

## Johnson and Johnson (JNJ)

**\$148.14** (As of 12/02/20)

Price Target (6-12 Months): **\$156.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: C

Momentum: B

### Summary

J&J's diversification makes it relatively resilient amid macroeconomic turmoil. The Pharma unit is performing at above-market levels, supported by successful label expansion of blockbuster drugs, Imbruvica, Darzalex and Stelara. J&J is also making rapid progress with its pipeline and line extensions. Several pivotal data readouts and regulatory milestones are expected in the near term. Meanwhile, J&J is witnessing a faster-than-expected recovery in the Medical Devices unit with trends expected to improve further in Q4 and 2021. However, headwinds like generic competition and pricing pressure continue. J&J faces numerous lawsuits, which allege personal injuries to patients caused by the use of its products. These lawsuits have resulted in uncertainties. J&J's shares have slightly outperformed the industry this year.

### Data Overview

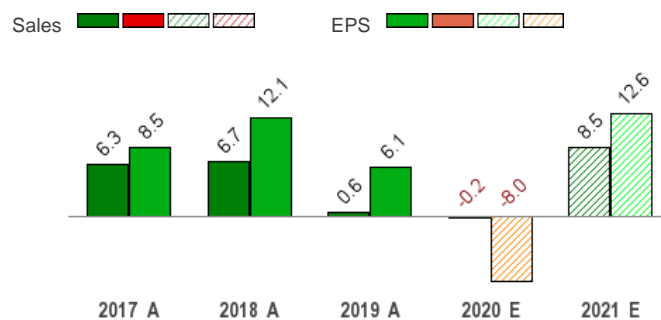
52-Week High-Low	\$157.00 - \$109.16
20-Day Average Volume (Shares)	7,370,701
Market Cap	\$390.0 B
Year-To-Date Price Change	1.6%
Beta	0.68
Dividend / Dividend Yield	\$4.04 / 2.7%
Industry	Large Cap Pharmaceuticals
Zacks Industry Rank	Bottom 27% (185 out of 254)

Last EPS Surprise	10.6%
Last Sales Surprise	2.7%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	01/27/2021
Earnings ESP	0.5%
P/E TTM	18.4
P/E F1	18.5
PEG F1	2.8
P/S TTM	4.8

### Price, Consensus & Surprise



### Sales and EPS Growth Rates (Y/Y %)



### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	21,538 E	21,479 E	22,721 E	22,879 E	88,852 E
2020	20,691 A	18,336 A	21,082 A	21,817 E	81,917 E
2019	20,021 A	20,562 A	20,729 A	20,747 A	82,059 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.22 E	\$2.13 E	\$2.38 E	\$2.11 E	\$9.00 E
2020	\$2.30 A	\$1.67 A	\$2.20 A	\$1.82 E	\$7.99 E
2019	\$2.10 A	\$2.58 A	\$2.12 A	\$1.88 A	\$8.68 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/02/2020. The reports text is as of 12/03/2020.

## Overview

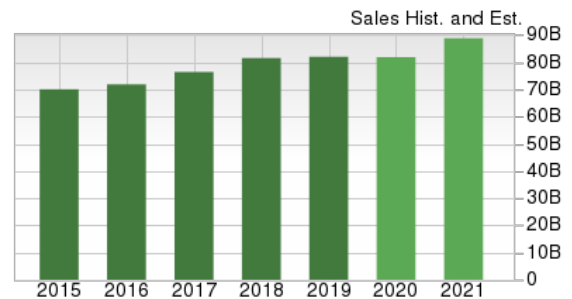
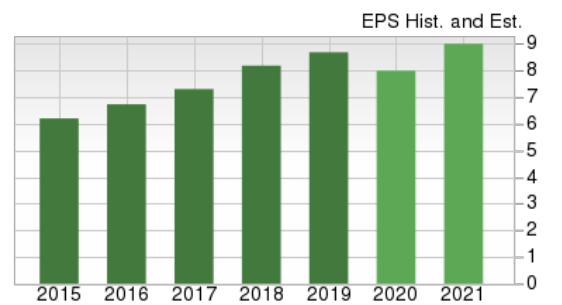
Johnson & Johnson's biggest strength is its diversified business model. It operates through pharmaceuticals, medical devices and consumer products divisions. It comprises some 250 subsidiaries, which clearly means that the business is extremely well diversified. Its diversification helps it to withstand economic cycles more effectively. Meanwhile, J&J has one of the largest research and development (R&D) budget among pharma companies.

