Mercer's Stetson-Hatcher School of Business Student Research

Industry: Pharmaceutical Medical Technology

Sector: Consumer Health Care, Pharmaceuticals, and Medical Devices

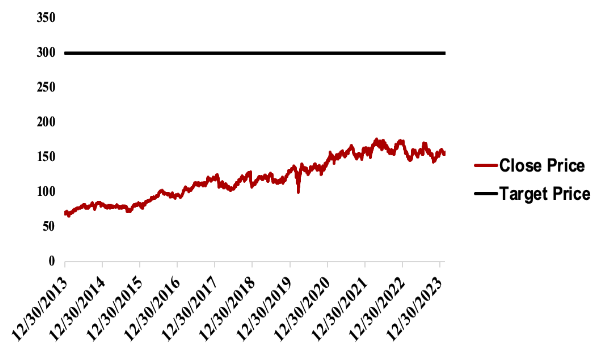
Johnson & Johnson (JNJ)

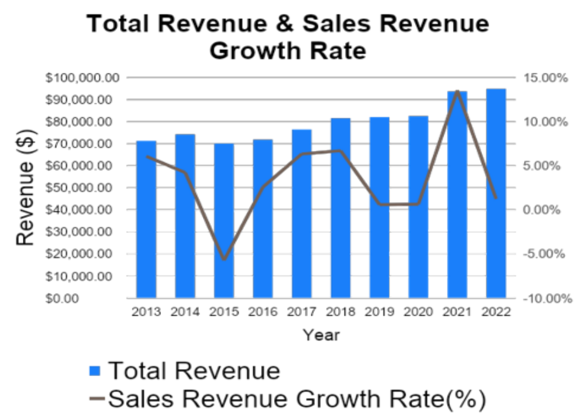
Date: 02/27/2024 **Current Price: $160.98** **Recommendation: BUY**

Ticker-NYSE: JNJ **Headquarters:New Brunswick, NJ** **Target Price: $300.74**

HIGHLIGHTS

- Global Healthcare Leader: Johnson & Johnson is a leading healthcare company with operations in over 60 countries and product sales in more than 175, showcasing its global dominance.
- Strong Financial Record: The company's financial resilience is marked by consistent growth and profitability, fueled by strategic innovation, substantial R&D investment, and a diversified portfolio that thrives across economic cycles.
- Pharmaceuticals Drive Revenue: Its pharmaceutical segment, the largest in terms of sales, offers innovative treatments in areas like immunology and oncology.
- Diverse Product Range: Its broad portfolio includes everything from consumer health products to advanced medical devices and pharmaceuticals. This diversity not only spreads risk but also fosters innovation.
- Main Risks: The company navigates challenges such as competitive pressures, regulatory environments, economic fluctuations, and the impact of generics on market position and profitability.





Market Profile	
Closing Price (02-27-2024)	160.98
52 Week Range	$144.95- $175.97
Average Volume (3 M)	7.29 M
Shares Out.	2.41 B
Market Cap	386.656 B
Dividend Yield	4.76(2.96%)
Beta	0.54
EV/Revenue	4.63x
EV/EBITDA	16.90x
Institutional Holdings	71.37%
Insider Holdings	0.09%

RECENT NEWS

- IMBRUVICA® Label Expansion: Johnson & Johnson expanded the IMBRUVICA® label on February 26, 2024, to include a new oral suspension formulation, enhancing treatment accessibility for adult patients.
- Cancer Therapy Acquisition: On January 8, 2024, Johnson & Johnson and Merck announced intentions to acquire cancer therapy developers, signaling a robust push into cancer treatment innovation.
- Nipocalimab Positive Results: Johnson & Johnson reported positive outcomes from pivotal studies of nipocalimab in treating generalized myasthenia gravis and Sjögren's disease on February 5, 2024, backed by a Breakthrough Therapy Designation from the U.S. FDA in December 2023.

BUSINESS DESCRIPTION

Johnson & Johnson(JNJ), founded in 1887, is one of the world's largest and most broadly based healthcare companies, employing about 152,700 individuals across the world as of January 1, 2023. The global distribution of its workforce is strategic and diverse, with 34.2% located in North America, 20.2% in the Asia Pacific region, 29.0% in Europe, the Middle East, and Africa (EMEA), and 16.6% in Latin America, as represented in Figure 1. In parallel to its workforce distribution, Johnson & Johnson's sales figure also reflect its geographical reach, with the highest sales reported in the U.S. at $48.6 billion, $23.4 billion in Europe, $16.8 billion across the Asia-Pacific and Africa regions, and $6.1 billion in the Western Hemisphere excluding the U.S., as depicted in Figure 2.[1] Further highlighting its global impact and status in the healthcare industry, Johnson & Johnson was named by Fortune magazine in 2023 as one of the World's Most Admired Companies, topping the pharmaceutical industry list.[2]

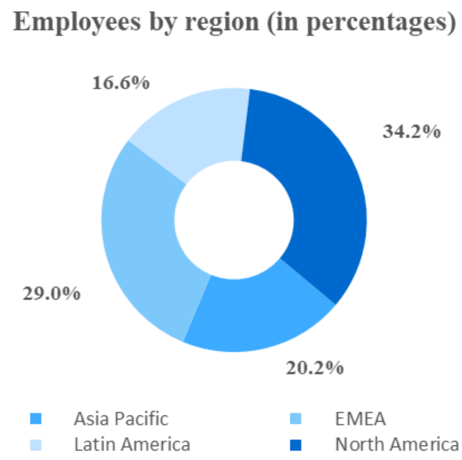


Figure 1

The company is deeply involved in researching, developing, manufacturing, and marketing an extensive variety of healthcare products. They operate in three main segments, which in 2022 reported sales of $52.6 billion for Pharmaceuticals, $27.4 billion for MedTech, and $15.0 billion for Consumer Health (Figure 3). According to CNBC, the company forecasts up to 6% sales growth in 2024, driven by strong demand for cancer treatments and other medical products.[3]

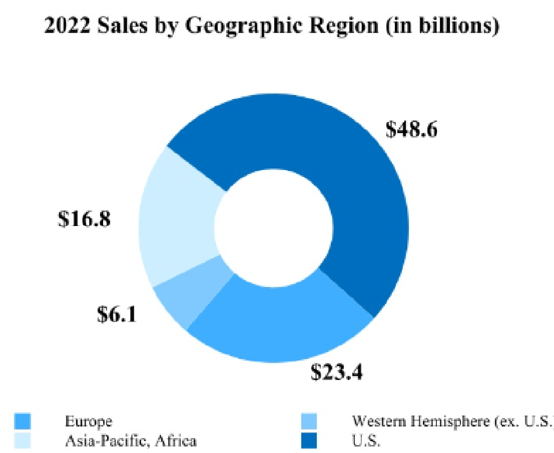


Figure 2

Consumer Health: This segment focuses on products in baby care, oral care, beauty, over-the-counter pharmaceuticals, women's health, and wound care. Popular brands include such as Aveeno, Neutrogena, Tylenol, Sudafed, Band-Aid, and many others. It's known for familiar household items from skin products to medications aiding in smoking cessation and cold relief.[1]

Pharmaceuticals: It focuses on developing prescription medicines for an array of therapeutic areas including immunology, infectious diseases, neuroscience, oncology, cardiovascular, and metabolism. It possesses a wide-ranging of products like Remicade, Stelara, and Concerta, addressing severe conditions such as rheumatoid arthritis, psoriatic arthritis, Crohn's disease, and schizophrenia. Many of these medications are leaders in their respective fields and are the result of both in-house development and strategic collaborations.[1]

MedTech: The company produces a range of technology-driven products in fields like interventional solutions, orthopaedics, surgery, and vision care. It offers medical devices ranging from electrophysiology products to treat heart conditions to advanced surgical tools and technologies for eye health, including well-known brands like Acuvue contact lenses. The MedTech segment is essential for supporting healthcare professionals in providing comprehensive care and advanced treatment options.[1]

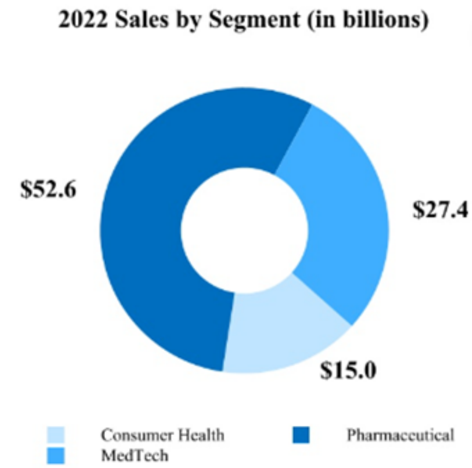


Figure 3

The current strategy of the company can be summarized as these four points:

Enhancing Clinical Potential: The company is dedicated to enhancing the clinical potential of its main products by identifying new uses and patient groups. This involves researching and developing new applications for current drugs.[4]

Pandemic Response: The company has set a goal to be prepared to respond quickly to a pandemic by 2025 through the development of preventive viral vaccines.[5]

Long-Term Competitive Growth: It has announced key drivers for long-term competitive growth, focusing on operational sales growth and expanding their global reach. This includes a strategic emphasis on developing markets and leveraging their global network for more efficient operations.[6]

Investment in Research and Development (R&D): Johnson & Johnson continues to prioritize R&D, investing in new technologies and treatments, especially in areas like immunology, oncology, and cardiovascular diseases.[7]

MANAGEMENT & GOVERNANCE

JNJ Code of Business Conduct and Ethics

The company serves hundreds of millions of people worldwide every year. The company aligns with a set of core principles known as Our Credo. The needs and well-being of the people are the top priority of the company. Their first responsibility is to patients, medical providers, and consumers using their products. The company values high-quality healthcare products, supports better care and access worldwide, and offers reasonable prices for consumers and patients in treatments. All employees are required to adhere to the code and report any risk issues to avoid impacting business performance and to ensure compliance with laws and quality control regulations.[8]

Enterprise Risk Management (ERM) Framework

The Johnson & Johnson ERM framework is composed of five interconnected elements integrated into the organization, including:[9]

- Business strategy and objectives
- Governance and oversight
- Risk identification and prioritization
- Risk management and monitoring process
- Information, communication, and risk reporting

JNJ Corporate Governance Structure

The key success of the company is the organizational management system focusing on a decentralized structure, which empowers employees at all levels to make decisions in response to market changes, enabling the company to effectively deliver value as well as meet the specific needs of its customers.[9]

Board of Directors: supervise and monitor the performance of senior management teams, providing strategic guidance in the best interests of shareholders and the company.

Executive Committee: manage the strategic operations and resource allocation of the company, overseeing and coordinating the activities of the company's business segments.

Independent Assurance: Global Audit & Assurance, examines data for accuracy, completeness, and validity, reports findings to the Audit Committee, collaborates with internal assurance functions, reports to different Boards Committees, and ensures that processes are adequately designed with an effective operation of internal control systems.

Risk and Compliance Functions: oversee, monitor, and report on the activities of operational management to enhance performance and ensure compliance.

Operational Management: manages the performance of daily business activities, identifies, assesses, and manages risks resulting from the activities.

FINANCIAL ANALYSIS

JNJ Financial Analysis by Business Segments

Revenue Breakdown Analysis by Segments

Johnson & Johnson (JNJ) derives revenue from three primary segments: consumer health products, pharmaceuticals, and medical devices. As seen in Figure 4, the total revenue of the company has significantly increased from 2013 to 2022. Most of the increased revenue of the company has been generated

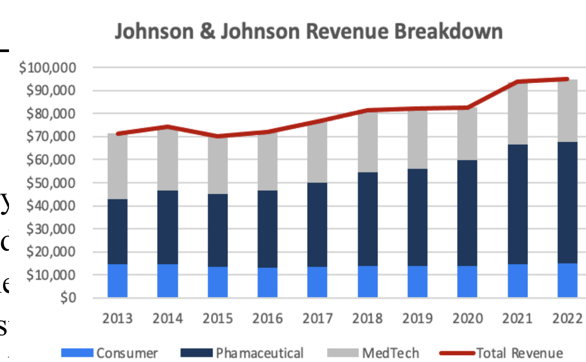


Figure 4

from pharmaceutical sales, followed by medical devices and consumer health products, respectively. In 2015, the impact of a strong dollar resulted in declining sales for the company.[10] The company’s revenue declined from $74.3 billion in 2014 to $70.1 billion in 2015. From 2020, due to the Covid-19 pandemic, J&J's revenue rose significantly, mostly driven by pharmaceuticals and international sales of its Covid vaccine.[11]

R&D Expense by Segment of Business

Johnson & Johnson (JNJ) spends most on research and development, particularly in the pharmaceutical sector, as shown in Figure 5. This investment supports the processes of discovering, testing, and developing new drugs, improving existing drugs, and ensuring drug efficacy and regulatory compliance before launching to the market. Typically, the company spent $14.7 billion on research and development in 2021, $455 million on consumer products, $11.9 billion on pharmaceuticals, and $2.4 billion on medical devices and diagnostics.

Income Before Tax by Segment of Business

According to Figure 6, the company's pre-tax profit derives mostly from the pharmaceutical sector, followed by MedTech and consumer sectors, respectively. As the pre-tax profit in the pharmaceutical and MedTech sectors increases, the company's overall income before tax also rises. From 2013 to 2014, the company's pre-tax profit significantly increased by about $5 billion; however, the gain was not as substantial in the following years. In 2020, the company's annual pre-tax income declined by approximately $831 million compared to the previous year, primarily due to higher litigation expense of $3.9 billion and the negative impact of the first waves of the Covid-19 pandemic.[14] The company experienced a loss of $1 billion in the profit of consumer health products, including skin health and beauty care products, followed by women’s health care products, international baby care products, over-the-counter products, and oral care products.[12] The company's pre-tax profit then dramatically increased, mostly driven by pharmaceuticals and international sales of its Covid vaccine. Subsequently, in 2022, the company's profit before tax slightly declined as the strengthening dollar impacted its heavy mix of international sales.[13]

Financial Performance Analysis of Geographic Areas

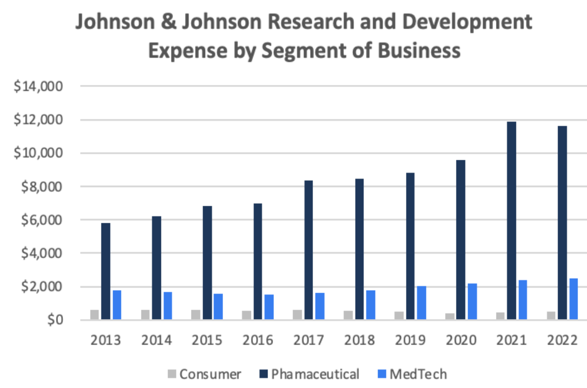


Figure 5

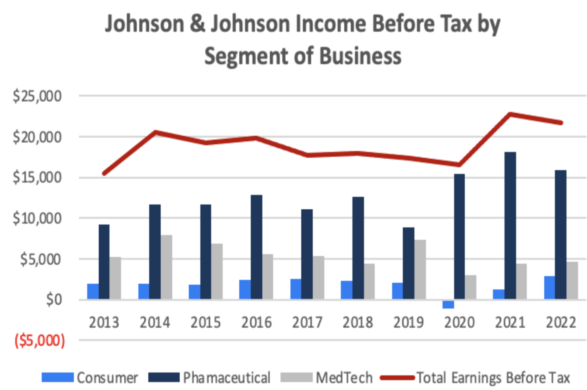


Figure 6

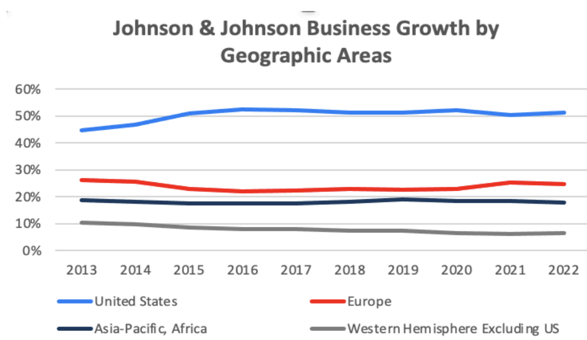
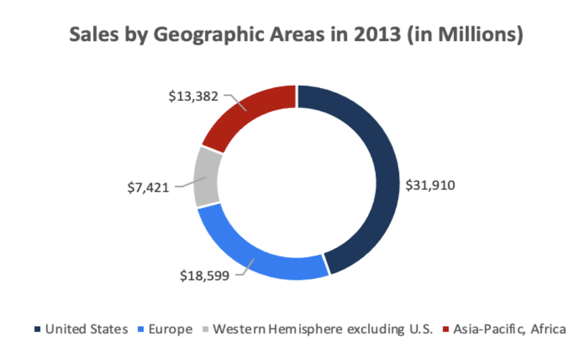


Figure 7



Johnson & Johnson operates over 250 subsidiary companies across 60 countries and markets products in 175 countries.[15] The United States is the largest market for the company, followed by Europe, Asia-Pacific & Africa, and the Western Hemisphere excluding the U.S. According to Figure 8, there was a $16 billion increase in sales in the U.S. and a $4.9 billion gain in sales in Europe from 2013 to 2022.

