

## Johnson and Johnson (JNJ)

**\$143.48** (As of 03/04/20)

Price Target (6-12 Months): **\$151.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

### Summary

J&J is witnessing significant generic/biosimilar headwinds in the Pharma unit. However, the unit is performing above-market levels, supported by contribution from new drugs like Tremfya and successful label expansion of cancer drugs like Imbruvica and Darzalex and immunology drug, Stelara. J&J is also making rapid progress with its pipeline and line extensions. It gained FDA approval for two new drugs in 2019, Balversa and Spravato. Several pivotal data readouts and regulatory milestones are expected in 2020. J&J's shares have outperformed the industry in the past year. Headwinds like biosimilar/generic competition and pricing pressure remain. J&J faces numerous lawsuits, which allege personal injuries to patients caused by the use of its products. These lawsuits have resulted in uncertainty.

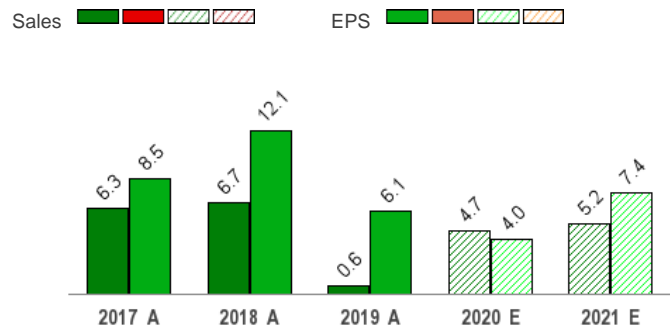
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$154.28 - \$126.10
20 Day Average Volume (sh)	8,236,803
Market Cap	\$378.3 B
YTD Price Change	-1.6%
Beta	0.74
Dividend / Div Yld	\$3.80 / 2.6%
Industry	<a href="#">Large Cap Pharmaceuticals</a>
Zacks Industry Rank	Top 31% (78 out of 255)

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



Last EPS Surprise	1.1%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	04/21/2020
Earnings ESP	-1.3%
P/E TTM	16.5
P/E F1	15.9
PEG F1	2.4
P/S TTM	4.6

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	21,559 E	22,490 E	22,755 E	23,157 E	90,382 E
2020	20,476 E	21,368 E	21,656 E	22,218 E	85,897 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	\$2.38 E	\$2.44 E	\$2.60 E	\$2.25 E	\$9.70 E
2020	\$2.18 E	\$2.25 E	\$2.46 E	\$2.14 E	\$9.03 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 03/04/2020. The reports text is as of 03/05/2020.

## Overview

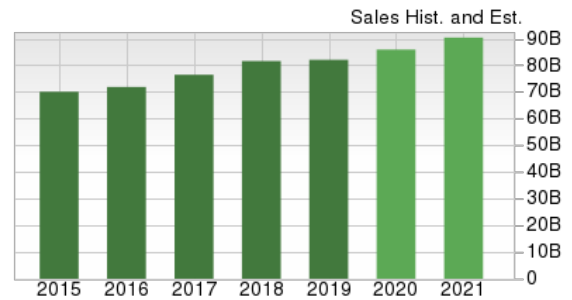
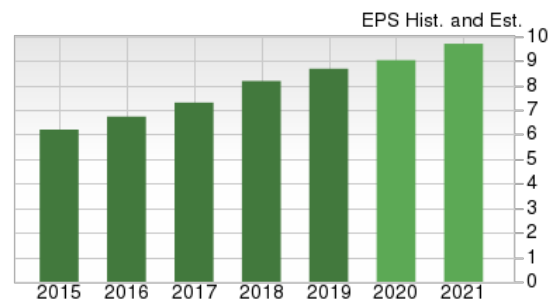
Johnson & Johnson's biggest strength is its diversified business model. It operates through pharmaceuticals, medical devices and consumer products divisions. It comprises some 250 subsidiaries, which clearly means that the business is extremely well diversified. Its diversification helps it to withstand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



## Reasons To Buy:

▲ **Shares Outperforming Industry:** J&J's shares have risen 3.2% in the past one year compared with the industry's flat growth.

▲ **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. The sales increase was 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 medicines like Tremfya also contributed to growth. Importantly, J&J sounds confident about its Pharmaceutical business continuing to deliver growth above market in 2020, 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 2020.

▲ **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. The company has also partnered with Tesaro (now a part of Glaxo) for the development and commercialization of Zejula (niraparib) in prostate cancer. 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 increased for 57 consecutive years.