New Brunswick, NJ based J&J's worldwide business is divided into three segments: Pharmaceutical, Medical Devices and Consumer. In 2019, these segments contributed 51%, 32% and 17%, respectively, to the company's total revenues of \$82.1 billion (up 0.6%).

**Pharmaceutical Segment** – Johnson & Johnson has one of the most diverse revenue streams in the industry within the pharmaceutical division. The company has several multi-million dollar drugs covering a broad range of areas such as neuroscience, cardiovascular and metabolism, immunology, oncology, pulmonary hypertension and infectious diseases and vaccines. Pharmaceutical sales in 2019 totaled \$42.2 billion, up 3.6%.

**Medical Devices Segment** – This segment offers products in the orthopedics, surgery, interventional solutions and vision care markets. The segment posted sales of \$26.0 billion in 2019, down 3.8%. The company divested its ortho-clinical diagnostics business to The Carlyle Group for about \$4 billion in June 2014. J&J sold its Cordis business to Cardinal Health for about \$2 billion in October 2015. J&J sold its LifeScan diabetes device unit to private equity firm, Platinum Equity in October 2018 and its Advanced Sterilization Products unit to Fortive Corporation in April 2019.

**Consumer Segment** – This segment includes a broad range of products covering the areas of baby care, beauty/skin health, oral care, wound care and women's health care, as well as over-the-counter (OTC) pharmaceutical products. The division posted sales of \$13.9 billion in 2019, up 0.3%.



Source: Zacks Investment Research

## Reasons To Buy:

▲ **Shares Outperforming Industry:** J&J's shares have risen 1.5% this year, slightly outperforming the 1.4% increase for the industry.

▲ **Above Market Performance of Pharma Unit:** J&J's Pharma segment is performing above-market despite currency headwinds and the impact of biosimilar and generic competition on sales of some key drugs like Remicade and Zytiga. Pharmaceutical segment sales rose 5.8% in 2019 on an organic basis and 6.3% in the first nine months of 2020 despite the coronavirus pandemic. The sales increase is being led by the company's oncology drugs, Imbruvica and Darzalex as well as psoriasis treatment, Stelara. Meanwhile, other core products like Stelara, Simponi/Simponi Aria and Invega Sustenna and new immunology medicine Tremfya and prostate cancer drug, Erleada is also contributing to growth. Importantly, J&J sounds confident about its Pharmaceutical business continuing to deliver above-market growth in 2021 supported by strong performance of key products such as Darzalex, Imbruvica, Tremfya, Stelara and Erleada due to increased penetration and new indications.

J&J is making rapid progress with its pipeline and line extensions. Several pivotal data readouts and regulatory milestones are expected in the near term.

▲ **Deals to Boost Revenues:** Johnson & Johnson struck several deals, which should boost its top line. The Cougar Biotechnology acquisition allowed Johnson & Johnson to strengthen its oncology portfolio especially in the areas of advanced prostate cancer, breast cancer and multiple myeloma. The acquisition has proved its worth with the approval of prostate cancer therapy, Zytiga.

The August 2012 Aragon acquisition added Aragon's lead pipeline candidate, apalutamide, for pre-metastatic prostate cancer (CRPC), to J&J's pipeline. Apalutamide was approved under the trade name of Erleada in the United States in February 2018. Erleada's approval has boosted the company's prostate cancer portfolio especially since Zytiga lost exclusivity.

In June 2017, J&J acquired Swiss biotech Actelion for \$30 billion, which diversified its revenues in the pulmonary arterial hypertension (PAH) category and will bolster long-term growth. In February 2017, J&J acquired Abbott's vision care business, Abbott Medical Optics for \$4.325 billion which has strengthened its Medical Device segment.

The company has sufficient funds to pursue additional bolt-on acquisitions and deals to boost its portfolio. J&J spent \$5 billion on M&A and major licensing deals in 2016, \$35 billion in 2017, \$1 billion in 2018 and \$5.8 billion in 2019. The company is also returning value to shareholders through share buybacks and dividend payments, which have been hiked for 58 consecutive years.

▲ **Deep Pipeline:** The company's key areas of focus include immunology, infectious diseases & vaccines, neuroscience, cardiovascular & metabolism, and oncology while a sixth therapeutic area -- pulmonary arterial hypertension -- was added with the Actelion acquisition.