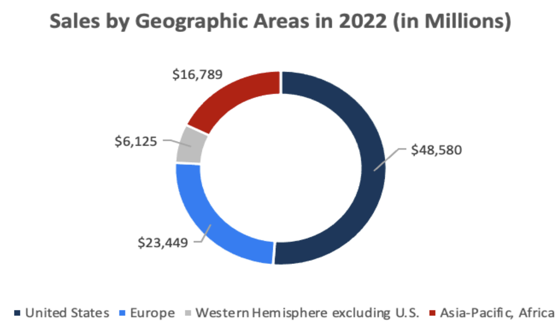


Figure 8

Financial Analysis of the Entire Company

Revenue and Profit Analysis

When focusing on the Total Revenue and Net Income of Johnson & Johnson over a ten-year period from 2013 to 2022. There are some observations and conclusions that can draw from relevant data:

Stable and consistent revenue growth

A trend of steady revenue growth can be observed from Figure 9, This steady upward trend in revenue suggests that Johnson & Johnson has effectively managed to expand its market presence and maintain a strong sales performance over the years.

Fluctuating Profitability

Johnson & Johnson's net income has displayed a degree of variability, notably in 2017 there is a significant drop. Combining Figure 10, which illustrates the net profit margin. For most years, the net profit margin remains within a healthy range, suggesting that Johnson & Johnson has consistently been able to translate a significant portion of its revenues into profits after accounting for all expenses. However, the notable dip of net profit margin in 2017 aligns with a visible decrease in net income, indicating this year’s profitability was notably impacted. This could have been due to the high taxation which reached 21% of the total revenue.

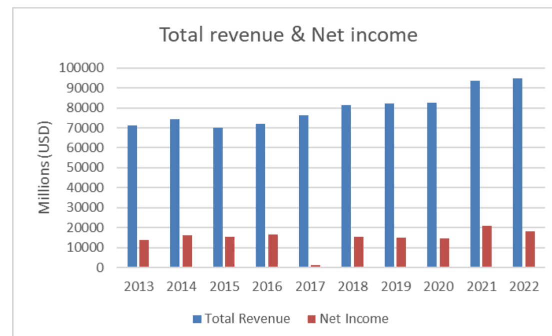


Figure 9

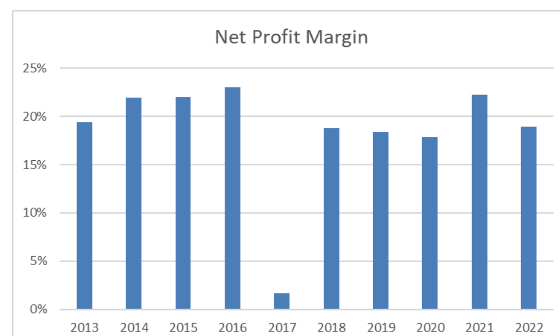


Figure 10

Cost Structure Analysis

From 2013 to 2022, there is a general upward trend in direct costs relative to revenue, with some fluctuations (Figure 11). The increase suggests that the cost of producing goods or delivering services has been rising as a proportion of the revenue.

Figure 12 reveals that the Selling, General & Administration (SG&A) expenses have been relatively stable but with a slight decrease over the decade. This may indicate that the company has consistent cost control in these operational areas. The Research & Development (R&D) cost fluctuated over the ten-year period but exhibits an overall upward trend. This suggests that Johnson & Johnson has been increasing its investment in R&D relative to its revenue.

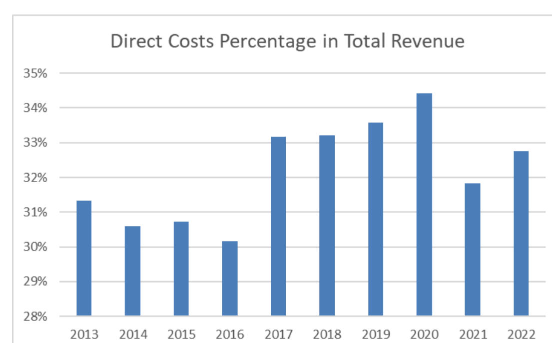


Figure 11

Stock Market Performance

The Adjusted Close price of Johnson & Johnson's stock over a decade shows a general upward trend (Figure 13), indicating an overall increase in the company's market valuation. The stock price trend suggests that the financial performance of Johnson & Johnson, including both its revenue growth and ability to maintain a healthy profit margin over the years, has been well-received by investors.

Asset, Equity, Liability Structure

Upwards trend of total assets

Figure 14 displays the total assets of the company from 2013 to 2022. The chart shows a general trend of growth in total assets over the decade. This upward trend, despite some year-to-year variances, reflecting expansion and possibly strategic investments of the company.

Current Asset Proportion Decline

A decline in the percentage of current assets starting in 2017, as shown in Figure 15. This suggests a potential strategic shift towards longer-term investments or more efficient use of working capital.

Stable Fixed Assets

The Percentage of Net Fixed Assets in Total Assets (Figure 15) shows relative stability with a slight downward trend, indicating consistent investment in long-term assets, which are crucial for the company's operations and future growth.

Change in Liabilities and Equity

The figure 15 depicting the percentage of total liabilities and equity in total assets from 2013 to 2022 shows a notable increase in liabilities and a decrease in equity starting in 2017. The company might be utilizing more debt to finance its operations or to support strategic projects.

Financial ratio analysis of the company

Short-term solvency or liquidity ratios

The below ratios of Johnson & Johnson from 2013 to 2022 reveal a decline in the company's short-term solvency. The current ratio, which indicates the ability to pay off short-term liabilities with short-term assets, dropped from 2.20 to 0.99. It suggests a reduced capability in managing short-term debts. The quick ratio, which excludes inventory from assets, declined from 1.89 to 0.77. It indicates challenges in covering short-term liabilities when inventory is not considered. Most notably, the cash ratio, a measure of the company's ability to pay short-term

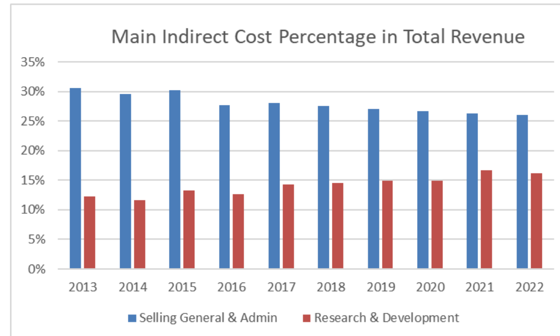


Figure 12

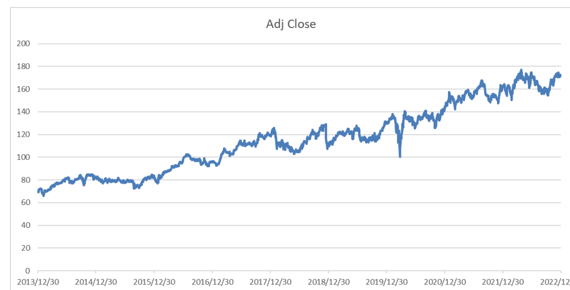


Figure 13

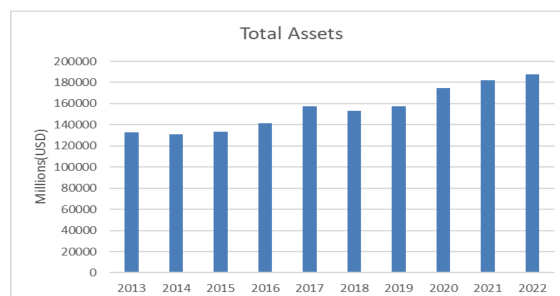


Figure 14

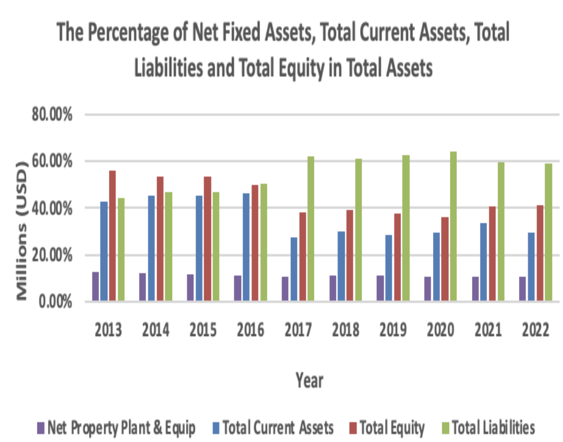


Figure 15

liabilities with cash and cash equivalents, significantly fell from 0.82 to 0.25, showing a substantial decrease in liquidity.

RATIOS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current ratio	2.20	2.36	2.17	2.47	1.41	1.47	1.26	1.21	1.35	0.99
Quick ratio	1.89	2.04	1.88	2.16	1.12	1.20	1.01	0.99	1.12	0.77
Cash ratio	0.82	0.58	0.49	0.72	0.58	0.58	0.48	0.33	0.32	0.25

Long-term solvency or financial leverage ratios

RATIOS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Debt Ratio	0.44	0.47	0.47	0.50	0.62	0.61	0.62	0.64	0.59	0.59
Debt to Equity Ratio	0.79	0.88	0.88	1.01	1.61	1.56	1.65	1.76	1.46	1.44
Equity Multiplier Ratio	1.79	1.88	1.88	2.01	2.61	2.56	2.65	2.76	2.46	2.44
Long-term Debt Ratio	0.10	0.12	0.10	0.16	0.20	0.18	0.17	0.19	0.16	0.14

The financial ratios indicate changes in the company's long-term debt management and capital structure. The increase in Total Debt Ratio and Equity Multiplier Ratio, indicates a growing proportion of assets financed through debt. The Debt to Equity Ratio has seen a significant increase from 0.79 in 2013 to 1.44 in 2022, suggesting a heavier reliance on debt financing compared to equity financing. The Long-term Debt Ratio exhibits a general increase over the analyzed period, reaching its highest point at 0.2 in 2017 then slightly declining to 0.14 in 2022. This pattern suggests that while Johnson & Johnson has utilized long-term debt as part of its financing strategy, there has been a conscious effort to reduce this reliance in more recent years.

Asset management or turnover ratios

RATIOS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Inventory Turnover	2.84	2.78	2.67	2.66	2.89	3.15	3.05	3.04	2.87	2.49
Days' Sales in Inventory	128.70	131.33	136.49	137.08	126.18	115.86	119.48	119.98	126.99	146.56
Receivables Turnover	6.09	6.77	6.53	6.14	5.67	5.79	5.67	6.08	6.14	5.88
Days' Sales in Receivables	59.95	53.94	55.91	59.40	64.41	63.08	64.41	60.00	59.49	62.13
Fixed Asset Turnover	4.27	4.61	4.41	4.52	4.50	4.79	4.65	4.40	4.95	4.79

Johnson & Johnson's inventory and receivables management ratios from 2013 to 2022 show declined trends in efficiency. The Inventory Turnover ratio exhibits a downward trend, decreasing from 2.84 to 2.49 finally, indicating slower inventory sales. Also, Days' Sales in Inventory increased from 128.70 to 146.56 days, suggesting inventory stayed unsold for longer periods by 2022. The Receivables Turnover ratio fluctuated, peaking at 6.77 in 2014, but overall decreased slightly to 5.88 by 2022, indicating a minor reduction in the speed of collecting receivables. The Days' Sales in Receivables shows a general increase trend over the period, which means that it takes slightly longer for the company to collect payments. The Fixed Assets Turnover ratio shows variability, but generally maintains a positive trend. It started at 4.27 in 2013, has fluctuated over the years, reaching the high point of 4.95 in 2021 then falling slightly to 4.79 in 2022. This shows that the company's efficiency in generating sales from fixed assets has improved over the past decade, despite some changes from year to year.

Profitability ratios

RATIOS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Profit Margin	19.4%	22.0%	22.0%	23.0%	1.7%	18.8%	18.4%	17.8%	22.3%	18.9%
Return on Assets	10.4%	12.4%	11.6%	11.7%	0.8%	10.0%	9.6%	8.4%	11.5%	9.6%
Return on Equity	18.7%	23.4%	21.7%	23.5%	2.2%	25.6%	25.4%	23.3%	28.2%	23.4%

The above ratios reveal significant fluctuations in profitability, asset returns, and equity returns. The profit margin varied notably, with a significant dip occurring in 2017. A similar trend is also observed in the ROA and ROE ratios, indicating varying efficiency in using assets and shareholders' equity to generate profit.

INDUSTRY ANALYSIS

In analyzing the strategic positioning and performance of Johnson & Johnson, it's crucial to consider the landscape of its competitors. This comparative analysis provides valuable insights into market trends, industry benchmarks, and strategic opportunities. In this study, we focus on Pfizer Inc., Merck & Co Inc., and Eli Lilly Inc. as the primary competitors for comprehensive analysis. These companies are selected due to their operational similarities and market influence.

