

Company: Johnson & Johnson	Ticker: JNJ	Price: \$165.00	Industry: Large Pharmaceutical Sub Industry: MedTech, Pharma, Consumer Health
Target Price: \$171.60 Stop Loss: \$132.00 52 Week High/Low: 186.69 – 155.72	TTM P/E: 23.78 Forward P/E: 16.21 EPS: \$7.18	Beta: 0.618 Credit Rating: AAA Rating Outlook: Stable	Market Cap: 421,718 Avg. Vol.: 7,128,089 Div. Yield: 2.78%

Company Background:

Johnson & Johnson is a multinational conglomerate leader in its three business segments: Pharmaceuticals, MedTech, and Consumer Healthcare. The company is known for its brand image, stability, 59 years of dividend growth, and strong free cash flows. They are the largest manufacturer of pharmaceutical products in the United States and the second-largest producer of medical devices. Johnson and Johnson plan to spin-off their Consumer Healthcare segment by the end of 2023.

Industry Outlook:

Despite inflationary pressures, global pharma sales (excluding vaccines), measured at ex-manufacturers' prices, were above expectations in 2021 in every region, both on a value and volume basis. Overall, global pharma sales increased 8% in value and 4% in volume in 2021, according to IQVIA information. In most regions, growth approximated to the average of 8%. The exception was Latin America, which grew by 20%. Overall, the global pharma market is projected to reach \$1.7 trillion in 2025, excluding vaccines, with the US and China representing more than 50% of the global market. ¹

Investment Thesis:

Johnson and Johnson trades at a slight discount in the market and is the perfect equity to be the foundation of our portfolio. We see value in the company's history for stability in times of economic turmoil and long-term performance compared to the S&P 500. JNJ consistently devotes more revenue to research and development than its competitors and still produces enough free cash flow to increase its dividend continuously for 59 years. Finally, we see value in a strategic spin-off for the Consumer Healthcare segment because it will allow each company to focus on its core competencies.

Investment Risks:

- Talc Liability – Concerns for cancer causing substances in their baby powder with multiple lawsuits (slowly clearing up in chapter 11 bankruptcy)
- Opioid Lawsuits – Numerous Lawsuits citing J&J played down the dangers of opioids
- Patent Cliffs – Stelara and Simponi patents expiring in 2023/2024
- Spinoff Risk – Diminished shareholder value for each company, Short-term volatility

3-5 takeaway's from last quarter investor call transcript:

- 3.6B in R&D (5% YOY Growth)
- 2.6% surprise in EPS (\$2.55)
- Experiencing slight inflationary issues causing lower margins for the Pharma segment
- Spin-off on track for mid to late 2023

15-Year Financial Performance:

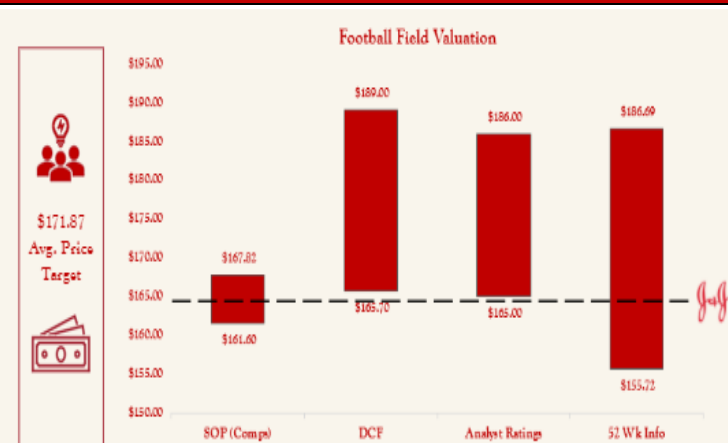


DCF Valuation:

Terminal Value	460323
PV of Terminal Value	274476
First 5 yr FCF	173699
Enterprise Value	448175
- Debt	-28292
+ Cash	31608
Equity Value	451491
#Shares	2629
Intrinsic Value	171.735
Current Price	\$165.15
Margin of Safety	3.99%

Year	Historical Information					Forecast Period					
	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	
Revenue	71590	76450	81591	82256	83756	91756	94860	95520	109256.2	113011.6	119340.04
Cost of Sales	21789	23439	27091	27356	28427	29035	31303.8	32512	36054.56	37537.83	39382.215
COGS as % of Revenue	30%	31%	33%	34%	34%	32%	33%	33%	33%	33%	33%
Other Income	(1,403)	42	(210)	(2,523)	(2,599)	(469)	(1,897)	(1,970)	(2,185)	(2,276)	(2,387)
% of Revenue	-2%	0%	0%	-3%	-4%	-1%	-2%	-2%	-2%	-2%	-2%
EBIT (Cleaned)	20,171	18,028	18,610	17,685	16,608	21,829	23,715	24,630	27,314.06	28,452.9	29,635.011
EBIT Margin	28%	24%	23%	22%	20%	24%	25%	25%	25%	25%	25%
Income Tax Expense	3,263	16,373	2,702	2,209	1,783	1,898	4624.43	4803	5326.241	5540.316	5817.8272
Tax Rate	16%	91%	15%	12%	11%	8%	20%	20%	20%	20%	20%
Net Working Capital	(8,105)	(5,745)	(4,894)	(9,977)	(16,441)	(15,855)	(9,482)	(9,852)	(10,920)	(11,381)	(11,934)
CAPEX	(3,463)	(3,279)	(3,670)	(3,490)	(3,350)	(3,347)	(3,794)	(3,941)	(4,370)	(4,552)	(4,724)
CAPEX % Revenue	-5%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%
Depreciation and Amortization	3,734	5,641	6,929	7,009	7,131	7,390	7,315.49	7,882	8,740.499	9,104.929	9,547.0336
Depreciation and Amortization as % o	5%	7%	8%	8%	9%	8%	8%	8%	8%	8%	8%

Relative Valuation



ESG

- Increase to "A" rating from MSCI this past summer
- Average among the industry

Impact Goals

Progress Global Health Equity

- Establish global access plans for vaccine distributions (HIV/Tb treatments)
- J&J Center for Health Worker innovation, commitment of \$250m to support frontline health workers

Increase Diversity

- By 2025, achieve 50% of women in management positions globally.
- By 2025, achieve 35% ethnic/racial diversity in management positions within the U.S.

Protect Environment

- Carbon neutrality by 2030
- Reduce scope 3 emissions 20% from 2016
- Advance renewable energy

Governance

Tylenol Crisis

- Tylenol crisis in the 80's was dealt with promptly and responsibly
- Voluntarily pulled thousands of bottles of Tylenol from shelves
- Developed new safety seals for all their bottles

Governance Best Practices

- \$5.22 billion spent on Global Impact Initiatives
- 82% of suppliers participated in CDP Supply Chain Climate program

1 <https://www.dcatvci.org/features/pharma-industry-outlook-the-challenges-and-opportunities/#:~:text=Overall%2C%20global%20pharma%20sales%20increased,to%20the%20average%20of%208%25.>