

Johnson & Johnson is a diversified global healthcare company that develops, manufactures, and markets products in two business segments: Innovative Medicine (formerly Pharmaceuticals) and MedTech.

Analyst's Notes

Analysis by David Toung, April 16, 2025

ARGUS RATING: BUY

- Strong 1Q25 results offset tariffs impact
- The strength of the underlying business enabled J&J to offset the impact of tariffs while keeping the adjusted EPS guidance unchanged.
- The company raised its dividend 4.8%, marking 63 consecutive years of dividend hikes.
- The acquisitions of V-Wave, Shockwave, and IntraCellular bring new products to the MedTech and Innovative Medicine portfolios.
- Our price target is \$185.

INVESTMENT THESIS

BUY-rated Johnson & Johnson (NYSE: JNJ) is in a strong competitive position in its Innovative Medicine and MedTech business segments. Innovative Medicine has strong growth drivers in oncology, immunology, neuroscience and rare diseases. It adds to its portfolio through M&A and in-licensing of pharmaceutical and biologic assets.

Our price target is \$185.

RECENT DEVELOPMENTS

J&J kept its adjusted EPS guidance for 2025 unchanged despite greater economic uncertainty regarding trade tariffs. The company delivered better-than-expected results for 1Q25 (reported April 15) and raised its revenue guidance for 2025, driven by solid uptake for newer products in Innovative Medicine and M&A. On the negative side, its orthopedics unit continues to underperform and appears to be losing market share.

The company also cautioned it is absorbing approximately \$400 million impact in 2025 from tariffs that will primarily hit its MedTech segment.

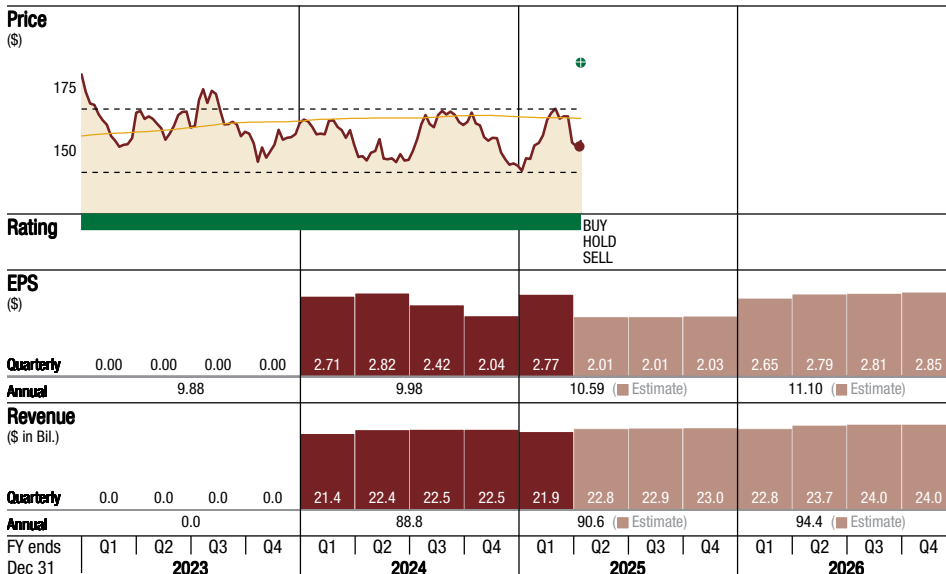
For 1Q25, J&J reported adjusted EPS of \$2.77, beating the consensus estimate by \$0.06 and increasing 2.2%. GAAP net income was \$10.999 billion or \$4.54 per share, compared to \$3.255 billion or \$1.34 per share a year ago. The 1Q25 results included a reversal of special charges of \$7.0 billion for a talc litigation reserve.

Sales was \$21.893 billion, increasing 2.4% on a reported basis and 4.2% on an operational basis. Excluding acquisitions and divestitures, adjusted operational sales grew

By business segment, sales in Innovative Medicine was \$13.9 billion, increasing 4.4%

Market Data Pricing reflects previous trading week's closing price.

— 200-Day Moving Average — Target Price: \$185.00 — 52 Week High: \$166.63 — 52 Week Low: \$141.50 — Closed at \$151.73 on 4/11



Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 74% Buy, 26% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$153.91
Target Price	\$185.00
52 Week Price Range	\$140.68 to \$169.99
Shares Outstanding	2.41 Billion
Dividend	\$5.20

Sector Overview

Sector	Healthcare
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	11.20%

Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	34.6%
Return on Equity	35.7%
Net Margin	24.4%
Payout Ratio	0.49
Current Ratio	1.11
Revenue	\$89.33 Billion
After-Tax Income	\$21.81 Billion

Valuation

Current FY P/E	14.53
Prior FY P/E	15.42
Price/Sales	4.15
Price/Book	5.18
Book Value/Share	\$29.70
Market Capitalization	\$370.90 Billion

Forecasted Growth

1 Year EPS Growth Forecast	6.11%
5 Year EPS Growth Forecast	9.00%
1 Year Dividend Growth Forecast	4.84%

Risk

Beta	0.53
Institutional Ownership	71.79%

Analyst's Notes ...Continued

operational. Sales in MedTech was \$8.020 billion, increasing 3.3%.