Industry Overview

Pfizer, one of the world's largest research-based pharmaceutical companies, closely aligns with Johnson & Johnson's diverse portfolio. The company is involved in the global exploration, development, manufacturing, marketing, sale, and distribution of biopharmaceutical products and consumer healthcare products, making it a relevant benchmark. The company provides medications and vaccines across diverse therapeutic areas, including cardiovascular, metabolic, migraine, women's health, infectious diseases, and COVID-19 prevention and treatment.[16] Merck & Co. is another pharmaceutical company competitor to Johnson & Johnson. The company places a strong emphasis on research and development in biopharmaceutical products, aligning with Johnson & Johnson's innovative approach in healthcare. The company specializes in various fields, including oncology, immunology, hospital acute care, neuroscience, diabetes, cardiovascular, and virology. Merck is also involved in the development of oral antiviral treatments for COVID-19 and produces a range of vaccine products for pediatrics, adolescents, and adults.[17] Lastly, Eli Lilly Inc. is another competitor in the pharmaceutical industry with Johnson & Johnson. The company primarily focuses on areas such as diabetes, immunology, neuroscience, oncology, and other therapies, offering a relevant comparison given its similar market focus.[18]

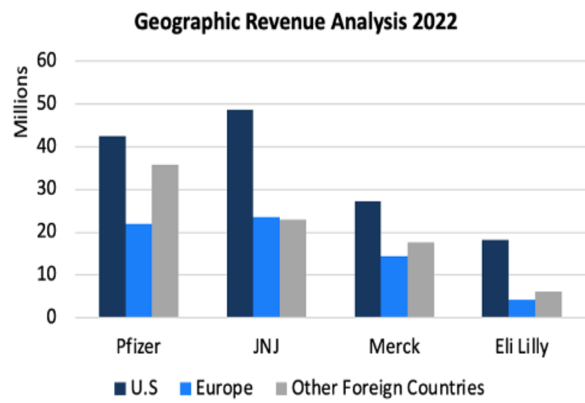


Figure 16

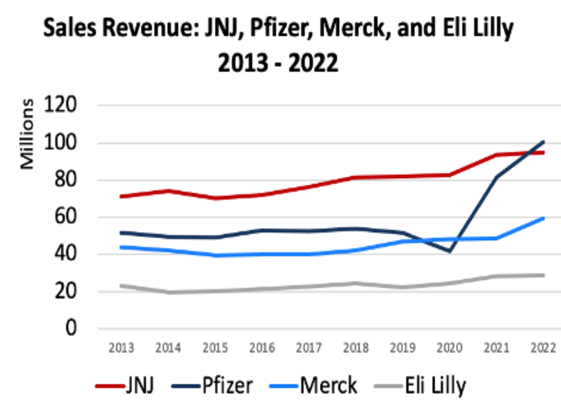


Figure 17

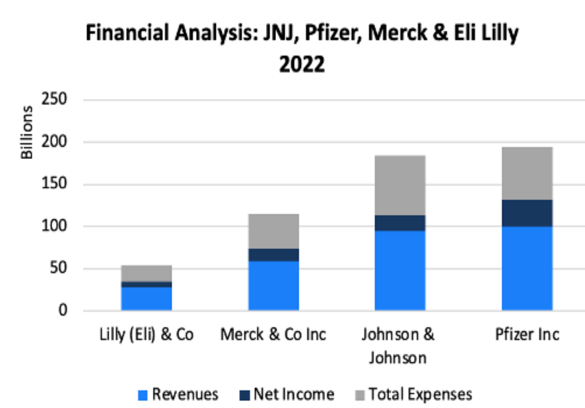


Figure 18

Geographic Revenue Analysis

Figure 16 displays the sales revenue of Pfizer, Johnson & Johnson (JNJ), Merck, and Eli Lilly across different geographical regions in 2022. Pfizer generated a substantial portion of its revenue in the United States, especially in other foreign countries, indicating a strong international market presence. Johnson & Johnson's sales in the U.S. were also significant, surpassing the sales revenue of Pfizer; however, its sales revenue in international countries was still behind Pfizer. In comparison to JNJ and Pfizer, Merck's revenue is spread across regions in the U.S., Europe, and other international countries. In contrast, Eli Lilly's revenue is comparatively smaller across regions compared to the three pharmaceutical companies: Pfizer, Johnson & Johnson (JNJ), and Merck.

Revenue Growth, Profitability, and Operational Performance Analysis

The sales revenue of Pfizer, Johnson & Johnson (JNJ), Merck, and Eli Lilly significantly increased from 2013 to 2022, especially in 2020, due to the unprecedented impact of the pandemic on the healthcare system. Millions of people worldwide were exposed to Covid, leading to higher demand for various pharmaceutical products. Pfizer and Johnson & Johnson were actively involved in the development and production of COVID-19 vaccines. The other two pharmaceutical companies, Merck and Eli Lilly, also participated in the development and production of oral treatments for COVID-19.[17]

The increased demand for Covid-19 treatments led to a surge in sales revenues, associated with increased profitability. As seen in Figures 17 and 18, the sales revenue of Pfizer sharply increased from 2020 to 2022, making it the company with the highest revenue and achieving the highest profit in 2022, followed by Johnson & Johnson, Merck, and Eli Lilly. Figure 19 reveals that Pfizer was the company that achieved the highest EBITDA among the four companies in 2022, highlighting the company's robust operational performance and profitability.

EPS, Market Cap, and Market Value Insights

The revenue of a company reflects the total income generated from its operations, while Earnings Per Share (EPS) represents the profit attributed to each outstanding share of common stock. Despite Pfizer having high revenue, its profitability on a per-share basis is comparatively lower than the other three companies, as shown in Figure 20. Johnson & Johnson has the

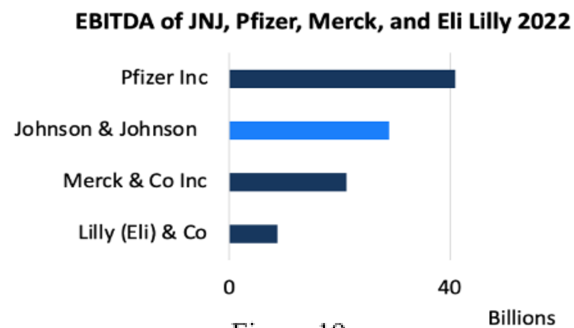


Figure 19

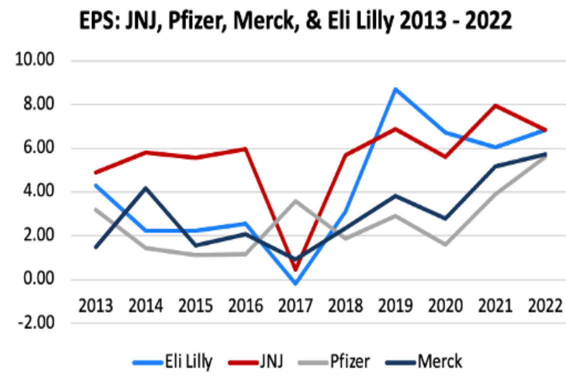


Figure 20

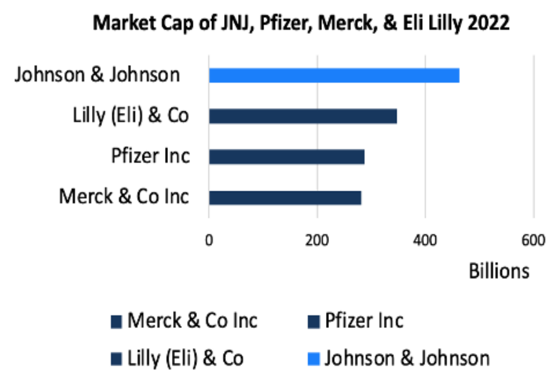


Figure 21

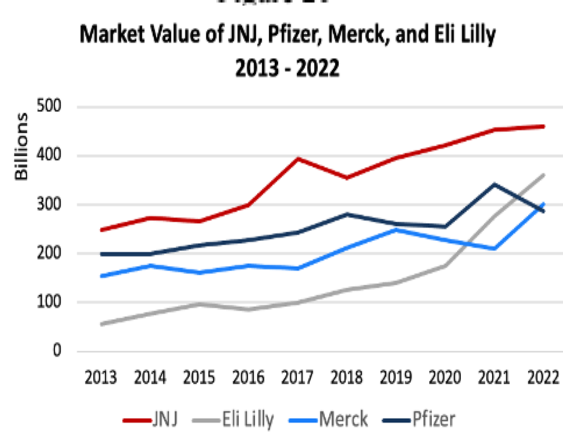


Figure 22

highest EPS at 6.86, followed closely by Eli Lilly with an EPS of 6.57. The EPA of Eli Lilly in 2022 was a 12.75% increase from 2021.

Pfizer and Merck have slightly lower EPS of 5.59 and 5.73, respectively. This data indicates that for each share of common stock, JNJ and Eli Lilly generated higher earnings, indicating strong profitability per share compared to Pfizer and Merck. Lilly surpassed its larger competitor Pfizer in market capitalization because its shares continued to rise after the successful launch of its newest diabetes treatments, and the anticipation of promising significant potential new launches next year contributed to the company's robust growth potential, making it attractive to investors.[19] Figure 21 and 22 indicate that Johnson & Johnson remained the top-ranked biotech and pharmaceutical company in the world based on market capitalization and market value, followed by Eli Lilly, Pfizer, and Merck in 2022.

Financial Ratio Analysis and Comparison

Liquidity Ratios
<u>Current Ratio</u>
Current Ratio of competitive companies
From Figure 23, Pfizer displayed a high current ratio exceeding 2 in 2013 and 2014, but experienced a significant drop in 2015, hitting the lowest in 2019, with the ratio for other years generally fluctuating around 1.3. Overall, there is a downward trend in the current ratio, indicating a potential tightening in liquidity over time. For Merck & Co, the current ratio started strong around 2 in 2013, demonstrating a solid liquidity position. However, there was a gradual decline over the years, reaching around 1 by 2020, which could signal a weaker short-term debt repayment capability during that period. The ratio's rebound in 2021 and 2022 suggests improvements in liquidity conditions, potentially reflecting strategic adjustments in asset management to better position itself in terms of liquidity.
Eli Lilly's current ratio was lower in 2013 and dropped to its lowest in 2014, followed by a gradual rise. Yet, starting in 2019, the ratio began to decline again, which might indicate that the company's immediate liquidity has been somewhat constrained.
Johnson & Johnson's Performance Relative to Industry Standards
Figure 25 depicts the current ratios of Johnson & Johnson compared to the yearly industry average from 2013 to 2022.

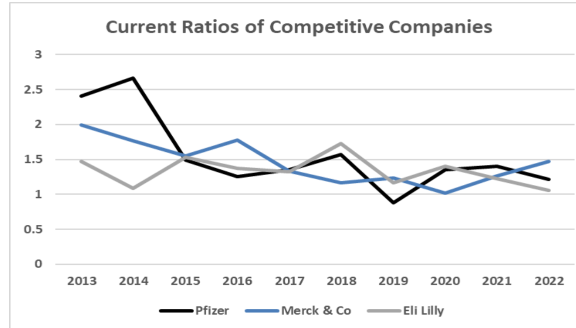


Figure 23

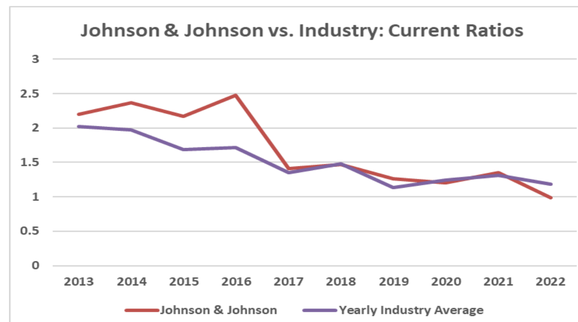


Figure 24

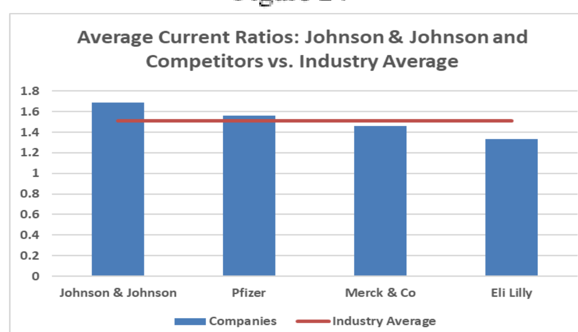


Figure 25

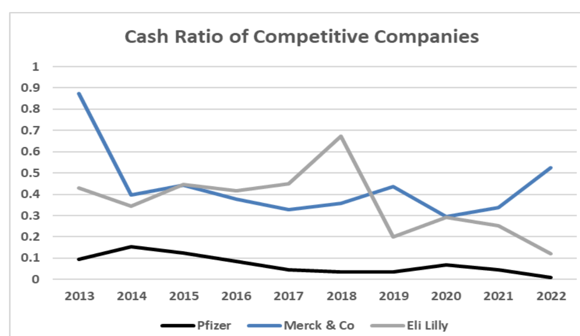


Figure 26

During this period, Johnson & Johnson's current ratio was consistently above the industry average, indicating that the company generally maintains better liquidity than the average of its industry peers. However, it's noteworthy that both the company's ratio and the industry average have been on a downward trajectory, which may suggest an industry-wide pattern of decreasing liquidity.

When comparing the average current ratios over this period for Johnson & Johnson and its competitors — Pfizer, Merck & Co, and Eli Lilly — against the industry average (Figure 10), Johnson & Johnson's average current ratio surpasses the industry benchmark. This implies that the company's approach to managing its liquidity is effective, ensuring sufficient liquid assets are available to meet short-term obligations.

<u>Cash Ratio</u>

Cash Ratio of competitive companies

In Figure 26, Pfizer's cash ratio started low in 2013, below 0.1, and has stayed below 0.1 since 2015, with an overall downward trend. This could suggest that the company has a decreasing proportion of cash and cash equivalents relative to its short-term liabilities. Merck & Co's cash ratio experienced a rapid decline in 2014, but from 2015 to 2022, the ratio showed relatively minor fluctuations and has been displaying an upward trend in recent years. This indicates a possible improvement in maintaining liquid assets to cover short-term debts. Eli Lilly's cash ratio showed an increasing trend in the initial years but began to decline after 2018. This suggests that the company may have utilized more of its cash or increased its short-term liabilities, potentially indicating strategic investments or expansions that have affected its immediate liquidity.

Johnson & Johnson's Performance Relative to Industry Standards

For the majority of the time, Johnson & Johnson's cash ratio was above the industry average, particularly from 2014 to 2017(Figure 27), when Johnson & Johnson's cash ratio was significantly higher than the industry average. This suggests that during these years, Johnson & Johnson had a more substantial amount of cash and cash equivalents relative to its short-term liabilities. However, starting in 2018, Johnson & Johnson's cash ratio began to decline and was below the industry average in 2022.