Key candidates in the company's pipeline are niraparib (prostate cancer – phase III), JNJ-4528/BCMA CAR-T therapy (relapsed or refractory multiple myeloma – phase Ib/II, new drug application or NDA to be filed in 2020), ponesimod (relapsing forms of multiple sclerosis – under review in the United States and EU) amivantamab (non-small-cell lung cancer or NSCLC – NDA filing in 2020) and bermekimab (atopic dermatitis and hidradenitis suppurativa - phase II), among others. New products launched in late 2017/2018, Tremfya for plaque psoriasis and Erleada for prostate cancer, have started contributing to sales growth. J&J gained FDA approval for two new drugs in 2019 - Spravato (esketamine) for treatment-resistant depression and Balversa (erdafitinib) for metastatic urothelial cancer. J&J believes that both Spravato and Balversa have the potential for more than \$1 billion of peak revenues.

▲ **Expanding Labels of Marketed Products:** The company is also working on expanding the label of currently marketed products like Simponi, Stelara, Darzalex, Xarelto and Imbruvica.

Imbruvica is currently approved for eleven indications across six different cancer types and the drug is also being evaluated in a number of combination therapies. Darzalex is being evaluated in a comprehensive clinical development program across a range of treatment settings in multiple myeloma, such as in frontline and relapsed settings. For Xarelto, there are several new indications seeking studies underway as part of the EXPLORER clinical development program.

Stelara's label was expanded in the U.S. as well as EU for Crohn's disease in 2016 and as a subcutaneous treatment for active ulcerative colitis in 2019. Stelara is also being studied for axial spondylitis in phase III studies. Tremfya was approved for active psoriatic arthritis indication in July 2020.

These drugs drove J&J's sales in 2018 and 2019 driven by consistent uptake and new indications added to their approved labels and the positive trend continued in 2020.

▲ **Medical Devices Segment Enjoys Strong Fundamentals:** The company successfully turned around its Medical Devices business by developing innovative products, expanding global presence and implementing novel commercial models. Organic sales in the segment rose 3.9% in 2019. In 2020, though the segment is being hurt due to decline in elective surgical procedures amid the coronavirus pandemic, J&J is confident that the underlying fundamentals of the market remain intact. In fact, after a weaker first half, sales in the unit improved in the third quarter of 2020 owing to better-than-expected market recovery as medical procedures are ramping up faster than expected.

In 2021, J&J expects the Medical Devices unit to witness a continued increase in procedures associated with pandemic recovery and deliver robust double-digit operational growth in the year.

▲ **Emerging Markets Have Solid Potential:** Johnson & Johnson is looking to increase its presence in emerging markets, which hold immense potential. Given the huge potential, the company has set up manufacturing and R&D centers in Brazil, China and India, and has almost doubled its footprint in emerging markets in the last five years. These countries are trying to make healthcare accessible to more people primarily by improving insurance coverage. Johnson & Johnson intends to continue working on strengthening its pipeline in Japan as well as

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China.

In China, J&J partnered with Legend Biotech and is developing a breakthrough investigational CAR-T anti-cancer therapy for multiple myeloma. J&J expects to file for the same in 2021.

▲ **Favorable Debt Profile:** Though J&J's debt/capital of 33.6% at the end of September 2020 is higher than 28.5% at the end of June 2020, it has declined consistently for the past few quarters. The ratio also compares favorably with 45.6% for the industry. A lower ratio indicates lower financial risk. Meanwhile, its times interest earned ratio stands at 96.8, significantly higher than 81.4 at the end of 2019. A higher ratio indicates that the company is capable of meeting its interest obligations from operating earnings.

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## Reasons To Sell:

▼ **Generics Hit Sales:** Quite a few products in the company's portfolio including Invega and Ortho Tri-Cyclen Lo are facing generic competition. Moreover, biosimilar competition for Remicade, which was once J&J's largest product, entered several major EU markets in February 2015. In the United States, Pfizer launched Inflectra, the first biosimilar version of Remicade in November 2016 and a number of other biosimilars have been launched since then. Moreover, several generic versions of 250 mg and/or 500 mg tablets of Zytiga have entered the market. J&J received an unfavorable ruling in district court cases related to generic versions of Zytiga, which opened doors for an earlier-than-expected generic launch in 2018. A generic version of Tracleer was launched by Teva in June 2019, which is hurting sales of J&J's branded drug. Invokana/Invokamet and Xarelto are also facing patent challenges in the United States.

J&J faces numerous lawsuits, which allege personal injuries to patients caused by the use of its products. These lawsuits have resulted in uncertainty.

In 2019, biosimilar competition for Remicade and Procrit and generic competition related to Velcade, Tracleer and Zytiga in the United States hurt revenues significantly.

HCV sales continue to decline in the face of intense competition.