As for tariffs, JNJ said the primary impact will be on MedTech products of U.S. origin being shipped to China. There are also Canadian and Mexico import tariffs on steel and aluminum components for medical devices.

EARNINGS & GROWTH ANALYSIS

J&J continues to expect 2025 adjusted EPS on a reported basis of \$10.50-\$10.70. The \$0.25 dilution from the Intra-Cellular acquisition and \$400 million impact of tariffs (based on what is known today) are offset by the benefits of lessened impact from foreign exchange and tariff mitigation efforts.

The strength of the underlying business enabled J&J to offset the impact of tariffs while keeping the adjusted EPS guidance unchanged.

J&J expects operational sales growth of 3.3%-4.3% with a midpoint of 3.1%. This guidance now includes \$700 million of sales from the Intra-Cellular acquisition. It continues to expect 300 basis points of operating margin expansion.

Our estimate for 2025 adjusted EPS is unchanged at \$10.59. We are reducing our 2026 estimate to \$11.10 from \$11.15.

Our five-year EPS growth forecast is 9%.

FINANCIAL STRENGTH & DIVIDEND

J&J recently raised its dividend 4.8% to an annualized rate of \$5.20 for a yield of 3.4%. J&J has increased its dividend for 63

consecutive years. Our dividend estimates are \$5.20 for 2025 and \$5.44 for 2026.

Our financial strength rating on JNJ is High, the top rank on our five-point scale. JNJ's debt has an AAA credit rating.

RISKS

J&J faces a range of competitive, regulatory, and legal risks. On the pharmaceutical side, its competitors include both established manufacturers of branded drugs and biologics as well as suppliers of generics. The pharmaceutical business also faces patent expirations and loss of exclusivity for its drugs. In addition, the company faces significant costs in developing prescription drugs, which typically have lengthy development cycles. JNJ also faces pricing pressures from insurance companies and regulatory agencies in overseas markets, as government regulators in China and other countries set pricing for medical devices sold in their jurisdictions.

COMPANY DESCRIPTION

Johnson & Johnson is a diversified global healthcare company that develops, manufactures, and markets products in two business segments: Innovative Medicine (formerly Pharmaceuticals) and MedTech.

VALUATION

JNJ shares trade at 13.8-times our 2026 EPS estimate, compared to an average multiple of 22.3 for our coverage universe

Growth & Valuation Analysis

GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2020	2021	2022	2023	2024
Revenue	82,584	78,740	79,990	85,159	88,821
COGS	28,427	23,402	24,596	26,553	27,471
Gross Profit	54,157	55,338	55,394	58,606	61,350
SG&A	22,084	20,118	20,246	20,112	21,969
R&D	12,340	14,277	14,135	15,085	17,232
Operating Income	19,733	20,943	21,013	23,409	22,149
Interest Expense	90	130	-214	-489	-577
Pretax Income	16,497	19,178	19,359	15,062	16,687
Income Taxes	1,783	1,377	2,989	1,736	2,621
Tax Rate (%)	11	7	15	12	16
Net Income	14,714	20,878	17,941	35,153	14,066
Diluted Shares Outstanding	2,671	2,674	2,664	2,560	2,429
EPS	5.51	7.81	6.73	13.72	5.79
Dividend	3.98	4.19	4.45	4.70	4.91

GROWTH RATES (%)

Revenue	0.6	-4.7	1.6	6.5	4.3
Operating Income	-5.9	6.1	0.3	11.4	-5.4
Net Income	-2.7	41.9	-14.1	95.9	-60.0
EPS	-2.1	20.9	-7.8	-15.3	11.3
Dividend	6.1	5.3	6.2	5.6	4.5
Sustainable Growth Rate	10.6	10.1	10.3	6.2	4.1