In Figure 28, Johnson & Johnson's average cash ratio over the ten years is compared to that of Pfizer, Merck & Co, and Eli Lilly, and it is evident that Johnson & Johnson's average cash ratio is notably above the industry average. Thus, on average,

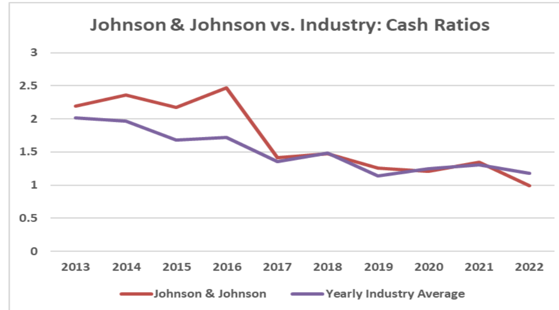


Figure 27

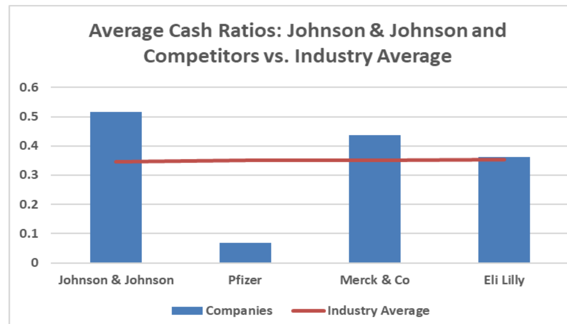


Figure 28

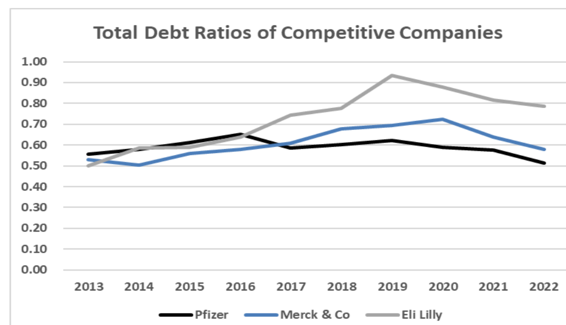


Figure 29

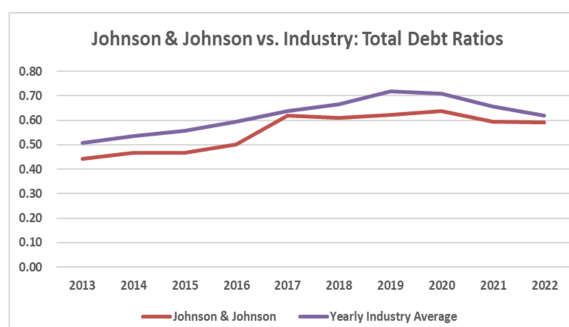


Figure 30

this indicates that Johnson & Johnson has generally managed its cash and cash equivalents efficiently over the past decade, maintaining a liquidity level that allows it to meet short-term obligations more comfortably than many of its industry peers.

Financial Leverage Assessment

<u>Total Debt Ratio</u>

Total Debt Ratio of competitive companies

As shown in Figure 29, Pfizer's total debt ratio showed minimal fluctuation throughout the period, with a downward trend beginning in 2016. Merck & Co's total debt ratio displayed a general upward trend over the entire period, indicating a relative increase in its debt level, but there has been a slight decline in the past two years. Eli Lilly's debt ratio was relatively low initially but showed a clear upward trend, which started to decline after 2019. Overall, these three companies have shown a trend toward reducing their total debt ratio in recent years, suggesting that they may be lowering their reliance on debt financing.

Johnson & Johnson: Industry Averages Comparison

Johnson & Johnson's total debt ratio(Figure 30) appears to have been consistently lower than the industry average from 2013 to 2022, which suggests the company has a lower level of debt relative to its assets than the average company in the industry. The ratio increases for both Johnson & Johnson and the industry up to around 2017, after which Johnson & Johnson's ratio becomes stable.

So, in comparing the ten-year average of Johnson & Johnson's total debt ratio, it is observed that their average is lower than all three competitors and is significantly below the industry average(Figure 31). This could suggest that Johnson & Johnson employs less debt in its capital structure compared to the average company within the industry.

<u>Debt to Equity Ratios</u>

Debt to Equity Ratios of competitive companies

In Figure 32, Pfizer has a relatively stable and low debt to equity ratio throughout the period, which suggests a conservative approach to leveraging. Merck & Co also maintains a stable and low debt to equity ratio, similar to Pfizer, which indicates a similar conservative financial structure. Eli Lilly displays a significant spike in its debt to equity ratio around 2019, which is an outlier compared to the rest of the data. Such a spike could indicate a substantial increase in debt, or reduction in equity. After 2019, the ratio rapidly declines, suggesting that the event was temporary or the company took

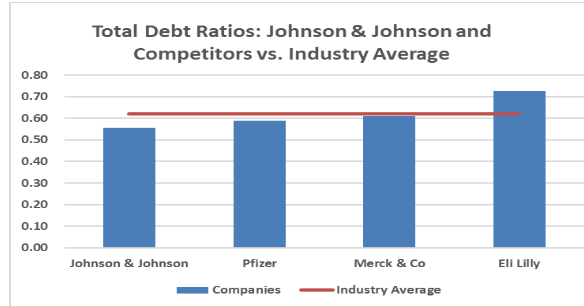


Figure 31

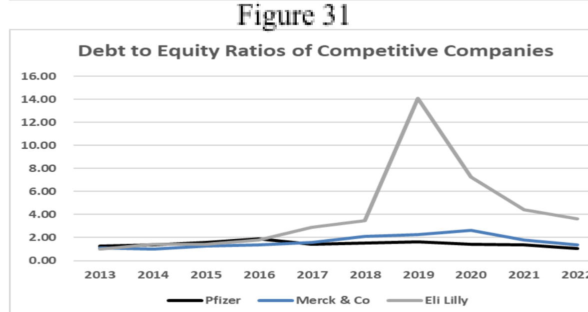


Figure 32

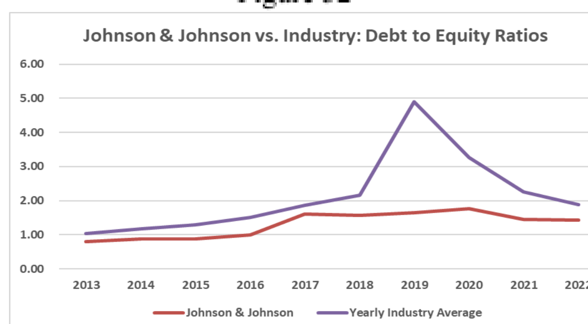


Figure 33

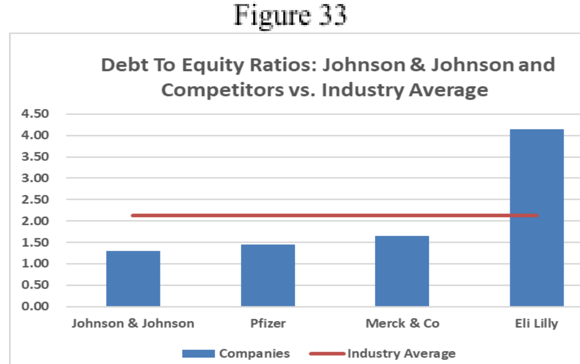


Figure 34

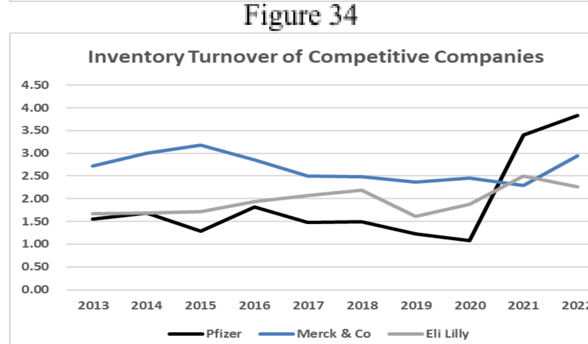


Figure 35

measures to reduce its debt or increase equity.

Johnson & Johnson: Industry Averages Comparison

Johnson & Johnson's debt to equity ratio is consistently below the industry average from 2013 to 2022(Figure 33) , which implies that the company has been more conservative in its use of debt relative to equity compared to the overall industry. There's an observable peak around 2018 for the industry average, during which Johnson & Johnson's ratio also increases but remains below that peak.

Over the past decade, Johnson & Johnson's ratio is lower than all three companies and below the industry average(Figure 34). It has managed to keep its leverage lower than the industry average, suggesting a more conservative capital structure relative to many of its peers.

Operational Efficiency

<u>Inventory Turnover Ratio</u>

Inventory Turnover Ratio of competitive companies

Pfizer shows the most significant change, with a sharp increase in inventory turnover since 2020(Figure 35), suggesting that Pfizer may have accelerated its inventory clearance, moving products from stock to sales at a faster pace. Merck & Co's inventory turnover rate shows a general downward trend from 2015 to 2021, suggesting a slower rate of inventory movement during those years, but still higher than other two companies during the period. Eli Lilly's inventory turnover rate appears to be relatively high and stable compared to Merck & Co and Pfizer, with some fluctuations.

Johnson & Johnson vs. Industry Benchmarks

Johnson & Johnson's inventory turnover is consistently above the industry average from 2013 to 2022(Figure 36), indicating that the company can sell and restock its products at a faster rate than the average industry participant.

In Figure 37, with Johnson & Johnson's inventory turnover being higher than that of Pfizer, Merck & Co, and Eli Lilly, it is clear that the company stands above the industry average. This suggests that Johnson & Johnson is adept at converting its inventory into sales more quickly than the overall market, reflecting efficient operational management and a strong demand for its products.

<u>Receivables Turnover Ratio</u>

Receivables Turnover Ratio of competitive companies

Pfizer's receivables turnover ratio has some fluctuation but shows a general upward trend, particularly from 2020 to 2022. The receivables turnover for Merck & Co is relatively stable

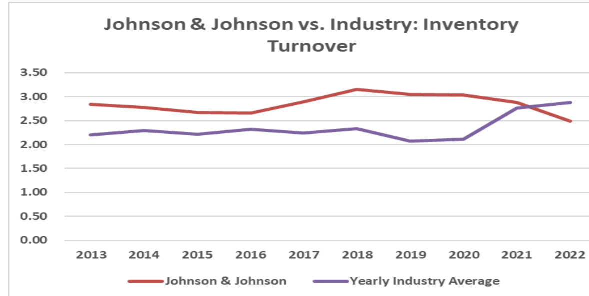
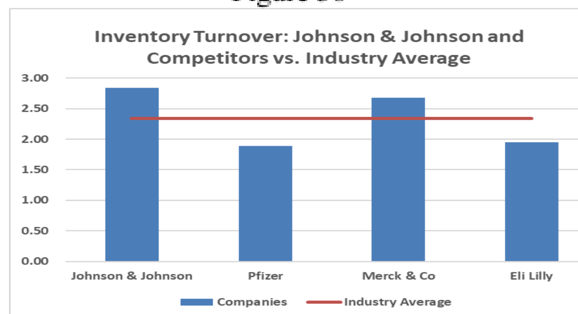


Figure 36



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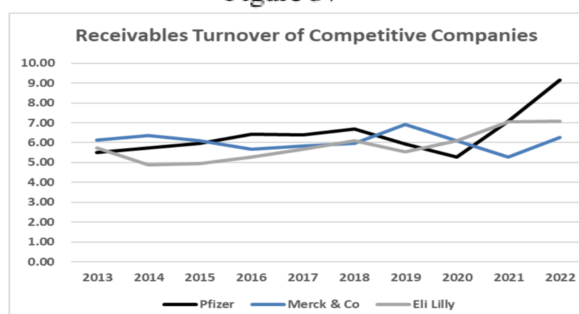


Figure 38

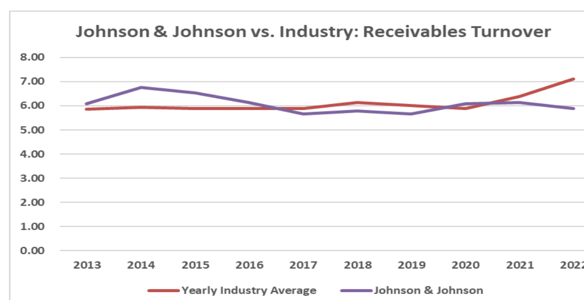


Figure 39

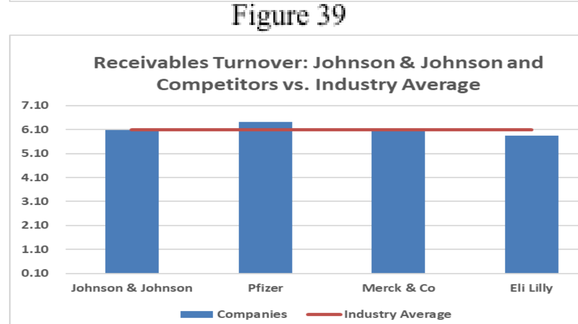


Figure 40

throughout the period, with slight variations(Figure 38). The trend is generally flat, suggesting consistent performance in terms of receivable collections.
Eli Lilly's receivables turnover overall shows an ascending trend, indicating that the company has potentially been improving its collection processes, thereby converting its receivables into cash more efficiently over time.

Johnson & Johnson vs. Industry Benchmarks

Johnson & Johnson's receivables turnover closely tracks the industry average over the period from 2013 to 2022(Figure 39). The ratio shows a very slight upward trend in recent years, indicating a steady improvement in the company's ability to collect receivables.
On average, Johnson & Johnson's receivables turnover being very close to its competitors, yet slightly below the industry average as shown in Figure 40, suggests that there is a slight lag in its efficiency in converting receivables into cash compared to the broader industry.

Profitability Metrics

<u>Profit Margin</u>

Profit Margin of competitive companies

Pfizer shows considerable volatility in its profit margin, with notable peaks and troughs throughout the period(Figure 41). However, it sees a significant recovery in recent years, with a rising trend towards 2022. Merck & Co also exhibits volatility but with less extreme fluctuations compared to Pfizer. Merck & Co's profit margin appears to recover from a dip in 2015 and generally trends upward towards the end of the period, indicating improving profitability. Eli Lilly has the most dramatic changes, with a steep drop into negative profit margins in 2014, suggesting a loss during that year. Following this, there's a substantial recovery, and the profit margin improves significantly.

Johnson & Johnson's Performance Relative to Industry Standards

Johnson & Johnson's profit margin was below the industry average throughout most of the period from 2013 to 2022, especially in 2017, but recovered quickly and gradually approaches the industry average(Figure 42).
Johnson & Johnson's average profit margin(Figure 43) is below that of Pfizer, but it is higher than Merck & Co and Eli Lilly. However, it is still below the industry average. This indicates that while Johnson & Johnson maintains a stronger profitability than some of its key competitors, it has room for improvement when compared to the broader industry performance.

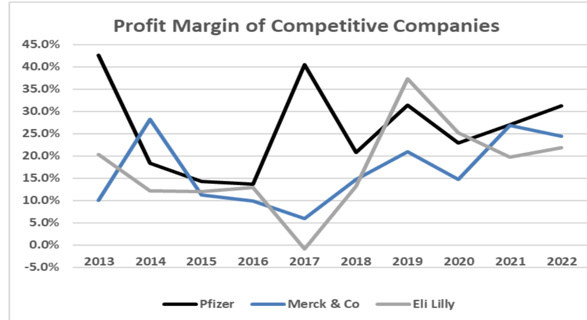


Figure 41

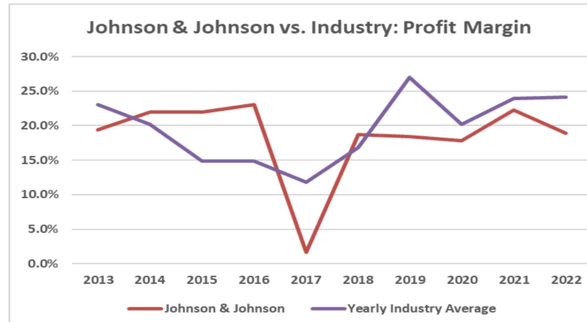


Figure 42

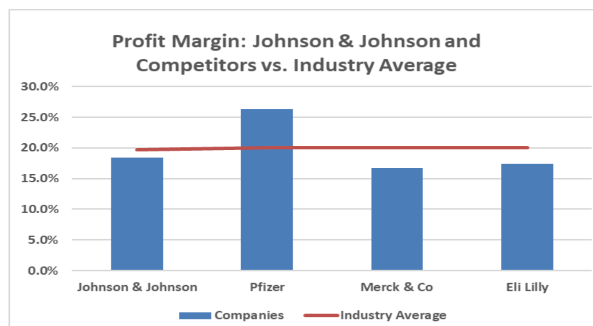


Figure 43

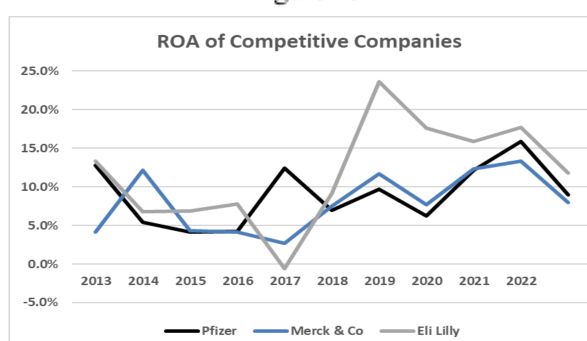


Figure 44

Return on Assets (ROA)

ROA of competitive companies

As shown in Figure 44, Pfizer has experienced fluctuations in its Return on Assets (ROA), but overall, the trend has been zigzagging upwards, indicating improved efficiency in generating profits from its assets. Merck & Co's ROA has been on an upward trend since 2017, showing a relatively stable performance compared to the other companies. Eli Lilly, on the other hand, shows the most variability in its ROA, with a significant drop in 2017, followed by a sharp increase peaking in 2019, and a subsequent decrease. By 2022, Eli Lilly's ROA closely aligns with that of Pfizer and Merck & Co.