▼ **Numerous Litigations – An Overhang:** J&J faces a slew of lawsuits, which allege personal injuries to patients caused by the use of its medicines, mainly its talc and opioid products. These lawsuits have resulted in uncertainty.

J&J faces more than 21,000 lawsuits for its talc-based products, primarily its baby powders. The lawsuits allege that its talc products contain asbestos, which caused many women to develop ovarian cancer. In 2018, J&J was ordered by a Missouri court to pay \$4.7 billion in damages to 22 women who made such allegations, affirming a St. Louis court jury's verdict given earlier. J&J insists that talc-based products are safe and do not cause cancer. Though the verdict was reduced to \$2.1 billion by an appeals court in June 2020, it still rejected J&J's appeal to overturn the 2018 jury verdict.

J&J also faces more than 3,100 lawsuits related to abuse of its opioid-based drugs. These lawsuits claim that J&J is one of the several companies whose opioid-based drugs were responsible for fueling the state's opioid epidemic. In August 2019, J&J was ordered by a district court in Oklahoma to pay \$572 million to the state of Oklahoma in connection with a lawsuit filed by the latter. The amount was later reduced to \$465 in the final judgment. J&J has offered to pay about \$5 billion to settle all opioid lawsuits in the United States. This issue is also an overhang on J&J's stock.

J&J faces more than 10,000 lawsuits alleging that use of its antipsychotic drug, Risperdal causes enlargement of breast tissues in boys – a condition called gynecomastia.

▼ **FDA Warnings Affecting Sales:** The labels of products like Remicade and Simponi contain warnings regarding the risk of cancer in children and teenagers. The inclusion of such warnings could lead to restricted sales of these products. In Feb 2010, the FDA approved a risk management program (RiskMap) to inform about the risks of erythropoiesis-stimulating agents (ESAs). ESAs are approved for the treatment of anemia that might arise out of kidney failure from certain kinds of chemotherapy. Johnson & Johnson's Procrit is an ESA. The inclusion of a safety-related boxed warning on the label of Procrit had an adverse impact on product sales and the introduction of the RiskMap restricted sales further. Meanwhile, sales of the company's SGLT2 inhibitor, Invokana/Invokamet, are also being affected by the addition of warnings regarding the increased risk of bone fractures.

▼ **Pipeline Setbacks:** Johnson & Johnson has suffered its share of pipeline setbacks. These include failure to gain approval for ceftobiprole (the company returned global rights for the candidate to its Swiss partner, Basilea Pharmaceuticals), a third complete response letter or CRL for the supplemental new drug application (sNDA) for Xarelto for acute coronary syndrome (ACS) and the withdrawal of the EU application for an additional indication for Velcade for the treatment of patients with relapsed follicular non-Hodgkin lymphoma. The company also terminated its plans to seek approval for Invega for bipolar disorder. Another setback is bapineuzumab IV's failure in two phase III studies and its discontinuation.

Among more recent setbacks, in 2017, J&J said it will not file regulatory applications for sirukumab in rheumatoid arthritis due to increased competitive pressure in the RA market and discontinued the development of talacotuzumab, which was being developed for acute myeloid leukemia as the phase III results did not demonstrate a positive benefit risk ratio. In 2020, J&J discontinued the phase III study of Stelara in systemic lupus erythematosus (SLE) due to lack of efficacy in the disease.

▼ **Global Pricing Pressures:** Global efforts toward health care cost containment are creating pricing pressure on drugs and market access. While many of the company's drugs face pricing pressure in the United States and in many markets outside the United States, government-mandated pricing actions have led to lowering of generic and patented drug prices. All these factors are creating pressure on sales and profits of pharma companies. Also, changes in the U.S. healthcare system as part of the health care reforms could further create further pricing pressure. This pricing pressure is expected to continue and hurt the top line in the future quarters.

## Last Earnings Report

### J&J Beats on Q3 Earnings & Sales, Ups 2020 Guidance

J&J beat third-quarter estimates for earnings as well as sales. Third-quarter 2020 earnings came in at \$2.20 per share, which beat the Zacks Consensus Estimate of \$1.99. Earnings rose 3.8% from the year-ago period.

Adjusted earnings exclude intangible amortization, restructuring and acquisition-related expenses and some other special items. Including these items, J&J reported third-quarter earnings of \$1.33 per share, up 101.5% from the year-ago quarter.

Sales came in at \$21.08 billion, which beat the Zacks Consensus Estimate of \$20.53 billion. Sales rose 1.7% from the year-ago quarter, reflecting an operational increase of 1.7% and no impact of currency.

