

UConn Student Managed Fund Analyst Report

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Johnson & Johnson NYSE: JNJ		Recommendation: BUY
Target Price: \$202.00	Market Cap: \$423.94B	P/E Ratio: 15.3
Current Price: \$159.86	Dividend Yield: 2.8%	EV/EBITDA: 12.9
Stop Loss:	Beta: 0.54	EBITDA Margin: 34.3%
52 Week High/Low: 186.69/ 155.72	ROE: 24.1%	Gross Margin: 67.9%

Company Background:

Founded in 1886, Johnson & Johnson carries a wide range of healthcare products in the consumer health, pharmaceutical, and medical devices industries. They create products focused on human well-being and health.

Industry Outlook:

For MedTech & Pharmaceuticals, R&D spending is high, M&A is crucial to longevity and growth, there is growing consumer demand, and the industry received boosts in operations from COVID-19. For Consumer Health, there is a demand shift in self-medication products, consumers are health conscious, and brand loyalty is significant.

Investment Thesis:

For capital allocation, investment in M&A as well as dividends and share repurchases are appealing. They have a focus on the future with a \$15 billion R&D budget and enhanced drug pipeline. Their business model is strong and consistent with 60 years of dividend increases and an AAA credit rating.

Investment Risks:

Patent expirations and competition having successful R&D play a factor in future operations for J&J. There are safety concerns being a healthcare company. Ongoing economic conditions in US and internationally effect the business, especially the global supply chain in which J&J relies on.

Financial Performance

JNJ US Equity	Historical Period			Current FY			Projection Period					rejection Period				
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	
Revenue	\$81,581	\$82,059	\$82,584	\$93,775	\$94,943	\$96,842	\$98,779	\$100,754	\$103,777	\$106,890	\$110,097	\$113,400	\$116,802	\$120,306	\$123,915	
% Growth	-	0.6%	0.6%	13.6%	1.2%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Cost of Sales	\$27,091	\$27,556	\$28,427	\$29,755	\$30,438	\$31,958	\$32,556	\$33,249	\$35,284	\$36,343	\$37,433	\$38,556	\$39,713	\$40,904	\$42,131	
% Margin	33.2%	33.6%	34.4%	31.7%	32.1%	33.0%	33.0%	33.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	
Gross Profit	\$54,490	\$54,503	\$54,157	\$64,020	\$64,505	\$64,884	\$66,223	\$67,505	\$68,493	\$70,548	\$72,664	\$74,844	\$77,089	\$79,402	\$81,784	
% Margin	66.8%	66.4%	65.6%	68.3%	67.9%	67.0%	67.0%	67.0%	66.0%	66.0%	66.0%	66.0%	66.0%	66.0%	66.0%	
SG&A Expense	\$22,540	\$21,885	\$21,684	\$24,059	\$24,692	\$25,609	\$25,887	\$26,311	\$27,071	\$27,975	\$28,850	\$29,661	\$30,539	\$31,463	\$32,424	
% Margin	27.6%	26.7%	26.3%	25.7%	26.0%	26.4%	26.2%	26.1%	26.1%	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%	
R&D Expense	\$10,775	\$11,355	\$12,159	\$14,714	\$14,140	\$14,191	\$14,677	\$15,004	\$15,567	\$17,102	\$17,616	\$18,144	\$18,688	\$19,249	\$19,826	
% Margin	13.2%	13.8%	14.7%	15.7%	14.4%	14.7%	14.9%	14.9%	15.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	
Total Operating Expense	\$33,315	\$33,240	\$33,843	\$38,773	\$38,832	\$41,800	\$42,568	\$41,315	\$42,637	\$45,077	\$46,466	\$47,805	\$49,228	\$50,712	\$52,250	
% Margin	40.8%	40.5%	41.0%	41.3%	40.9%	43.2%	43.1%	41.0%	41.1%	42.2%	42.2%	42.2%	42.2%	42.2%	42.2%	
Other (Expense)/Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
% Margin	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
EBIT	\$21,175	\$21,263	\$20,314	\$25,247	\$25,673	\$23,084	\$23,659	\$26,190	\$25,855	\$25,470	\$26,198	\$27,039	\$27,861	\$28,689	\$29,534	
% Margin	26.0%	25.9%	24.6%	26.9%	27.0%	23.8%	24.0%	26.0%	24.9%	23.8%	23.8%	23.8%	23.9%	23.8%	23.8%	
Income Tax Expense	\$2,702	\$2,209	\$1,783	\$1,898	\$3,784	\$3,463	\$3,549	\$3,928	\$3,878	\$3,821	\$3,930	\$4,056	\$4,179	\$4,303	\$4,430	
Effective Tax Rate	12.8%	10.4%	8.8%	7.5%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
NOPLAT	\$18,473	\$19,054	\$18,531	\$23,349	\$21,889	\$19,622	\$20,110	\$22,261	\$21,977	\$21,650	\$22,269	\$22,983	\$23,682	\$24,386	\$25,103	
% Margin	22.6%	23.2%	22.4%	24.9%	23.1%	20.3%	20.4%	22.1%	21.2%	20.3%	20.2%	20.3%	20.3%	20.3%	20.3%	
Add: D&A	\$6,929.0	\$7,009.0	\$7,231.0	\$7,390.0	\$7,992.14	\$8,134.72	\$8,297.41	\$8,463.36	\$8,717.26	\$8,978.78	\$9,248.14	\$9,525.58	\$9,811.35	\$10,105.69	\$10,408.86	
% Revenue	8.5%	8.5%	8.8%	7.9%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	
Less: Capex	\$3,670.00	\$3,498.00	\$3,347.00	\$3,652.00	\$3,541.75	\$3,807.38	\$4,092.93	\$4,399.90	\$4,729.90	\$5,084.64	\$5,465.99	\$5,875.94	\$6,316.63	\$6,790.38	\$7,299.66	
% Revenue	4.50%	4.26%	4.05%	3.89%	3.73%	3.93%	4.14%	4.37%	4.56%	4.76%	4.96%	5.18%	5.41%	5.64%	5.89%	
Less: Change in NWC	\$404	\$7,224	\$4,343	-\$1,721	\$2,563	\$3,102	\$2,072	\$1,504	\$2,310	\$2,247	\$2,033	\$2,023	\$2,153	\$2,114	\$2,081	
% Revenue	0.50%	8.80%	5.26%	-1.84%	3.2%	3.9%	2.6%	2.0%	2.9%	2.8%	2.6%	2.6%	2.7%	2.7%	2.6%	
FCF	\$21,328	\$15,341	\$18,072	\$28,808	\$23,777	\$20,947	\$22,243	\$24,821	\$23,654	\$23,297	\$24,018	\$24,609	\$25,024	\$25,587	\$26,132	
% Revenue	26.1%	18.7%	21.9%	30.7%	25.0%	21.5%	22.5%	24.6%	22.8%	21.8%	21.8%	21.7%	21.4%	21.3%	21.1%	