Johnson & Johnson's Performance Relative to Industry Standards

Johnson & Johnson's ROA(Figure 45) shows fluctuations similar to the industry average, with significant variances over the years. Prior to 2019, it was generally above the average, but it fell below the average after 2017 and has been gradually approaching the industry mean since then.

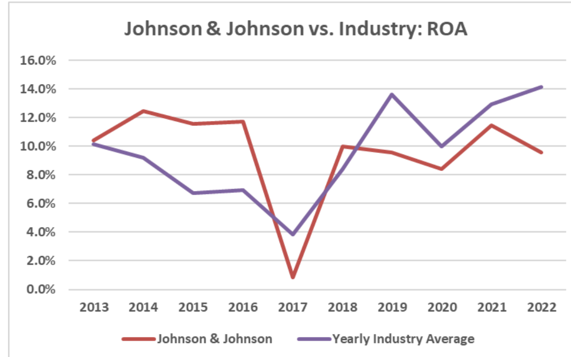


Figure 45

When comparing the averge ROA ratio of Johnson & Johnson with Pfizer, Merck & Co, and Eli Lilly against the industry average(Figure 46), Johnson & Johnson's ROA is above that of Pfizer and Merck & Co but below Eli Lilly, and it is approximately at the level of the industry average. In summary, while Johnson & Johnson performs better than some competitors in terms of ROA, there is room for improvement, suggesting there may be opportunities for the company to further optimize its asset utilization.

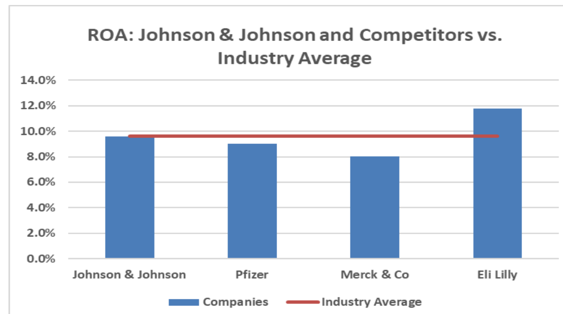


Figure 46

Return on Equity (ROE)

ROE of competitive companies

In Figure 47, Pfizer's ROE shows a fluctuating pattern, with a rising trend in recent years, especially in 2022, reaching a peak for the decade. Merck & Co's ROE is also volatile, but it demonstrates a more pronounced upward trend beginning in 2017. A similar change is observed with Eli Lilly. This suggests that each of these companies has been increasingly successful at generating profit from their shareholders' equity over the latter part of the decade.

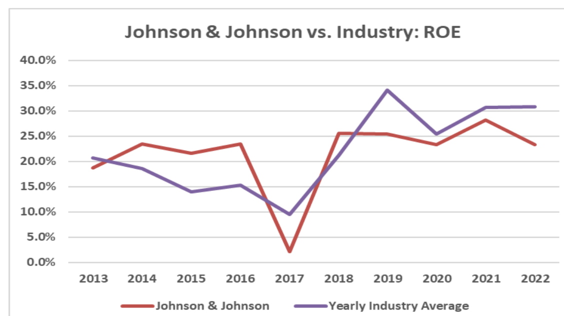


Figure 47

Johnson & Johnson's Performance Relative to Industry Standards

Johnson & Johnson's ROE has experienced variations over time, with a noticeable decline occurring in 2017(Figure 48). Following that year, the ROE began to ascend, yet it remained

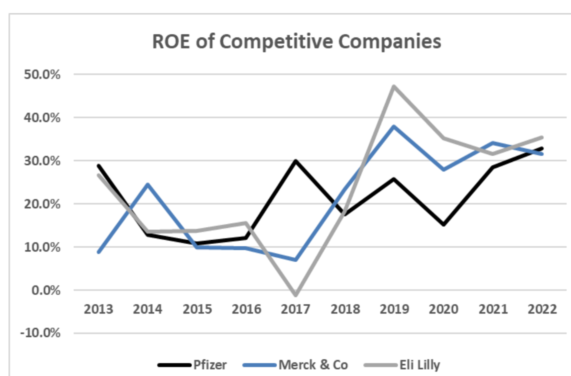


Figure 48

below the industry average. When measured against its direct competitors(Figure49), Johnson & Johnson's Return on Equity (ROE) is competitive, aligning closely with that of Pfizer and Merck & Co but still marginally below the industry average. This data indicates there is room for improvement in its ROE to meet or even surpass the broader industry benchmarks.

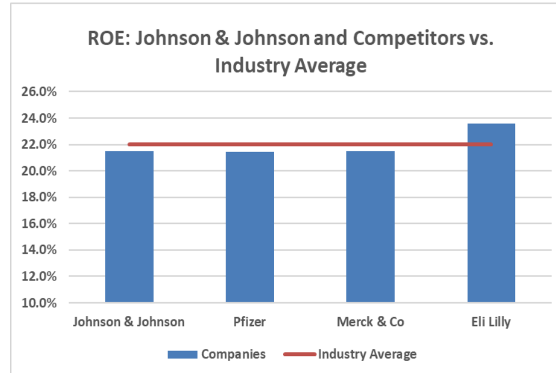


Figure 49

Market Valuation

Price to Earnings Ratio

According to recent data[4], Johnson & Johnson's P/E ratio is lower than Lilly's, which is the highest and surpasses the industry average(Figure 50). This suggests investors may see Lilly as having strong growth potential. Johnson & Johnson, along with Pfizer and Merck, have P/E ratios below the industry norm, indicating that the market views these companies as more conservatively valued, with Johnson & Johnson perceived as the most conservative among them.

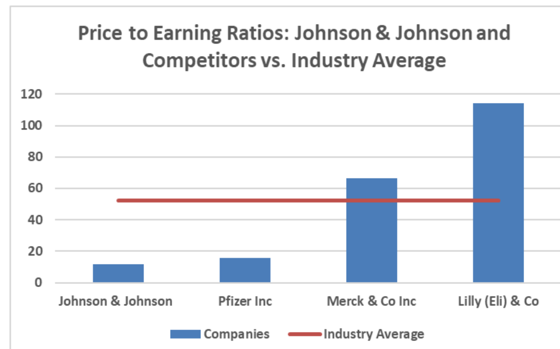


Figure 50

Price to Book Value Ratio

When comparing with Pfizer Inc and Merck & Co Inc, Johnson & Johnson's P/B ratio is comparable(Figure 51), suggesting that investors price these entities similarly, potentially viewing them as stable companies whose stock prices are aligned more closely with their tangible assets. Contrastingly, Eli Lilly & Co's P/B ratio significantly exceeds not only that of Johnson & Johnson but also the other two companies, as well as the industry average. This suggests that the market may perceive Eli Lilly as a company with stronger growth prospects or valuable intangible assets compared to Johnson & Johnson, Pfizer, and Merck. The industry average serves as a benchmark, and Johnson & Johnson's position below this threshold could indicate a market undervaluation or a conservative assessment of its assets and growth potential.

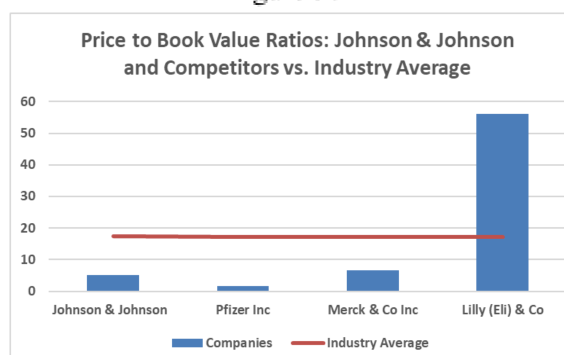
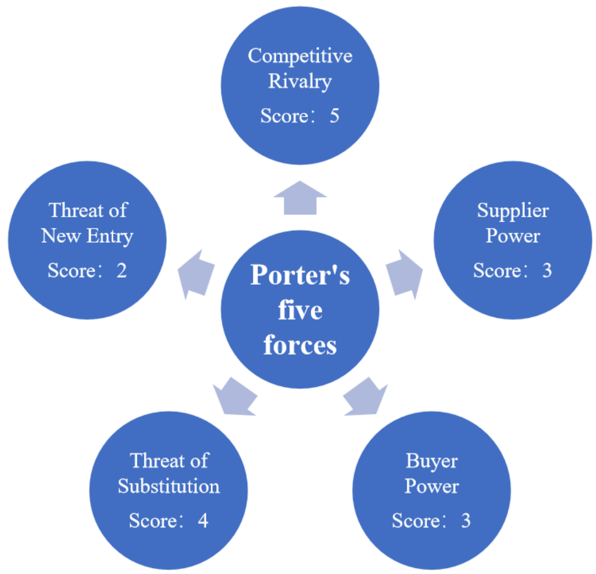


Figure 51

COMPETITIVE POSITIONING

Johnson & Johnson is a leading global healthcare company with businesses in pharmaceuticals, medical devices, and consumer products. In the face of a changing global market and an increasingly competitive environment, a comprehensive assessment of its competitive positioning is particularly important.

PORTER'S FIVE FORCES MODEL ANALYSIS



Score range: 1~5(From low to high)

Competitive Rivalry within the Industry

Johnson & Johnson operates in a highly competitive industry, facing intense rivalry across its diverse business segments: consumer health products, pharmaceuticals, and medical devices. Pfizer, Merck, and Eli Lilly are the biggest competitors in the pharmaceutical sector of the global pharmaceutical industry, each possessing significant research and development capabilities along with extensive product portfolios. Additionally, market saturation across consumer healthcare products and medical devices has led to intense competition for market share, pushing the company to continuously innovate and adapt to maintain its leadership position.[20]

Threat of New Entrants

The threat of new entrants to Johnson & Johnson in areas like pharmaceuticals, medical devices, and consumer health is low, due to high barriers such as strict regulatory approvals, significant R&D costs, and the need for broad distribution networks. Gaining FDA approval requires costly clinical trials, and establishing a trusted brand demands extensive marketing and a track record of safety and effectiveness. Although technology and digital health innovations have made market entry slightly easier, Johnson & Johnson's strong brand, diverse product lineup, and regulatory expertise effectively protect it from new competition.[21]

Bargaining Power of Suppliers

The bargaining power of suppliers in Johnson & Johnson's operations is low to moderate, and varies across its diverse business segments. Due to its large-scale and global purchasing strategies, Johnson & Johnson generally has strong negotiating leverage to obtain favorable terms and prices from suppliers, especially for widely available raw materials and standard components. However, for specialized inputs required in the pharmaceutical and medical devices sectors, where suppliers possess unique patents or proprietary technologies, suppliers have greater influence, which can impact Johnson & Johnson's expenses and its capacity for innovation.[22]

Bargaining Power of Buyer

The bargaining power of buyers in relation to Johnson & Johnson also differs across its product lines. In the pharmaceutical and medical devices sectors, large buyers like hospitals, insurance companies, and government health programs have considerable power due to their significant purchasing volumes. These buyers can negotiate lower prices or better terms, given their substantial buying power and the competitive nature of the market. On the consumer health side, individual customers have less negotiating power due to the retail nature of the transactions.

Threat of Substitutes

The threat of substitutes for Johnson & Johnson can be moderate to high. In consumer healthcare, the threat is heightened due to the wide range of alternative brands and generic products available, giving consumers many choices to switch based on price or preferences. The pharmaceutical segment also encounters a considerable threat from alternative medications and treatments available for specific conditions. This scenario underscores the competitive challenges Johnson & Johnson faces, emphasizing the need to closely monitor market dynamics and consumer trends to sustain its market position.[22]

SWOT ANALYSIS

Strengths Analysis

Product Diversity: Johnson & Johnson's wide-ranging portfolio spans Consumer Health, Medical Devices, and Pharmaceuticals, offering a strategic blend that diversifies risk and ensures consistent revenue.
Brand Strength: Renowned for iconic brands such as Johnson's Baby, Neutrogena, and Tylenol. Its strong brand recognition underpins its market dominance.
Worldwide Operations: With a presence in over 60 countries, Johnson & Johnson leverages its global footprint to explore growth opportunities in emerging markets.
Innovation Focus: The company's substantial investments in research and development are evidence to its commitment to innovation. This focus ensures Johnson & Johnson remains competitive by continuously introducing novel and advanced products to the healthcare market.

Weaknesses Analysis

Product Recalls: Johnson & Johnson has navigated through numerous product recalls, which have influenced its financial outcomes and tarnished its brand reputation.
Litigation Risks: The company faces substantial litigation risks due to product liability lawsuits and investigations by government authorities. These legal challenges pose a risk of incurring significant expenses and further damaging its reputation.
Uneven Revenue Distribution: A significant portion of Johnson & Johnson's revenue is heavily concentrated in its pharmaceutical segment, particularly within immunology, where just a few drugs constitute the bulk of sales. This reliance on a limited number of key products exposes the company to risks associated with patent expiration and competitive pressures.[23]

Opportunities Analysis

Strategic Acquisitions: Johnson & Johnson has historically strengthened its revenue and expanded its product lineup through strategic acquisitions, such as the purchase of Tylenol. Continuing to pursue acquisitions can further solidify its market dominance and diversify its offerings.[24]

Emerging Market Penetration: With a significant portion of its pharmaceutical sales concentrated in the US, Johnson & Johnson stands to gain considerably by focusing on markets in Latin America, Africa, and Asia. Keep expanding into these regions could open up new revenue streams and customer segments.

Accessibility for Lower-Income Segments: By offering more cost-effective drug options or implementing discount strategies, Johnson & Johnson could make its products more accessible to lower-income groups. This approach not only broadens its consumer base but also enhances its market penetration and social impact.

Threats Analysis

Challenging Competition: Johnson & Johnson is up against stiff competition from leading global corporations. This intense competitive environment poses a significant threat to its market share and profitability.

Regulatory Challenges: Navigating the complex regulatory landscape across various international markets presents another obstacle for Johnson & Johnson. Stringent regulations can constrain the company's pricing strategies, impacting its overall profitability.