Organically, excluding the impact of acquisitions and divestitures, sales rose 2.0% on an operational basis in contrast to an 8.8% decrease seen in the second quarter.

Each of J&J's segments performed well despite the negative impact of COVID-19. Its Pharmaceuticals unit continued to outperform the market as the company witnessed improved trends in prescription volumes and physician office visits. Meanwhile, increasing demand for its Consumer Health products and a better-than-expected procedure recovery in Medical Devices unit provided top-line support.

Third-quarter sales in the domestic market rose 2.7% to \$11.09 billion. International sales rose 0.6%, both on a reported and operational basis, to \$10 billion. Excluding the impact of all acquisitions and divestitures, on an adjusted operational basis, international sales rose 1.1% in the quarter.

### Segment Details

Pharmaceutical segment sales rose 5.0% year over year to \$11.42 billion, reflecting 4.6% operational growth and 0.4% positive currency impact. Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales increased 4.7%, higher than the 3.9% increase in the second quarter.

Sales in the domestic market rose 1.5% to \$6.44 billion. International sales however rose 9.7% to \$4.98 billion (operational increase of 8.8%).

The sales increase was led by higher penetration and new indications across key products, such as Darzalex, Imbruvica and Stelara. Other core products like Invega Sustenna, PAH drugs and new drug Erleada contributed significantly to sales growth.

Moreover, sales of some other key drugs like Xarelto and Invokana/Invokamet have improved after declining in the past few quarters. The sales growth was hurt by generic/biosimilar competition to drugs like Zytiga and Remicade and delayed diagnosis and slower new patient starts for some drugs amid the pandemic.

The products most impacted by COVID-19 were Stelara, Tremfya, Invega Sustenna and PAH medicines. However, the negative impact of COVID-19 was less than Q2 as office visit and prescription trends improved in the quarter.

Imbruvica sales rose 11.9% to \$1.03 billion driven by market share gains and strong market growth primarily in the CLL indication in the United States and increased penetration and share gains in Europe. However, difficult comparisons to the third quarter of last year hurt sales in the quarter.

Darzalex sales rose 43.8% year over year to \$1.1 billion in the quarter driven by share uptake in first and second line of therapy.

Stelara sales grew 14.7% to \$1.95 billion in the quarter driven primarily by the Crohn's disease indication and growth from the recently approved ulcerative colitis indication despite the negative impact of COVID-19 related delayed diagnosis.

PAH revenues of \$749 million rose 14.5% year over year driven by increased market penetration and share growth for Upravi and Opsumit.

Invega Sustenna sales rose 8.8% to \$926 million in the quarter. Simponi/Simponi Aria sales grew 0.9% to \$592 million and Prezista sales increased 3.5% to \$526 million.

Xarelto sales rose 2.9% in the quarter to \$630.0 million, while sales of Invokana/Invokamet improved 24.7% to \$224.0 million.

Among the new medicines, Erleada generated sales of \$206 million in the quarter compared with \$170 million in the previous quarter driven by strong share growth, especially in the metastatic indication. Tremfya recorded sales of \$327 million in the quarter compared down from \$342 million in the previous quarter due to negative impact of COVID-19 and investments in rebates offered to enhance access.

Zytiga sales declined 20.4% to \$590 million in the quarter due to generic competition. Sales of Procrit/Eprex declined 33.3% to \$132 million in the quarter due to biosimilar competition. Sales of Remicade were down 18.9% in the quarter to \$921 million due to biosimilar competition. While U.S. sales declined 15.4%, sales in international markets declined 30.1%.

J&J continues to expect its Pharmaceutical business to deliver above-market growth in 2021.

Medical Devices segment sales came in at \$6.15 billion, down 3.6% from the year-ago period, reflecting an operational decrease of 3.9% and a positive currency movement of 0.3%. The pandemic hit this segment the hardest due to a widespread decline in elective surgical procedures and the redeployment of hospital resources to address patients affected by COVID-19. However, the segment was much less affected in the third

### Quarter Ending 09/2020

Report Date	Oct 13, 2020
Sales Surprise	2.68%
EPS Surprise	10.55%
Quarterly EPS	2.20
Annual EPS (TTM)	8.05

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quarter due to better-than-expected market recovery as medical procedures are ramping faster-than-expected. In the third quarter, J&J expected the Medical Devices unit to decline in the range of 10-25%.

Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales decreased 3.3% compared with a decline of 32.5% in the previous quarter.

The sequential improvement in the third quarter occurred across all segments of the business. The Interventional Solutions business returned to growth in the third quarter led by electrophysiology products.

