8% growth as elective procedures normalize - Orthopedics: +6.2% growth driven by VELYS robotic platform adoption - Cardiovascular: +5.1% growth with WATCHMAN FLX driving structural heart gains

## FINANCIAL ANALYSIS

**Q3 2024 Results Exceeded Expectations:** - Total Revenue: \$22.5B (+5.2% YoY, vs. \$22.3B consensus) - Pharmaceutical Revenue: \$14.2B (+4.8% YoY) - MedTech Revenue: \$7.9B (+8.1% YoY) - Adjusted EPS: \$2.42 (vs. \$2.40 estimate) - Operating Margin: 32.1% (+110 bps YoY)

**Strong Cash Generation & Shareholder Returns:** - Free cash flow: \$6.8B in Q3 2024 - Cash and equivalents: \$31.4B - Quarterly dividend: \$1.19 (+4.4% increase) - Share repurchases: \$2.1B in Q3

## SEGMENT DEEP DIVE

**Pharmaceutical (63% of revenue):** - Immunology: \$17.1B (+3.2% YoY) - STELARA facing biosimilar headwinds but TREMFYA accelerating - Oncology: \$16.8B (+7.1% YoY) - DARZALEX multiple myeloma dominance continues - Neuroscience: \$5.2B (+12.3% YoY) - SPRAVATO depression treatment gaining traction - Pulmonary Hypertension: \$3.8B (+18.7% YoY) - OPSUMIT driving strong growth

### Medical Technology (37% of revenue):

- Surgery: \$4.1B (+9.8% YoY) - Robotics and advanced visualization driving growth - Orthopedics: \$2.8B (+6.2% YoY) - Hip and knee implant market share gains - Cardiovascular: \$1.0B (+5.1% YoY) - Electrophysiology and structural heart expansion

## VALUATION METHODOLOGY

Our \$175 price target utilizes multiple approaches:

**Sum-of-the-Parts Analysis:** - Pharmaceutical business: \$145/share (15x EV/Revenue) - MedTech business: \$25/share (4x EV/Revenue) - Pipeline value: \$8/share (risk-adjusted NPV) - Net cash: \$3/share

**P/E Multiple Analysis:** - Target 2025E P/E: 16.5x (premium to healthcare peers) - 2025E EPS estimate: \$10.60 - Implied value: \$175/share

## RISKS & CONSIDERATIONS

**Key Downside Risks:** - STELARA biosimilar competition accelerating revenue decline - FDA regulatory delays for pipeline compounds - Medical device supply chain disruptions - Healthcare pricing pressure from government entities

**Key Upside Catalysts:** - Pipeline compounds exceeding efficacy expectations  
- Successful M&A expanding therapeutic areas - Medical device innovation driving market share gains - International expansion in emerging markets

### ESG LEADERSHIP POSITIONING

JNJ maintains strong ESG credentials supporting long-term value creation:  
- **Environmental:** Carbon neutral by 2030 commitment with renewable energy initiatives  
- **Social:** Global access programs providing medicines to underserved populations  
- **Governance:** Independent board leadership with diverse expertise

### INVESTMENT CONCLUSION

The post-Kenvue JNJ represents a compelling pure-play healthcare investment with balanced growth and income characteristics. The company's innovation capabilities, market-leading positions, and strong cash generation support our constructive view. We recommend accumulating shares on any weakness.

**Investment Recommendation: BUY**

**Price Target: \$175.00 (+17.6% upside)**

**Dividend Yield: 3.2% (sustainable and growing)**

**Risk Rating: MODERATE**

### FINANCIAL FORECASTS

Metric	Q4 2024E	FY 2024E	FY 2025E	FY 2026E
Revenue	2.55	9.88	10.60	11.25
(B) 22.8 89.7 94.2 98.8  AdjEPS()				
Dividend/Shdle19		4.76	4.95	5.15

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**Important Disclosures:** Atlantic Financial Research may have received investment banking compensation from Johnson & Johnson within the past 12 months. This report contains forward-looking statements subject to risks and uncertainties.

**Analyst Certification:** Dr. Michael Thompson certifies that the views in this report reflect his personal assessment of Johnson & Johnson and that no part of his compensation relates to the specific recommendations contained herein.

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