Economic Conditions and Litigation Risks: Global economic conditions, fluctuations in currency exchange rates, and changes in interest rates, along with potential legal challenges, pose significant threats. These factors can negatively impact the company's revenues, expenses, and profit margins, potentially resulting in significant legal expenses and damages.[26]

Rising Presence of Generics: The company's financial performance is increasingly challenged by the surge in generic versions of its pharmaceuticals, notably drugs like Zytiga. The growing market presence of these generics threatens to undermine Johnson & Johnson's profitability and long-term viability.[24]

PROJECTED FINANCIAL STATEMENTS

Projected Income Statements

Sales Revenue Forecast

According to data from 2013 to 2022, Johnson & Johnson's sales revenue growth averaged 3.35%, approximately 0.77% higher than the average inflation rate of 2.58% during the same period, as seen in Figure 52.[27] In 2021, the company experienced a tremendous increase in its sales revenue growth rate during the Covid-19 pandemic, reaching a high growth rate of 13.55%, primarily driven by sales of its COVID-19 vaccine. In 2022, the inflation rate rapidly reached its highest level due to the impact of the Covid-19 pandemic and the war in Ukraine. The company's sales growth rate saw a significant decline of 1.25%, primarily driven by unfavorable foreign exchange rates

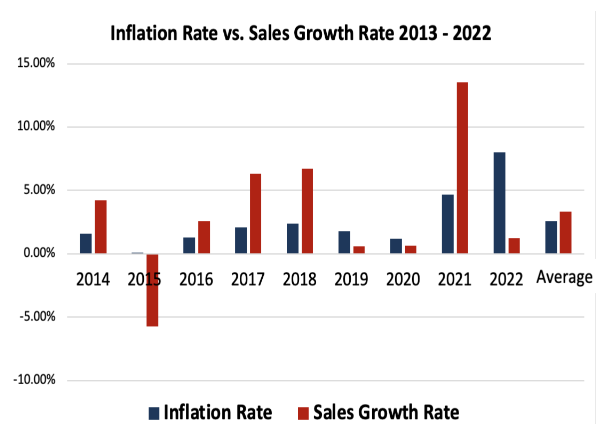


Figure 52

and reduced sales of the COVID-19 vaccine.[28]
The inflation rate then gradually decreased to 4.1% in 2023.[27] Johnson & Johnson is anticipated to maintain good sales growth into 2023 and 2024, supported by strong demand for its cancer treatments Darzalex and Carvykti, as well as resilient sales of its blockbuster drug Stelara.[29] According to these given factors, we predict that Johnson & Johnson's growth rate will be 6.5% in 2023, with inflation at 4.1%, and a similar growth rate of 6.5% for 2024.

However, the company might face challenges in 2025 due to the expiration of the patent for its top-selling drug, Stelara, in Europe next year. This will open the door to cheaper biosimilars entering the market. The company has struck deals with competitors to delay the launches of their biosimilars until 2025. Amgen will be the first to launch its near-copy, Wezlana in 2025.[30]

Despite the loss of exclusivity for Stelara in 2025, the company has set revenue targets based on its current profile and pipeline. The company will rely on eight key brands to meet its pharmaceutical goals and believes it will achieve an annual compound growth rate of at least 5% with growth in every year, including through next year's Stelara loss of exclusivity.[31]
Figure 53 displays total revenue and sales revenue growth rates from 2013 to 2022, along with forecasts from 2023 to 2032.

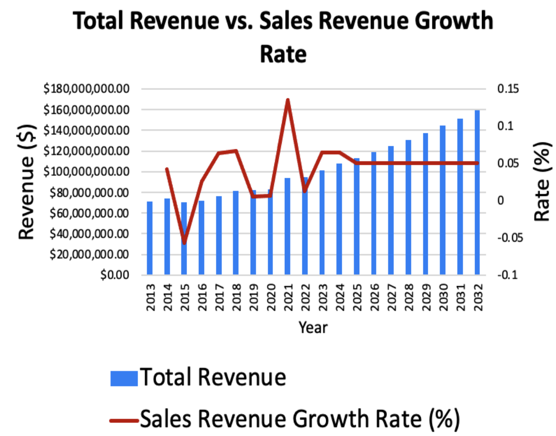


Figure 53

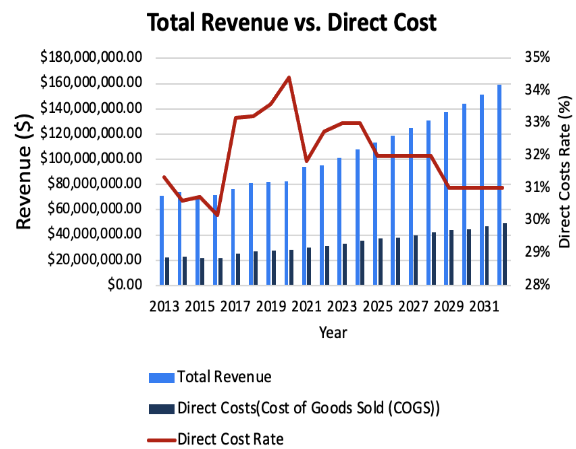


Figure 54

Direct Cost Forecast
Johnson & Johnson's direct cost as a percentage of revenue has shown remarkable stability over the past decade, fluctuating between 31% and 34% from 2013 to 2022, with an average around 32%. Specifically, during the years 2017 to 2020, this ratio was consistently in the range of 33% to 34%, indicating a slight uptrend. However, there has been a modest decline in recent years, suggesting a return towards the lower end of the range. Given its historical cost management performance and leveraging its large-scale operations, Johnson & Johnson is expected to maintain its direct costs at a stable level in the near term, with a potential reduction to around 31% over the next few years, as seen in Figure 54. This outlook is supported by the company's ability to utilize economies of scale, thereby reducing the cost per unit as production volumes increase. Additionally, Johnson & Johnson's commitment to enhancing management practices and operational efficiencies, such as optimizing supply chains and investing in technology, is poised to drive down direct costs further. Coupled with projections of lower future inflation,

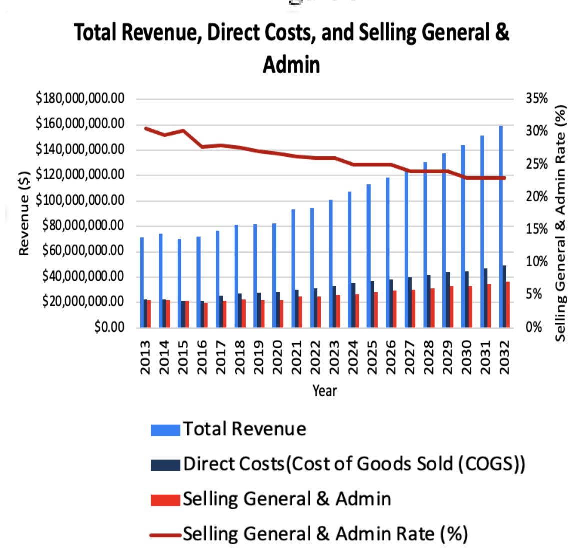


Figure 55

these factors collectively suggest a conducive environment for the company to gradually decrease its direct cost ratio.

Selling, General, and Administrative (SG&A) expenses & Research and Development (R&D) Forecast

Johnson & Johnson's ratio of Selling, General & Administrative (SG&A) expenses to revenue has exhibited a pattern of a 1% decline every two to three years from 2013 to 2022. As a large company with a mature management system, several possible reasons underlie this trend, potentially linked to economies of scale. As the company grows, it can spread its fixed costs over a larger revenue base, effectively reducing the SG&A ratio. Furthermore, the combined proportion of SG&A and Research & Development (R&D) expenses to revenue has remained relatively stable at around 42% to 43% from 2023 to 2032, as indicated in Figure 56. Historical data revealing a steady rise in the R&D proportion underscores a strategic pivot toward innovation and the formulation of new pharmaceuticals and therapeutic solutions. Consequently, this analysis has led to the creation of a forecast, as shown in the table below.

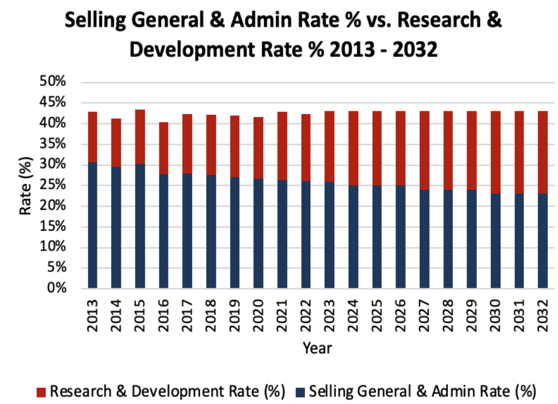


Figure 56

Assumptions	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Sales Revenue Growth Rate (%)	6.50%	6.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Direct Cost Rate	33%	33%	32%	32%	32%	32%	31%	31%	31%	31%
Selling General & Admin Rate (%)	26%	25%	25%	25%	24%	24%	24%	23%	23%	23%
Research & Development Rate (%)	17%	18%	18%	18%	19%	19%	19%	20%	20%	20%

As seen in Figure 57, there is a steady increase in Cost of Goods Sold (COGS), Selling, General & Administrative (SG&A) Expenses, and Research & Development (R&D) Expenses from 2013 to 2022, with the upward trend forecasted to continue through 2032. To boost sales and market share, the company invests more in Selling, General & Administrative (SG&A) expenses compared to Research and Development (R&D) expenses from 2013 to 2022. This upward trend is expected to continue in the forecasted years from 2023 to 2032. SG&A expenses include selling, marketing, advertising, management, administrative expenses, and legal and accounting fees.

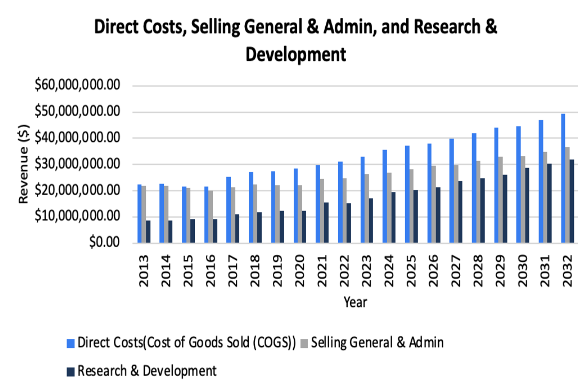


Figure 57

With the projected growth rates, it is predicted that the company's total revenue will increase to $159 billion in 2032, a substantial rise compared to the total revenue of $95 billion in 2022, as illustrated in Figure 58. The company's gross profit is also forecasted to increase 1.7 times over the next 10 years, from $64 billion in 2022 to $109 billion in 2032.

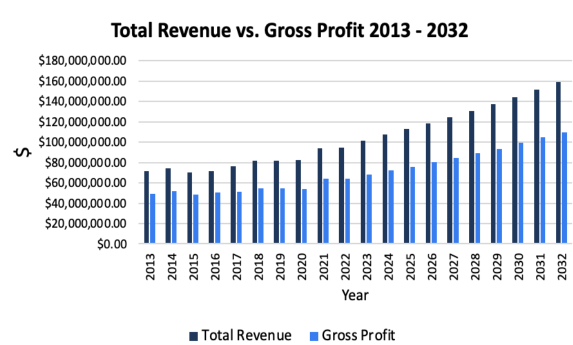


Figure 58

Projected Balance Statements

Cash & Equivalents Forecast

Since 2016, Johnson & Johnson has experienced a declining trend in its Cash & Equivalents as a percentage of sales revenue, with a slowdown in this decline over the past two years, averaging 21% over the decade. However, through continuous investment in research and development (R&D) and market expansion, the company is capable of achieving stable sales growth. As a mature and large corporation, Johnson & Johnson can enhance operational efficiency and optimize cost structures, which could, to some extent, improve the ratio of cash flow to sales revenue. It is foreseeable that over the next decade, the Cash & Equivalents as a percentage of sales revenue for Johnson & Johnson might show a degree of stability and could potentially return to the earlier levels of around 20%, as seen in Figure 59.

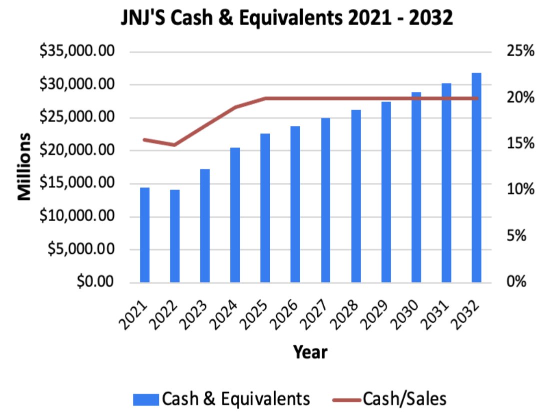


Figure 59

Receivables (ST) Forecast

The receivables (ST) to sales ratio for Johnson & Johnson has remained relatively stable from 2013 to 2022, ranging between 15% and 18%, with an average of 17% (Figure 60). This stability suggests that the company has managed its credit policies and collection processes effectively over this period. Given this historical stability, it is reasonable to anticipate that the future ratio will also remain stable, hovering around the average of 17%.

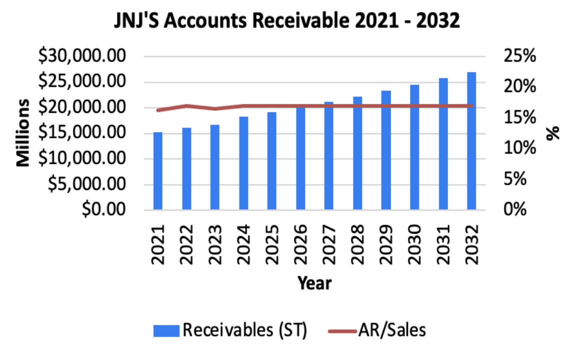


Figure 60

Gross Property Plant & Equip(Fixed Assets) Forecast

Given Johnson & Johnson's historical stability in the fixed assets to sales ratio, consistently between 51% and 54% with an average of 52%, it reflects a well-managed balance between capital expenditure and sales growth. This consistency suggests a strategic alignment in the company's investment and sales strategies, without significant fluctuations due to erratic investment behavior or sales volatility. Figure 61 shows that assuming Johnson & Johnson continues this strategic approach, maintaining its investment in fixed assets in line with sales growth, the future fixed assets to sales ratio is expected to remain around the historical average of 52%.

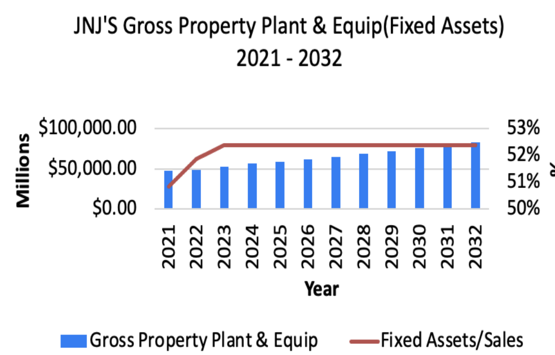


Figure 61

Depreciation Forecast

The pattern in the depreciation to fixed assets (FA) ratio for Johnson & Johnson, fluctuating between approximately 5% and then dropping to around 1% every two to three years from 2013 to 2022, suggests a cyclical pattern in the company's capital expenditure and asset utilization practices. Given this observed pattern, it's reasonable to forecast that Johnson & Johnson will

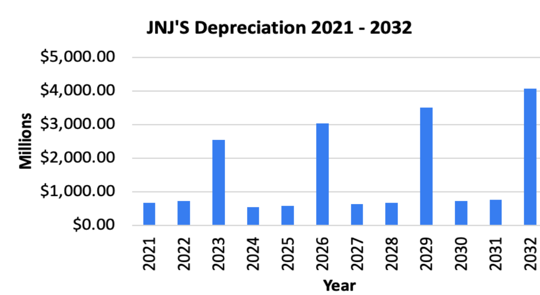


Figure 62

continue to exhibit a similar cyclical pattern in its depreciation to FA ratio in the coming years, as indicated in Figure 62.