Domestic market sales rose 1.2% year over year to \$3.09 billion. International market sales declined 8.1% year over year to \$3.06 billion. On an operational basis, international sales decreased 8.5%.

In the fourth quarter, J&J expects continued procedure stabilization in the Medical Devices unit which is slightly ahead of its previous expectations. In the fourth quarter, sales are expected to decline in the range of flat to down 10% versus flat to down 15% expected previously.

In 2021, J&J expects the Medical Devices unit to witness a continued increase in procedures associated with pandemic recovery and deliver robust double-digit operational growth in the year. Management indicated that 2021 Medical Device sales would grow over 2019 levels

The Consumer segment recorded revenues of \$3.51 billion in the reported quarter, up 1.3% year over year. On an operational basis, Consumer segment sales rose 3%. Unfavorable foreign currency movement hurt sales by 1.7%.

Excluding the impact of acquisitions and divestitures, adjusted operational sales increase was 3.1% worldwide against a 3.4% decline seen in the previous quarter.

Higher sales of OTC products in the United States like Tylenol, oral care product Listerine mouthwash, OGX in skin health/beauty products, wound care products, primarily Band-Aid bandage and digestive health products were offset by the negative impact of the COVID-19 pandemic on international OTC and skin health/beauty businesses.

Sales in the domestic market rose 11.6% from the year-ago period to \$1.56 billion. Meanwhile, the international segment declined 5.6% to \$1.96 billion which included an operational decrease of 2.7% and a negative currency impact of 2.9% in the quarter.

In Consumer Health unit, J&J's expects to grow competitively with the market, driven by strong growth in e-commerce and continued demand for some leading brands. However, it expects headwinds like continued fluctuation in consumer demand due to the pandemic, potential pantry loading behaviors or lower incidence of conditions like cold and flu in 2021.

#### **2020 Guidance**

J&J raised its earnings and sales guidance for the second time this year on better-than-expected Medical Devices sales trends. Adjusted earnings per share expectations were raised from a range of \$7.75-\$7.95 to \$7.95 - \$8.05. The guidance range now indicates a decline of 7.3-8.4% versus the prior expectation of a decline of 8.4-10.7%. On an operational, constant-currency basis, adjusted earnings per share are expected to decline 7.3-8.4%. The prior expectation was a decline in the range of 7.3-9.6%.

Revenues are now expected to remain flat or decline 1% to \$81.2-\$82.0 billion. Previous expectation for revenues was in the range of \$79.9-\$81.4 billion, indicating a year-over-year decline of 0.8-2.6%.

Operational constant-currency sales are expected to be flat to up 1% compared with the prior expectation of an increase of 0.5% to a decline of 1.3%. Adjusted operational sales, (excluding currency impact, acquisitions/divestitures) are expected to be up 0.5-1.5% (previous expectation was down 0.8% to up 1%). J&J expects operating margin to decline by 100 basis points in 2020.

#### **Initial 2021 Outlook**

In 2021, J&J expects to deliver double digit sales growth. Meanwhile, operating margin is expected to be in the range of 2019 levels. R&D costs are anticipated to be approximately 14% of sales, consistent with prior years.



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## Recent News

### Buys Rights to Eye Candidate – Dec 2

J&J announced that it has acquired rights to an investigational gene therapy candidate, HMR59 from private biotech, Hemera Biosciences, being developed for late-stage age-related macular degeneration. The acquisition significantly expands J&J's eye disease portfolio and strengthens its gene therapy capabilities. Financial terms of the deal have not been disclosed.

### European Commission Approves Tremfya for PsA – Nov 25

J&J announced that European Commission has approved Tremfya for treating adults with active psoriatic arthritis (PsA) for patients who have had an inadequate response or who have been intolerant to a prior disease-modifying antirheumatic drug (DMARD) therapy in the European Union. Tremfya is presently approved to treat moderate to severe plaque psoriasis in adults who are candidates for systemic therapy.

### Expands BARDA Deal for COVID-19 Vaccine Development – Nov 15

J&J announced an expanded agreement with BARDA, part of U.S. Department of Health and Human Services, to support the next phase of development of its coronavirus vaccine candidate, JNJ-78436735. Per the latest deal, J&J will commit approximately \$604 million and BARDA is putting in approximately \$454 million to support J&J's large pivotal phase III study, ENSEMBLE, on JNJ-78436735, which was initiated in September.