▲ **Deep Pipeline:** Johnson & Johnson continues to work on strengthening its Pharma segment, which has been driving revenues over the past few quarters. It expects its Pharmaceutical unit to deliver above-market growth through 2023 and expects to launch or file for approval of more than 10 new products with blockbuster potential between 2019 and 2023. The company is also targeting more than 40 line extensions of existing and new drugs through 2023, 10 of which have more than \$500 million of opportunity. 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 Tremfya/guselkumab (psoriatic arthritis – under review in the United States and EU), niraparib (prostate cancer – phase III), JNJ-4528/BCMA CAR-T therapy (relapsed or refractory multiple myeloma –phase Ib/II) 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, are off to a promising start. 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 nine 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. These drugs drove J&J's sales in 2018 and 2019 driven by consistent uptake and new indications added to their approved labels.

▲ **Medical Devices Segment Sales Improving:** The company is also working on turning 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. J&J is optimistic that this segment will deliver above-market growth by 2020 driven by innovation, strategic partnerships, portfolio management and new business models.

▲ **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 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.

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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 and accounted for 6.5% of sales in 2018, 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 around 18,000 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 has appealed the decision and insists that talc-based products are safe and do not cause cancer. However, the issue has been weighing on the stock price for some time now.

J&J also faces thousands of other 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. In October, J&J settled with two counties of Ohio for \$10 million plus other cost reimbursements, in connection with the multi-district opioid case in Ohio. There are still a number of opioid-related lawsuits pending against J&J and others. This issue is also an overhang on J&J's stock.

J&J faces around 12,000 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 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.

▼ **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 Q4 Earnings Surpass Estimates, Sales Fall Short

J&J's fourth-quarter results were mixed as it beat estimates for earnings but missed the same for sales.

Fourth-quarter adjusted earnings came in at \$1.88 per share, which beat the Zacks Consensus Estimate of \$1.86. Earnings, however, declined 4.6% from the year-ago period.

Adjusted earnings exclude after-tax intangible amortization expense and some special items. Including these items, J&J reported fourth-quarter earnings of \$1.50 per share, up 33.9% from the year-ago quarter.

Sales came in at \$20.75 billion, which missed the Zacks Consensus Estimate of \$20.79 billion. Sales rose 1.7% from the year-ago quarter, reflecting an operational increase of 2.6%, which offset an unfavorable currency impact of 0.9%.

Organically, excluding the impact of acquisitions and divestitures, sales increased 3.4% on an operational basis, less than 5.2% increase seen in the previous quarter.

Sales declined sequentially in Pharmaceutical and Medical Devices segments on an organic basis but improved slightly in the Consumer unit.

Fourth-quarter sales rose 1.4% in the domestic market to \$10.77 billion and 2.1% in international markets to \$9.97 billion. However, international sales reflected 4% operational growth, which was offset by 1.9% negative currency impact. Excluding the impact of all acquisitions and divestitures, on an adjusted operational basis, international sales rose 4.1% in the quarter.

### Segment Details

The Pharma segment performed 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 3.5% year over year to \$10.55 billion, reflecting 4.4% operational growth, which was offset by 0.9% negative currency impact. Sales in the domestic market rose 3.9% to \$6.17 billion. International sales grew 5.1% to \$4.38 billion (operational increase of 5.1%). Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales increased 4.5%, declining from 6.4% increase in the previous quarter.

The sales increase was led by the company's oncology drugs Imbruvica and Darzalex as well as psoriasis treatment, Stelara. However, sales of Imbruvica and Stelara were slightly less than the consensus estimates.

Worldwide sales of J&J's oncology drugs rose 9.1% in the quarter to \$2.72 billion. Other core products like Stelara, Simponi/Simponi Aria and Invega Sustenna also contributed to growth. Sales of new immunology medicine, Tremfya, declined sequentially in the quarter. Moreover, sales of some other key drugs like Xarelto were soft in the quarter. Sales of others like Zytiga, Remicade, Tracleer, Procrit/Eprex declined due to the impact of generic/biosimilar competition.

Imbruvica sales rose 24.5% to \$875 million in the quarter driven by market share gains and strong market growth primarily in the CLL indication in the United States and solid uptake in outside U.S. markets.

Darzalex sales rose 42.1% year over year to \$830 million in the quarter. In the United States, strong growth across all lines of therapy driven by the new frontline indication for multiple myeloma transplant-ineligible population drove sales. In outside U.S. markets, increased penetration and share gains drove sales growth.