Accounts Payable & Accrued Exps, etc Forecast

From 2013 to 2018, Johnson & Johnson's ratio of accounts payable (AP), accrued expenses (Accr Exp), and other similar liabilities to sales revenue remained relatively stable. However, starting in 2019, this ratio began to show a clear upward trend. This change could be attributed to increased investments in research and development (R&D), market expansion, and a rise in mergers and acquisitions activities, leading to higher operational costs and accrued expenses. Additionally, this trend may also reflect the company's financial strategy adjustments aimed at optimizing cash flow and extending payment periods. Based on these observations, it is anticipated that Johnson & Johnson's ratio may continue to remain at a high level in the coming years, as shown in Figure 63. As the company achieves stable growth in sales revenue, the growth of this ratio is expected to stabilize.

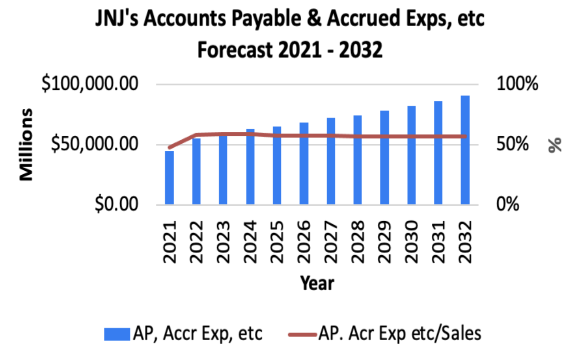


Figure 63

Parameter Estimates	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
COGS/Sales	32%	33%	33%	33%	32%	32%	32%	32%	31%	31%	31%	31%
RD/Sales	17%	16%	17%	18%	18%	18%	19%	19%	19%	20%	20%	20%
SGA/Sales	26%	26%	26%	25%	25%	25%	24%	24%	24%	23%	23%	23%
Depreciation/Fixed Assets	1%	1%	5%	1%	1%	5%	1%	1%	5%	1%	1%	5%
Tax rate	8.33%	17.42%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
Cash/Sales	15%	15%	17%	19%	20%	20%	20%	20%	20%	20%	20%	20%
AR/Sales	16%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%
Other Assets/Sales	109%	118%	116%	116%	116%	116%	116%	116%	116%	116%	116%	116%
Fixed Assets/Sales	51%	52%	52%	52%	52%	52%	52%	52%	52%	52%	52%	52%
AP. Acr Exp etc/Sales	48%	59%	59%	59%	58%	58%	58%	57%	57%	57%	57%	57%

Figure 64 displays a positive indicator of Johnson & Johnson's short-term financial health and stable liquidity. The company is consistently predicted to maintain healthy working capital over the next 10 years, ensuring the ability to cover short-term obligations and fund operations. The surplus in current assets could potentially empower the company to seize strategic opportunities as they arise, whether through acquisitions, research and development, or other growth initiatives.

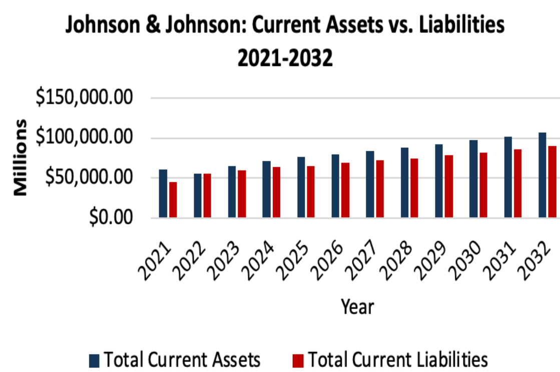


Figure 64

WACC Financial Analysis

External Factors	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Risk Free Rate	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%
Market risk premium	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
Interest rate on debt (cost of debt)	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%
Annual sales growth	6.50%	6.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Cost of equity	7.58%	7.69%	7.52%	7.58%	7.52%	7.47%	7.41%	7.47%	7.41%	7.41%
Capital Structure (% debt)	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%
WACC (discount rate)	7.15%	7.25%	7.10%	7.15%	7.10%	7.05%	7.01%	7.05%	7.01%	7.01%
Perpetual CF growth	3.90%									
Perpetual discount	7.01%									

The table above displays projected metrics of financial and economic factors over the period from 2023 to 2032. The risk-free rate is estimated based on the current U.S. inflation rate and a 10-year Treasury bond yield. According to historical data, it is predicted that the risk-free rate, market risk premium, and interest rate on debt will remain constant at 4.33%, 5.6%, and 4.9%, respectively, throughout the next 10 years.

Figure 65 shows that the beta of JNJ stock fluctuated around 0.7 from 2013 to 2021. It slightly decreased to 0.6 in 2022, is forecasted to fluctuate around 0.6 until 2024, and is projected to decrease slightly to 0.55 by 2032. This indicates that the JNJ stock is less volatile than the overall market, suggesting a relatively lower risk associated with JNJ than the broader market.

FINANCIAL EVALUATION

Discounted Cash Flow Analysis

Most of Johnson & Johnson's revenue is generated from the pharmaceuticals segment, particularly in immunology and oncology, followed by sales of consumer products and medical devices. The outlook predicts that Johnson & Johnson will continue to beat profit and sales estimates and experience growth from 2023 to 2032, as seen in Figure 66 and Figure 67.

Over the next 10 years, the annual free cash flow generated by the company is expected to fluctuate, with an increase by 2032 indicating potential changes in operational efficiency, investment decisions, and overall financial performance. A significant increase in free cash flow might suggest improved profitability or efficient capital management (Figure 68).

Over the next 10-year period, the predicted cost of equity for the company is 7.58%, slightly decreasing to 7.41% by 2032. The estimated capital structure percentage of debt is around 12.79%. The relatively low cost of equity may indicate a favorable position for the company in attracting equity investors. The

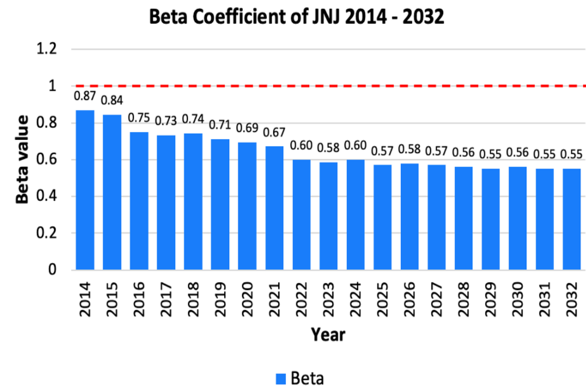


Figure 65

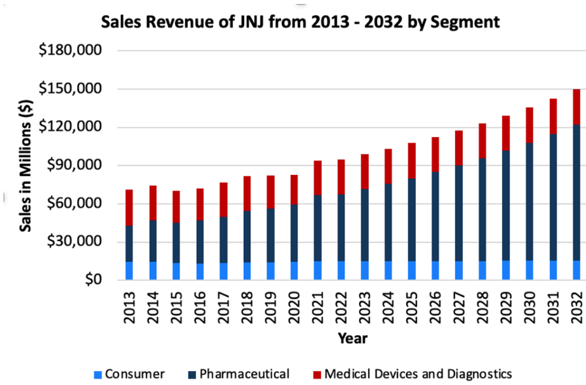


Figure 66

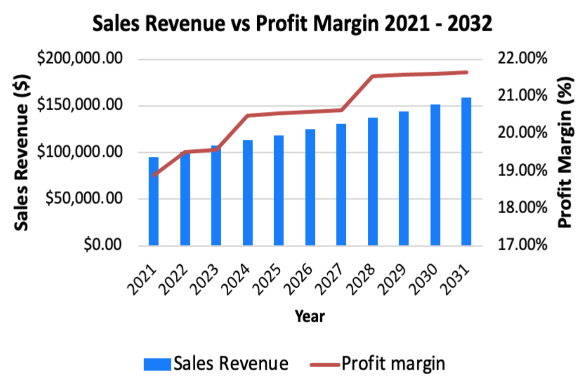


Figure 67

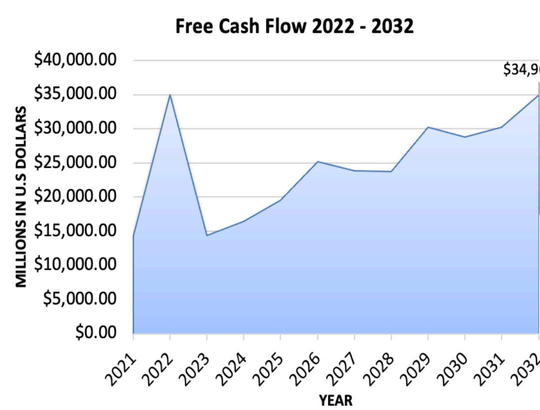


Figure 68

overall cost of financing for the company is represented by the weighted average cost of capital (WACC), projected to average around 7.09% over the next 10 years, as shown in Figure 69. Additionally, Figure 66 indicates that the return on invested capital (ROIC) is predicted to be larger than the weighted average cost of capital (WACC). This illustrates that the company is expected to earn a return on its capital that exceeds the cost of that capital, thereby creating value for its investors.

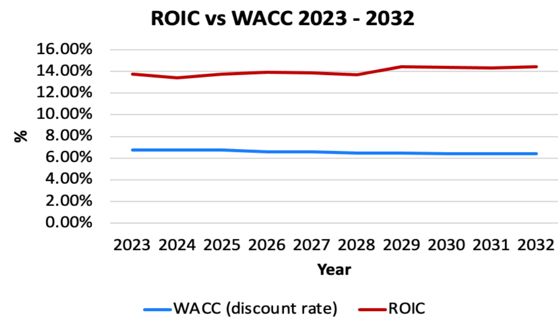


Figure 69

The enterprise value (EV) represents the overall value of the business. A discounted cash flow (DCF) model is applied in this study to estimate the investment's value based on its expected future cash flows and the company's overall value. According to the DCF model below, in 10 years from 2022, the company is projected to be worth $1.17 billion. The model's projected stock price is $296.70, which exceeds the current stock price as of the closing on February 22, 2024, at $155.56.[32] This suggests that the company's stock is undervalued, and it is recommended that investors consider buying JNJ stock today because the future cash flows are anticipated to be worth more than what the market thinks they're worth today.

Discounted cash flow (DCF) Model

Fiscal Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Year in the Future		0	1	2	3	4	5	6	7	8	9	10
Operating CF	$22,176.00	$20,331.00	$23,516.77	$22,859.38	$24,979.34	$28,649.11	$27,522.42	$28,890.10	$34,331.29	$33,086.65	$34,732.55	$39,716.16
Net CAPEX	$875.00	$1,574.00	$3,731.56	$3,444.00	$2,821.43	$2,962.50	$3,110.62	$3,266.16	$3,429.46	$3,600.94	$3,780.98	$3,970.03
Net NWC	$7,009.00	-$16,261.00	$5,450.47	$2,999.87	$2,658.54	$530.04	$556.55	$1,893.31	$679.04	$712.99	$748.64	$786.07
Unlevered Free Cash Flow	$14,292.00	$35,018.00	$14,334.74	$16,415.51	$19,499.37	$25,156.57	$23,855.25	$23,730.63	$30,222.79	$28,772.73	$30,202.92	$34,960.06
											Terminal Value	$1,169,415.67
												$1,204,375.73
Present Value of Free Cash Flow		$35,018.00	$13,377.76	$14,271.10	$15,871.06	$19,082.71	$16,926.21	$15,764.08	$18,813.70	$16,677.34	$16,419.93	$611,893.26
Enterprise Value	$794,115.14											
EV/share	$330,881.31											
Net Debt	$82,038.52											
Equity Value	$712,076.62											
Projected Stock Price	$296.70											

Relative Valuation

12.30.2022	JNJ	Pfizer	Merck	Eli Lilly	Average Industry
Scale	Thousands	Thousands	Thousands	Thousands	
Market Cap	$423,960,000.00	$287,763,840.00	$281,572,669.43	$347,614,582.88	
Shares outstanding	$2,400,000.00	$5,616,000.00	$2,537,833.88	$950,182.00	
NET INCOME	$17,941,000.00	$21,980,000.00	$13,049,000.00	$5,581,700.00	
NET INCOME (last)	$19,682,226.79	$31,372,000.00	$14,519,000.00	$6,244,800.00	
EBITDA	$26,509,915.39	$40,008,000.00	$22,191,000.00	$8,650,000.00	
SALES	$101,114,295.00	$100,330,000.00	$59,283,000.00	$28,541,400.00	
BOOK VALUE (EQUITY)	$88,441,669.35	$97,204,000.00	$41,300,000.00	$11,307,000.00	
P/E (forward or last earnings)	21.54	9.17	19.39	55.66	28.08
EBITDA multiplier	15.99	7.19	12.69	40.19	20.02
Sales multiplier	4.19	2.87	4.75	12.18	6.60
Book Value multiplier	4.79	2.96	6.82	30.74	13.51

JNJ	Cap Based on AVG	Price Per Share
P/E (forward or last earnings)	$552,615,729.16	$230.26
EBITDA multiplier	$530,798,422.06	$221.17
Sales multiplier	$667,257,285.97	$278.02
Book Value multiplier	$1,194,595,177.94	$497.75
	Average	$306.80

The table above displays a comparable company analysis of Johnson & Johnson with its competitors in the pharmaceutical industry: Pfizer, Merck, and Eli Lilly, using a relative evaluation method. According to the relative valuation method, Johnson & Johnson has the greatest market capitalization compared to the three other major pharmaceutical companies, making it one of the most valuable companies in the world (Figure 70). Johnson & Johnson would be underpriced relative to the industry on average.

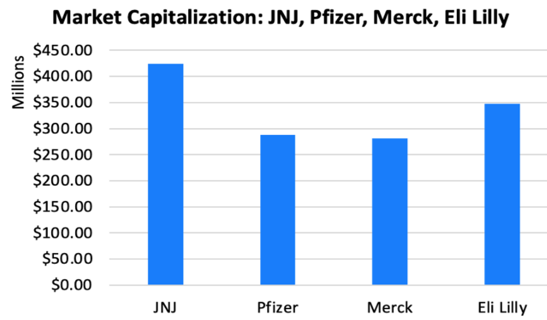


Figure 70

As seen in Figure 71, the company's price-earnings ratio, at 21.54, is lower than the industry average of 28.08. This means that Johnson & Johnson's market is paying $21.54 for every dollar of earnings that the company produces, while the industry, on average, pays $28.08 for every dollar of earnings.