### Seeks Label Expansion of Subcutaneous Darzalex – Nov 12

J&J filed regulatory applications in the United States and EU seeking label expansion of subcutaneous formulation of Darzalex, known as Darzalex Faspro in the United States and Darzalex SC in the EU, for a new indication. The company is seeking approval of the product in combination with pomalidomide and dexamethasone for patients with relapsed or refractory multiple myeloma. The regulatory applications were based on positive data from the phase III APOLLO study. The combination regimen is already approved as the IV formulation in the United States but not in the EU. The SC formulation will reduce administration time from hours to minutes compared with the IV formulation.

### File sNDA for Schizophrenia Candidate – Nov 2

J&J announced that it has a supplemental new drug application (sNDA) to the FDA for paliperidone palmitate 6-month (PP6M) for the treatment of schizophrenia. If approved this a 6-month formulation of its paliperidone palmitate product will be the only long-acting schizophrenia drug for a twice yearly dosing regimen. Paliperidone palmitate is currently approved as one month and three-month formulations by trade names of Invega Sustenna and Invega Trinza.

### Submits Xarelto sNDA – Oct 26

J&J announced that it has submitted a supplemental new drug application (sNDA) seeking approval from the FDA for expanded use of its blood thinner, Xarelto in patients with peripheral artery disease (PAD). Xarelto is currently approved to reduce the risk of major cardiovascular events, like heart attack and stroke, in people with chronic PAD. The latest sNDA seeks approval for Xarelto plus aspirin to reduce the risk of major thrombotic vascular events (such as heart attack, stroke and amputation) in patients after lower-extremity revascularization due to symptomatic PAD.

### Prepares to Re-Start COVID-19 Vaccine Study – Oct 23

J&J is preparing to resume recruitment in the large pivotal phase III study, ENSEMBLE, on its coronavirus vaccine candidate, JNJ-78436735, which was paused earlier this month. Dosing was paused in the ENSEMBLE study due to an unexplained illness observed in a study participant, which was probed by the ENSEMBLE independent Data Safety Monitoring Board (DSMB). The DSMB has recommended resuming trial recruitment as no clear cause for the illness was determined.

It was also not clear whether the unexpected serious adversity was related to the vaccine shot. Meanwhile, discussions are ongoing with other global regulatory bodies to resume the studies in those countries.

### Q4 Dividend – Oct 22

J&J announced that its board of directors has declared a cash dividend for the fourth quarter of \$1.01 per share. The quarterly dividend is payable on Dec 8 to shareholders of record as of Nov 24.

### CHMP Nod for Long-Acting HIV Regimen – Oct 16

J&J announced that Janssen and Glaxo's HIV subsidiary, ViiV Healthcare announced that the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) has given a positive opinion recommending approval of its long-acting injectable regimen of Vocabria (cabotegravir injection and tablets) in combination with Rekambys (rilpivirine injection) and Edurant (rilpivirine tablets) for the treatment of HIV-1 infection in virologically suppressed adults.



## Valuation

J&J's shares are up 1.5% in the year-to-date period and 6.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 1.4% and 2.4%, respectively in the year-to-date period. Over the past year, Zacks sub-industry and sector are up 5.4% and 4.0%, respectively

The S&P 500 Index is up 13.9% in the year-to-date period and 18.0% in the past year.

The stock is currently trading at 16.6X forward 12-month earnings per share which compares to 14.4X for the Zacks sub-industry, 22.47X for the Zacks sector and 22.66X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.29X and as low as 12.11X, with a 5-year median of 16.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$156 price target reflects 17.5X forward 12-month earnings per share.

The table below shows summary valuation data for JNJ

Valuation Multiples - JNJ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.6	14.4	22.47	22.66
	5-Year High	19.29	16.62	22.92	23.47
	5-Year Low	12.11	13.17	15.89	15.27
	5-Year Median	16.39	15.12	18.99	17.75
P/S F12M	Current	4.42	4.59	2.82	4.27
	5-Year High	4.98	4.85	3.16	4.3
	5-Year Low	3.37	3.88	2.25	3.17
	5-Year Median	4.4	4.42	2.84	3.67
P/B TTM	Current	6.05	6.38	4.3	6.22
	5-Year High	6.82	7.37	5.09	6.22
	5-Year Low	3.72	3.69	2.97	3.74
	5-Year Median	5.57	5.33	4.29	4.91

As of 12/02/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
AstraZeneca PLC (AZN)	Neutral	3
Bristol Myers Squibb Company (BMY)	Neutral	3
GlaxoSmithKline plc (GSK)	Neutral	3
Eli Lilly and Company (LLY)	Neutral	3
Merck & Co., Inc. (MRK)	Neutral	3
Novartis AG (NVS)	Neutral	3
Pfizer Inc. (PFE)	Neutral	3
Roche Holding AG (RHHBY)	Neutral	3