Stelara sales rose 17.7% to \$1.7 billion in the quarter driven primarily by the Crohn's disease indication.

PAH revenues of \$623 million declined 6.7% year over year. Strong share growth for Upravi and Opsumit was offset by a decline in Tracleer sales, which were hurt by continued generic competition in Europe and rapid generic erosion in the United States.

Simponi/Simponi Aria sales rose 6.6% to \$515 million in the quarter. Prezista sales rose 9.9% to \$544 million in the quarter. Invega Sustenna sales rose 14.2% to \$871 million in the quarter.

Tremfya recorded sales of \$270 million in the quarter compared with \$290 million in the third quarter. The drug captured 8.3% share of the psoriasis market in the United States, up 2 points from the year-ago quarter.

J&J is encouraged by the early sales uptake of new drug Erleada in the United States as well as launch progress in Europe. The drug generated sales of \$116 million in the fourth quarter. J&J said that Erleada gained over 2 points of market share in the United States for the non-metastatic castration-resistant prostate cancer in the quarter.

Regarding Spravato, J&J said that patient demand is building and new patient starts continue to steadily increase each month.

Zytiga sales declined 13.8% to \$677 million in the quarter as growth outside the United States was offset by sales decline in the United States due to generic competition.

Sales of Procrit/Eprex declined 17% to \$183 million in the quarter due to biosimilar competition.

Xarelto sales rose 0.4% in the quarter to \$609 million as prescription growth was offset by increased discounts and rebates. Sales of

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	-0.21%
EPS Surprise	1.08%
Quarterly EPS	1.88
Annual EPS (TTM)	8.68

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Invokana/Invokamet declined 22.2% to \$177 million.

Sales of Remicade were down 16.4% in the quarter to \$1.04 billion due to increased discounts and share loss to biosimilars in the United States. While U.S. sales declined 10.4%, U.S. exports went down 25%. Remicade sales declined 30.4% in international markets.

Medical Devices segment sales came in at \$6.63 billion, down 0.5% from the year-ago period, reflecting an operational increase of 0.2% and negative currency movement of 0.7%.

Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales increased 2.7%, less than 5.3% in the previous quarter.

Sales in the quarter were hurt by around 70 basis points due to some forward buying in the third quarter ahead of the consumption tax change in Japan in the Vision business.

Operational growth was driven by continued strong performance of the electrophysiology business in Interventional Solutions, energy and endocutters in Advanced Surgery and contact lenses in Vision, which partially offset softer growth in the orthopedics portfolio due to pricing pressure. However, J&J's orthopedics portfolio is showing improving trends supported by innovation and execution of commercial strategies. In orthopedics portfolio, while sales of knees, hips and trauma products rose, sales of spine products declined due to loss of market share and unfavorable comparison from the fourth quarter of 2018.

Domestic market sales declined 2.4% year over year to \$3.14 billion. International market sales rose 1.3% year over year to \$3.5 billion. On an operational basis, international sales increased 2.7%.

The Consumer segment recorded revenues of \$3.57 billion in the reported quarter, up 0.9% year over year. On an operational basis, Consumer segment sales increased 2.1%, partially offset by unfavorable foreign currency movement of 1.2%.

Excluding the impact of acquisitions and divestitures, adjusted operational sales growth was 1.4% worldwide, a slight improvement from 1.3% in the previous quarter.

Growth in beauty and over-the-counter products due to innovation was offset by lower baby care products due to prior year re-launch activities and continued competitive pressure.

Sales in the domestic market declined 0.6% from the year-ago period to \$1.47 billion. Meanwhile, the international segment rose 2% to \$2.1 billion. An operational increase of 4% was offset by negative currency impact of 2% in the quarter.

## **2019 Results**

Full-year 2019 sales rose 0.6% to \$82.06 billion, missing the Zacks Consensus Estimate of \$82.17 billion. However, sales were within the guided range of \$81.8-\$82.3 billion.

Adjusted earnings for 2019 were \$8.68 per share, above the Zacks Consensus Estimate of \$8.67 and up 6.1% year over year. Earnings were slightly more than the guided range of \$8.62 - \$8.67 per share.

## **2020 Guidance**

J&J announced guidance for 2020.

Adjusted earnings per share in 2020 are expected in the range of \$8.95 - \$9.10. The guidance range indicates growth of 3.1%-4.8%. On an operational, constant currency basis, adjusted earnings per share are expected to grow in the range of 3.7%-5.4%.