VALUATION ANALYSIS

Price: High	\$157.66	\$179.92	\$186.69	\$180.93	\$168.85
Price: Low	\$109.16	\$151.47	\$155.72	\$144.95	\$142.75
Price/Sales: High-Low	5.1 - 3.5	6.1 - 5.1	6.2 - 5.2	5.4 - 4.4	4.6 - 3.9
P/E: High-Low	28.6 - 19.8	23.0 - 19.4	27.7 - 23.1	13.2 - 10.6	29.2 - 24.7
Price/Cash Flow: High-Low	19.5 - 13.5	18.5 - 15.6	23.1 - 19.3	23.3 - 18.7	16.3 - 13.8

Financial & Risk Analysis

FINANCIAL STRENGTH

	2022	2023	2024
Cash (\$ in Millions)	12,889	21,859	24,105
Working Capital (\$ in Millions)	-508	7,213	5,572
Current Ratio	0.99	1.16	1.11
LT Debt/Equity Ratio (%)	35.0	37.6	42.9
Total Debt/Equity Ratio (%)	51.6	42.6	51.2

RATIOS (%)

Gross Profit Margin	69.3	68.8	69.1
Operating Margin	26.3	27.5	24.9
Net Margin	22.4	41.3	15.8
Return On Assets	9.7	19.8	8.1
Return On Equity	23.8	48.3	20.1

RISK ANALYSIS

Cash Cycle (days)	64.8	75.2	85.5
Cash Flow/Cap Ex	5.3	4.5	3.9
Oper. Income/Int. Exp. (ratio)	71.1	20.5	23.1
Payout Ratio	61.9	61.0	87.1

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Analyst's Notes ...Continued

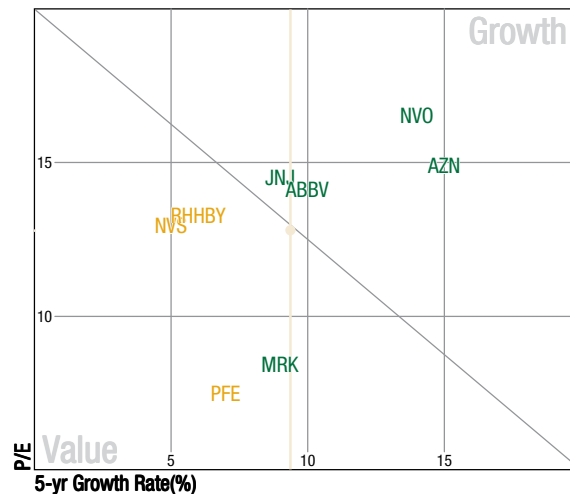
of large-cap MedTech stocks. We think this is an attractive valuation. We believe that JNJ's growth opportunities and success in integrating acquisitions support this valuation. In addition, we expect the company's pharmaceutical pipeline and recently approved products to be solid growth drivers and to more than offset headwinds in other markets.

On April 16, BUY-rated JNJ closed at \$153.91, up \$0.29.

Peer & Industry Analysis

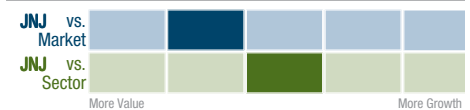
The graphics in this section are designed to allow investors to compare JNJ versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how JNJ stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how JNJ might fit into or modify a diversified portfolio.

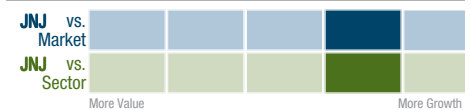


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
JNJ	Johnson & Johnson	370,900	9.0	14.5	24.4	4.8	BUY
ABBV	AbbVie Inc	303,698	10.0	14.1	7.6	10.7	BUY
NVS	Novartis AG	231,479	5.0	13.0	23.1	5.3	HOLD
RHHBY	Roche Holding AG	216,839	6.0	13.3	13.7	5.2	HOLD
NVO	Novo Nordisk	213,171	14.0	16.5	34.8	18.4	BUY
AZN	AstraZeneca PLC	207,940	15.0	14.9	13.0	13.3	BUY
MRK	Merck & Co Inc	192,403	9.0	8.4	26.7	9.4	BUY
PFE	Pfizer Inc.	124,999	7.0	7.5	12.6	3.7	HOLD
Peer Average		232,679	9.4	12.8	19.5	8.9	

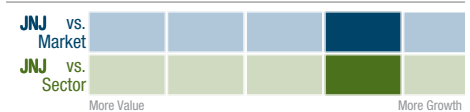
P/E



Price/Sales



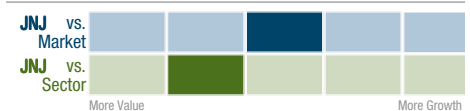
Price/Book



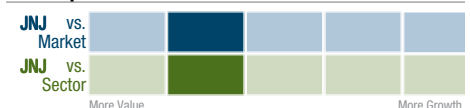
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5 Year Growth



Debt/Capital



About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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