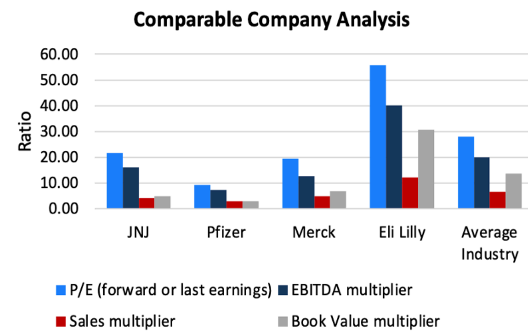


Figure 71

The EBITDA multiple of Johnson & Johnson is 15.9, greater than that of Pfizer and Merck, but falls below Eli Lilly and the industry average. Although the market capitalization of Eli Lilly is the smallest compared to the other three, in general, the PE ratio and EBITDA multiplier of Eli Lilly are at the highest levels, surpassing the industry average. This suggests positive future performance, with investors having higher expectations for future earnings growth and a willingness to pay more for them. However, potential risks are associated with a PE ratio more significant than the industry average, such as an overvalued stock. If the market's expectations are too optimistic and unmet, there is a risk of a correction, leading to a decline in the stock price. Among the four companies, the relative valuation results illustrate the market's balanced estimation of JNJ's profit-generating ability and the potentially higher expectations for JNJ's future earnings and growth.

In addition, the relative valuation reveals that Johnson & Johnson's sales multiplier at 4.19, reflects the market's confidence in the sustainability of JNJ's sales revenue growth, as well as the appeal and competitiveness of its products. Furthermore, with a book value multiplier of 4.79 compared to other companies in the industry, investors have moderately recognized JNJ's asset quality and potential for future profitability.

Combining the industry averages for the four indicators, we can conclude that Johnson & Johnson's relative valuation is $306.80, approximately 96.27% higher than its current stock price. This indicates that after a comprehensive evaluation based on key financial metrics, Johnson & Johnson's (JNJ) stock may be undervalued by the market. Its current trading price could be significantly lower than its intrinsic value. This might present an opportunity for investors to purchase an undervalued stock.

Monte Carlo Simulation

Monte Carlo Simulation is a computational algorithms technique using random sampling to model the probability of different outcomes. In this study, we applied Monte Carlo Simulation based on the Geometric Brownian Motion (GBM) model to predict the stock price of Johnson & Johnson for the next 10 years using historical stock prices.[33] We conducted 3000 trials using randomly generated numbers from an underlying distribution for uncertain variables. Johnson & Johnson's current stock price, closing on Feb 27, 2024, was $160.98.[34] Figure 72 shows that the simulation performed for the JNJ stock market since Feb 27, 2024, indicates an upward trend. According to the Monte Carlo Simulation, in the next 10 years, the company's future stock price will range from $96.38 to $332.27. As shown in the histogram in Figure 73, the simulation predicts the average future stock price of Johnson & Johnson to be $178.35 with the highest frequency and a standard deviation of $31.54. According to the simulation, this indicates that the JNJ stock may be undervalued by the market, suggesting a potentially advantageous buying opportunity for investors.

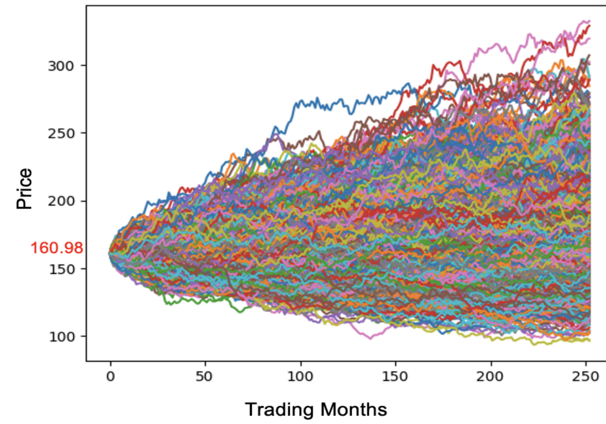


Figure 72

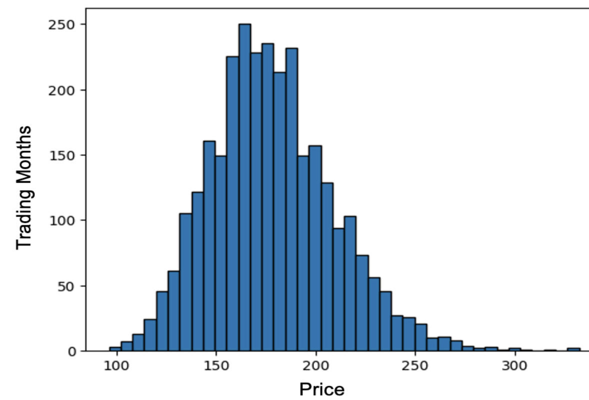
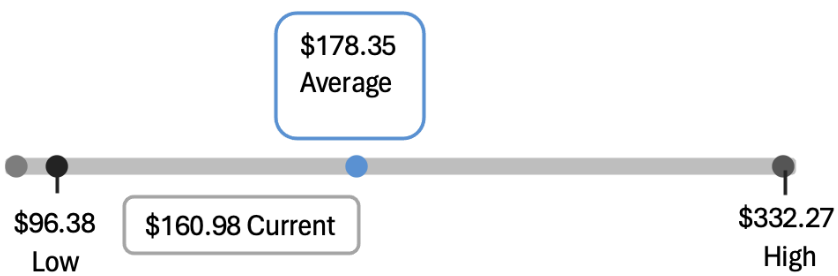


Figure 73



Price Target

In evaluating the target stock price for Johnson & Johnson, we thoroughly considered the company's business model, market position, and long-term growth potential. As a company with significant operations in pharmaceuticals, medical devices, and consumer products, Johnson & Johnson demonstrates excellent business diversification and cash flow stability. This stability, along with continuous investment in R&D, indicates considerable long-term growth potential for Johnson & Johnson. Therefore, the DCF (Discounted Cash Flow) model is highly suitable for assessing Johnson & Johnson's intrinsic value, as it captures the company's long-term earnings stream.

At the same time, given the competitiveness of the healthcare industry and the volatility of market sentiment, the relative valuation model is also a critical component of our target stock price evaluation. We have chosen to allocate 60% of the weight to the DCF model and the remaining 40% to the relative valuation model. This weighting ensures that we consider both Johnson & Johnson's intrinsic value and long-term growth prospects, as well as the competitive landscape and market sentiment within the industry. Therefore, according on the Monte Carlo Simulation, DCF model, and relative valuation method, the future target price for Johnson & Johnson in the next 10 years is projected to be $300.74

Valuation	DCF Model	Relative Valuation
Estimated Price	$296.7	$306.8
Weights	60%	40%
Target Price	**300.74**	

In conclusion, Johnson and Johnson stands as a leading healthcare company. Despite facing risks such as regulatory, operational, and market challenges due to intense competition and the increasing presence of generic medications, several factors contribute to the belief that Johnson and Johnson will maintain its global leadership in healthcare. These factors include the company's diverse portfolio spanning multiple therapeutic areas in consumer healthcare products, pharmaceuticals, and medical devices. Furthermore, the company exhibits a strong commitment to innovation and research, along with robust financial strength. According to our models and comprehensive analysis, we recommend investors buy JNJ stock now, as it is predicted that future cash flows will be worth more than the market currently perceives.

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APPENDIX

```
[20] # Import required libraries
     import math
     import matplotlib.pyplot as plt
     import numpy as np
     import pandas as pd
     import yfinance as yf
```

```
data = yf.download('JNJ','2013-01-01','2024-02-27')
data.head()
```

```
[*********************100%%**********************]  1 of 1 completed
```

Date	Open	High	Low	Close	Adj Close	Volume
2013-01-02	71.019997	71.019997	70.300003	70.839996	51.974972	12874200
2013-01-03	70.980003	71.000000	70.449997	70.739998	51.901596	9598300
2013-01-04	71.239998	71.730003	71.010002	71.550003	52.495876	11631800
2013-01-07	71.500000	71.529999	71.190002	71.400002	52.385841	7548800
2013-01-08	71.309998	71.650002	71.250000	71.410004	52.393177	9825300

[23]

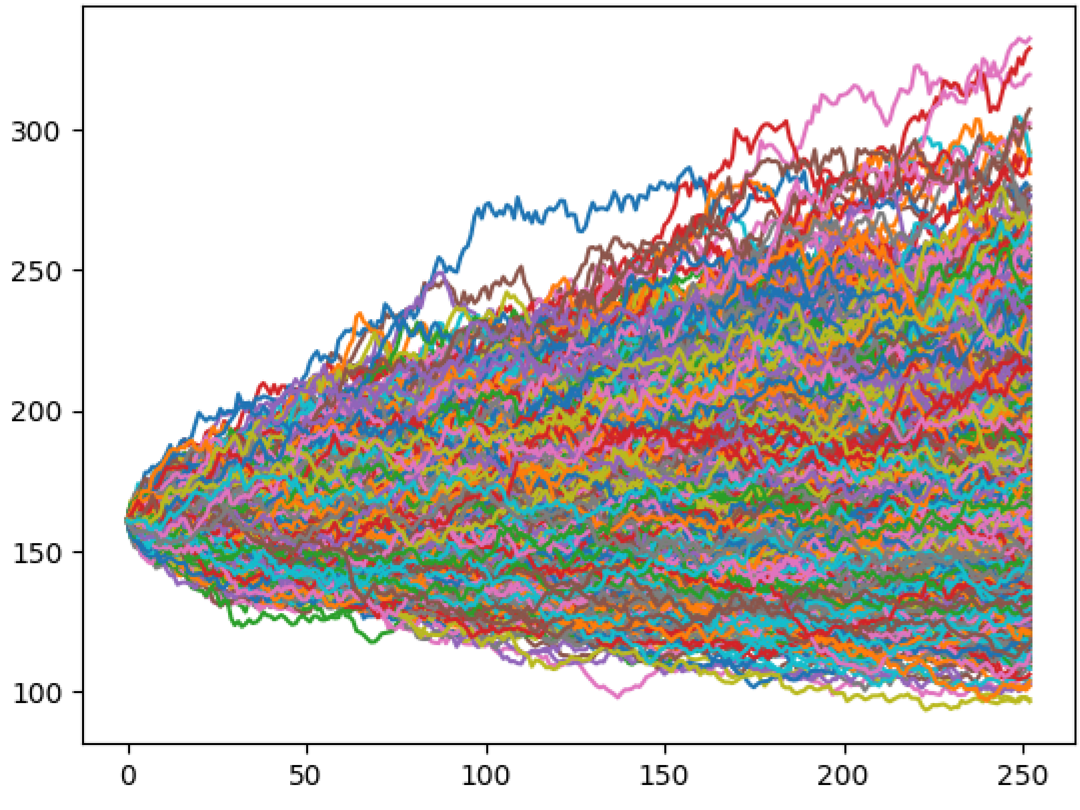
```python
time_elapsed = (data.index[-1] - data.index[0]).days
```

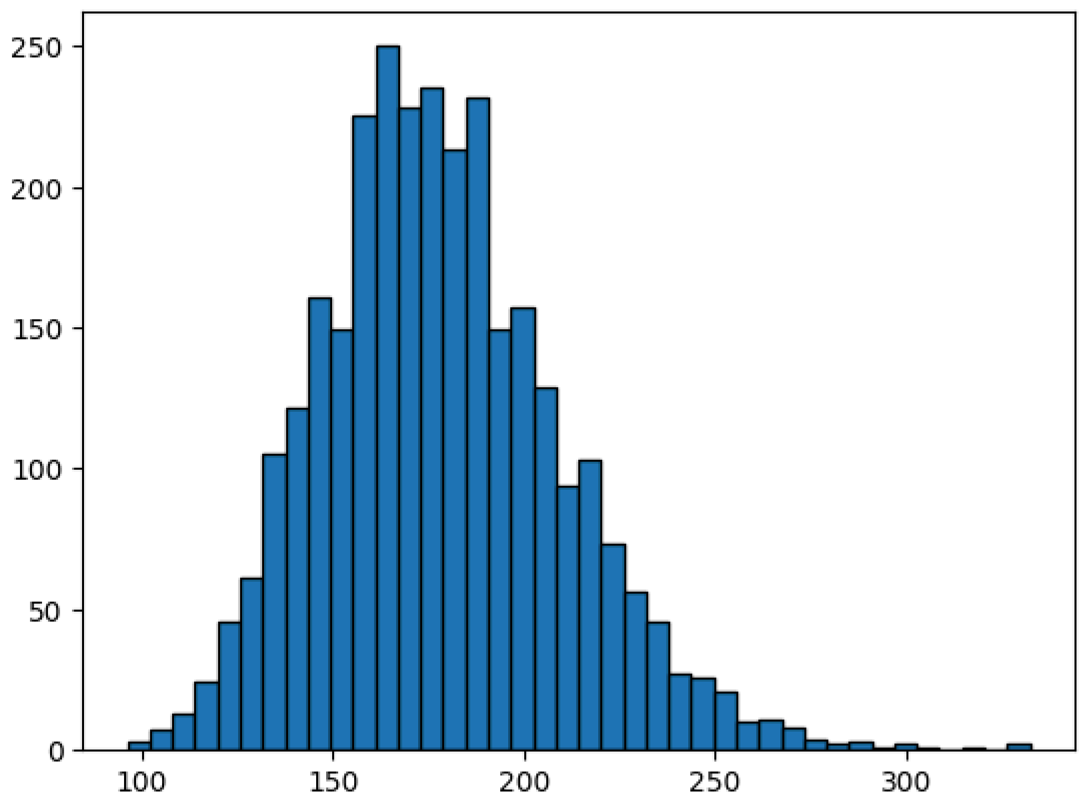
```python
total_growth = (data['Adj Close'][-1] / data['Adj Close'][1])

number_of_years = time_elapsed / 365.0

cagr = total_growth ** (1/number_of_years) - 1

std_dev = data['Adj Close'].pct_change().std()


number_of_trading_days = 252
std_dev = std_dev * math.sqrt(number_of_trading_days)

print ("cagr (mean returns) : ", str(round(cagr,4)))
print ("std_dev (standard deviation of return : )", str(round(std_dev,4)))
```

```
cagr (mean returns) :  0.1067
std_dev (standard deviation of return : ) 0.1752
```

[25]

```python
number_of_trials = 3000

closing_prices = []

for i in range(number_of_trials):
    daily_return_percentages = np.random.normal(cagr/number_of_trading_days, std_dev/math.sqrt(number_of_trading_days),number_of_trading_days)+1
    price_series = [data['Adj Close'][-1]]

    for j in daily_return_percentages:
        price_series.append(price_series[-1] * j)

    closing_prices.append(price_series[-1])

    #plot all random walks
    plt.plot(price_series)

plt.show()

#plot histogram
plt.hist(closing_prices,bins=40, edgecolor='black')

plt.show()
```


300
250
200
150
100
0
50
100
150
200
250


250
200
150
100
50
0
100
150
200
250
300

[28]

```
mean_end_price = round(np.mean(closing_prices),2)
print("Expected price: ", str(mean_end_price))
std_dev_end_price = round(np.std(closing_prices), 2)
print("stdev: ", str(std_dev_end_price))
```

```
Expected price:  178.35
stdev:  31.54
```

[27]

```
# Find minimum and maximum closing prices
min_price = min(closing_prices)
max_price = max(closing_prices)

# Print the results
print("Minimum closing price: ", min_price)
print("Maximum closing price: ", max_price)
```

```
Minimum closing price:  96.37600559570171
Maximum closing price:  332.27442778951865
```