Valuation: Discounted Cash Flow Analysis

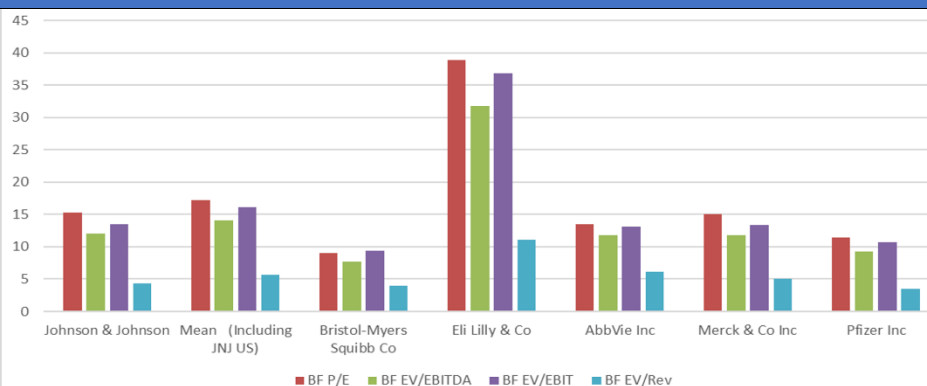
Implied Perpetuity Growth Rate	
Terminal Year FCF	\$26,132
Discount Rate	5.50%
Terminal Value	\$586,510
Perpetuity Growth Rate	1.00%

Implied Equity Value and Share Price	
PV of FCF	\$192,722
PV of Terminal Value	\$343,361

Enterprise Value	\$536,083
Less: Debt	\$32,027
Add: Cash & Equivalents	\$34,079
Equity Value	\$538,135
Diluted Shares Outstanding	2,664
Implied Share Price	\$202.00
Current Price	\$162.40
Margin of Safety	19.61%

Sensitivity Analysis and Implied Share Price						
		Discount Rate				
		4.50%	5.00%	5.50%	6.00%	6.50%
Perpetual Growth Rate	0.50%	235.8176	209.56651	188.53947	171.31459	156.94373
	0.75%	246.81867	217.83197	194.91677	176.34147	160.97653
	1.00%	259.39132	227.13063	202.00266	181.87103	165.37595
	1.25%	273.89822	237.6691	209.92218	187.98264	170.19437
	1.50%	290.82294	249.71307	218.83164	194.77333	175.49462

Relative Valuation



ESG Risk Rating COMPREHENSIVE ?

24.0 Medium Risk



Last Full Update: **Nov 9, 2022** ?

Last Update: **Jan 6, 2023** ?

Ranking

Industry Group (1st = lowest risk)

Pharmaceuticals **130** out of 897

Universe

Global Universe **6238** out of 15123