Revenues are expected in the range of \$85.4-\$86.2 billion, indicating year-over-year growth of 4%-5%. Operational constant currency sales growth is expected to be in the range of 4.5%-5.5%. Adjusted operational sales growth, (excluding currency impact, acquisitions/divestitures) is expected to be in the range of 5% to 6%. The 2020 sales guidance includes the benefit of an additional 2 to 3 shipping days associated with the 53rd week in the 2020 fiscal calendar, which will be partially offset by a SKU rationalization program in Consumer segment.

J&J expects its Pharmaceutical business to continue to deliver growth above market in 2020 while the sale momentum in its Medical Device unit will continue. It also plans to improve the profitability of its Consumer unit while continuing to optimize its portfolio for competitive growth. J&J expects the Pharma unit growth in 2020 to be supported by strong performance of key products such as Darzalex, Imbruvica, Tremfya, Stelara and Erleada due to increased penetration and new indications.

J&J expects an operating margin improvement of approximately 100 basis points in 2020.

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## Recent News

### Files MAA in Europe for Ponesimod – Mar 4

J&J announced that it has submitted marketing authorization application (MAA) in Europe seeking approval of ponesimod for treating adults with relapsing forms of multiple sclerosis (RMS).

The regulatory filing is based on data from the head-to-head OPTIMUM phase III study. In the study, ponesimod demonstrated superior efficacy to Sanofi's MS drug, Aubagio on the primary endpoint of reduced annualized relapse rate (ARR), as well as most secondary endpoints.

### PRIME Designation for RPGR Gene Therapy – Mar 2

J&J announced that the European Medicines Agency (EMA) has granted both PRIME (PRiority MEdicines) and Advanced Therapy Medicinal Product (ATMP) designations to its adeno-associated virus (AAV)-RPGR gene therapy to treat inherited retinal disease X-linked retinitis pigmentosa (XLRP). The designations are expected to accelerate the regulatory review timeline of the product

### Further Expands Deal With BARDA– Feb 18

J&J announced that it is expanding its partnership with BARDA to accelerate development of potential treatments for COVID-19. Following this partnership, J&J and BARDA will mobilize resources to screen potential compounds with promising antiviral activity against 2019-nCoV. To do so, J&J will work with the Rega Institute for Medical Research in Belgium. Earlier this month, J&J had said that BARDA will share R&D costs and provide funds to rapidly advance its COVID-19 vaccine development program into phase I clinical studies.

### Expands Deal With BARDA for Coronavirus Vaccine – Feb 11

J&J announced an expanded agreement with BARDA, part of U.S. Department of Health and Human Services to speed up development of a vaccine for the newly found coronavirus. J&J had said that BARDA will share the R&D costs and provide funds to rapidly advance its COVID-19 vaccine development program into phase I clinical studies.

### Files sBLA for Darzalex Combo in R/R Multiple Myeloma– Feb 10

J&J announced that a supplemental biologics license application (sBLA) has been submitted to the FDA, seeking label expansion of Darzalex. The sBLA, based on data from the phase III CANDOR study, is seeking approval of Darzalex in combination with Amgen's Kyprolis plus dexamethasone (DKd) in patients with relapsed/refractory multiple myeloma as second to fourth-line treatment option.

### Begins Multi-Pronged Response to Fight Coronavirus – Jan 29

J&J said that it is working on developing a vaccine to address the current novel coronavirus (2019-nCoV) outbreak. The company aims to identify compounds with antiviral activity against 2019-nCoV. The program will leverage the same technologies that J&J used in making its investigational Ebola vaccine, which is currently deployed in the Democratic Republic of Congo and Rwanda.

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## Valuation

J&J's shares are down 1.6% in the year-to-date period but up 3.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 7.4% and 6.5%, respectively in the year-to-date period. Over the past year, stocks in the sub-industry are flat while those in the



sector are down 5.1%.

The S&P 500 Index is down 7% in the year-to-date period but up 7% in the past year.