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Large Cap Pharmaceuticals				Industry Peers		
	JNJ	X Industry	S&P 500	AZN	MRK	PFE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	B	B
Market Cap	389.98 B	150.29 B	25.67 B	140.13 B	207.03 B	226.78 B
# of Analysts	9	2	13	5	8	8
Dividend Yield	2.73%	2.25%	1.47%	1.65%	2.98%	3.73%
Value Score	B	-	-	B	B	B
Cash/Price	0.08	0.05	0.07	0.06	0.04	0.10
EV/EBITDA	15.89	14.46	14.52	22.24	14.95	10.75
PEG F1	2.75	2.22	2.76	1.60	1.94	3.35
P/B	6.05	4.95	3.54	10.29	7.07	3.46
P/CF	12.86	11.08	13.83	16.86	12.23	9.93
P/E F1	18.54	14.36	21.98	26.59	13.86	14.10
P/S TTM	4.82	4.37	2.82	5.42	4.37	4.66
Earnings Yield	5.39%	6.96%	4.41%	3.76%	7.21%	7.08%
Debt/Equity	0.51	0.77	0.70	1.34	0.90	0.76
Cash Flow (\$/share)	11.52	4.22	6.94	3.17	6.69	4.11
Growth Score	C	-	-	B	D	F
Historical EPS Growth (3-5 Years)	7.80%	6.69%	9.72%	-2.63%	10.47%	6.54%
Projected EPS Growth (F1/F0)	-7.95%	7.87%	0.83%	14.74%	13.73%	-1.95%
Current Cash Flow Growth	3.68%	2.90%	5.22%	2.12%	5.54%	-6.57%
Historical Cash Flow Growth (3-5 Years)	7.62%	7.37%	8.33%	-0.86%	0.15%	2.54%
Current Ratio	1.48	1.17	1.38	0.96	1.30	1.40
Debt/Capital	33.64%	43.31%	42.00%	57.30%	47.35%	43.19%
Net Margin	21.01%	18.16%	10.44%	9.65%	24.33%	17.85%
Return on Equity	34.64%	34.64%	14.99%	37.23%	53.83%	24.88%
Sales/Assets	0.50	0.43	0.50	0.43	0.54	0.28
Projected Sales Growth (F1/F0)	-0.11%	4.30%	0.30%	7.82%	2.66%	-6.22%
Momentum Score	B	-	-	F	C	A
Daily Price Change	0.47%	0.56%	0.90%	0.77%	0.34%	3.53%
1-Week Price Change	-1.61%	0.11%	2.18%	-4.86%	-0.73%	1.44%
4-Week Price Change	6.27%	1.89%	9.00%	-3.00%	1.50%	9.30%
12-Week Price Change	-1.04%	-2.77%	13.34%	-0.47%	-3.59%	12.77%
52-Week Price Change	6.28%	6.63%	7.41%	10.77%	-7.71%	6.97%
20-Day Average Volume (Shares)	7,370,701	3,015,529	2,137,857	6,966,971	7,912,255	56,702,784
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.50%	-0.49%	0.00%
EPS F1 Estimate 4-Week Change	0.03%	0.00%	0.10%	-0.40%	-1.08%	-0.03%
EPS F1 Estimate 12-Week Change	1.77%	0.78%	3.77%	-0.72%	3.64%	1.21%
EPS Q1 Estimate Monthly Change	0.08%	0.00%	0.00%	1.83%	0.00%	0.44%

Source: Zacks Investment Research

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>B</b>
VGM Score	<b>B</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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## Disclosures

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## Additional Disclosure

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**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

**TTM:** Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

**F1:** Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

**F2:** Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

**F12M:** Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

**P/CF Ratio:** The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

**P/FCF Ratio:** The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

**Earnings Yield:** The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ( $3/35 = 0.0857$ ) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

**Debt/Equity Ratio:** The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

**Cash Flow (\$/share):** Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

**Current Ratio:** The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

**Debt/Capital Ratio:** Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.



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**Net Margin:** Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

**Return on Equity:** Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

**Sales/Assets Ratio:** The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

**Historical EPS Growth (3-5 Years):** This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

**Projected EPS Growth (F1/F0):** This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

**Current Cash Flow Growth:** It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

**Historical Cash Flow Growth (3-5 Years):** This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

**Projected Sales Growth (F1/F0):** This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

**EPS F1 Estimate 1-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

**EPS F1 Estimate 4-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

**EPS F1 Estimate 12-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

**EPS Q1 Estimate Monthly Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.