The stock is currently trading at 15.69X forward 12-month earnings per share which compares to 13.64X for the Zacks sub-industry, 19.4X for the Zacks sector and 17.15X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.29X and as low as 14.11X, with a 5-year median of 16.09X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$151 price target reflects 16.5X 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	15.69	13.64	19.4	17.15
	5-Year High	19.29	18.1	21.09	19.34
	5-Year Low	14.11	13.64	15.82	15.18
	5-Year Median	16.09	15.49	18.87	17.44
P/S F12M	Current	4.36	4.29	2.62	3.16
	5-Year High	4.92	4.84	3.84	3.43
	5-Year Low	3.49	3.93	2.45	2.54
	5-Year Median	4.29	4.42	2.97	3.01
P/B TTM	Current	6.35	4.96	4.29	4.01
	5-Year High	6.82	7.26	5.05	4.54
	5-Year Low	3.54	3.78	3.44	2.85
	5-Year Median	5	5.2	4.32	3.62

As of 3/04/2020



## Industry Analysis Zacks Industry Rank: Top 31% (78 out of 255)



## Top Peers

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

Industry Comparison Industry: Large Cap Pharmaceuticals				Industry Peers		
	JNJ Neutral	X Industry	S&P 500	AZN Neutral	MRK Neutral	PFE Outperform
<b>VGM Score</b>	<b>B</b>	-	-	<b>D</b>	<b>A</b>	<b>D</b>
Market Cap	378.26 B	137.25 B	22.29 B	127.54 B	210.43 B	201.93 B
# of Analysts	9	3	13	5	7	3
Dividend Yield	2.65%	2.91%	1.97%	3.83%	2.94%	4.18%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>B</b>	<b>B</b>
Cash/Price	0.05	0.06	0.05	0.05	0.05	0.05
EV/EBITDA	15.63	13.59	13.20	20.40	14.73	9.63
PEG Ratio	2.32	2.00	1.94	1.46	2.12	2.86
Price/Book (P/B)	6.35	4.61	3.05	8.74	8.12	3.18
Price/Cash Flow (P/CF)	12.45	12.12	12.16	15.34	12.40	8.86
P/E (F1)	15.64	14.90	17.58	24.08	14.50	12.71
Price/Sales (P/S)	4.61	4.23	2.45	5.23	4.49	3.90
Earnings Yield	6.29%	6.72%	5.69%	4.16%	6.89%	7.86%
Debt/Equity	0.45	0.51	0.70	1.11	0.87	0.57
Cash Flow (\$/share)	11.52	4.33	7.01	3.17	6.69	4.11
<b>Growth Score</b>	<b>B</b>	-	-	<b>D</b>	<b>B</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	9.27%	8.34%	10.85%	-2.79%	8.10%	8.48%
Proj. EPS Growth (F1/F0)	4.03%	9.68%	6.26%	15.31%	10.24%	-2.94%
Curr. Cash Flow Growth	3.68%	4.90%	6.03%	2.12%	5.54%	-6.57%
Hist. Cash Flow Growth (3-5 yrs)	7.62%	7.37%	8.52%	-0.86%	0.15%	2.54%
Current Ratio	1.26	1.25	1.23	0.86	1.24	0.88
Debt/Capital	30.82%	36.17%	42.57%	52.63%	46.65%	36.17%
Net Margin	22.18%	21.01%	11.69%	5.38%	21.01%	31.44%
Return on Equity	39.27%	31.85%	16.66%	32.24%	49.41%	27.01%
Sales/Assets	0.53	0.51	0.54	0.40	0.56	0.32
Proj. Sales Growth (F1/F0)	4.68%	6.88%	3.94%	9.61%	6.36%	-10.93%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>D</b>	<b>A</b>	<b>C</b>
Daily Price Chg	5.82%	5.15%	3.75%	6.77%	4.85%	6.12%
1 Week Price Chg	-10.30%	-9.88%	-12.06%	-12.70%	-7.02%	-6.44%
4 Week Price Chg	-6.83%	-4.23%	-7.42%	-2.27%	-3.33%	-4.64%
12 Week Price Chg	1.77%	1.17%	-4.61%	0.85%	-6.75%	-4.76%
52 Week Price Chg	3.16%	9.34%	7.38%	15.63%	2.74%	-13.04%
20 Day Average Volume	8,236,803	3,779,376	2,456,671	3,541,749	13,284,162	29,998,150
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.06%	2.35%
(F1) EPS Est 4 week change	-0.08%	-0.04%	-0.06%	-3.45%	3.30%	3.74%
(F1) EPS Est 12 week change	-0.44%	0.93%	-0.41%	-2.51%	4.22%	10.70%
(Q1) EPS Est Mthly Chg	-1.06%	3.21%	-0.27%	NA	NA	3.21%

## 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	C
Growth Score	B
Momentum Score	B
VGM Score	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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