Johnson and Johnson (JNJ)

$146.24 (As of 10/02/20)

Price Target (6-12 Months): **$124.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/02/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: C | Momentum: B	

Summary

J&J's Pharma unit is performing above-market levels, supported by contribution from new drugs and successful label expansion of blockbuster drugs, Imbruvica, Darzalex and Stelara. J&J is also making rapid progress with its pipeline and line extensions However, the coronavirus pandemic is hurting its Medical Devices unit due to decline in elective surgical procedures and redeployment of hospital resources to address patients affected by the coronavirus pandemic. 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's shares have underperformed the industry in the past six months.

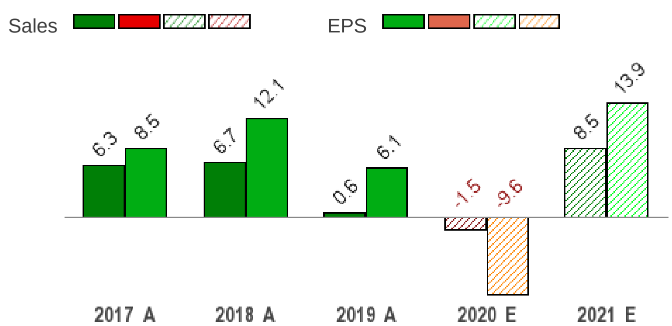
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$157.00 - $109.16**
20-Day Average Volume (Shares)	**6,169,916**
Market Cap	**$385.0 B**
Year-To-Date Price Change	**0.3%**
Beta	**0.68**
Dividend / Dividend Yield	**$4.04 / 2.8%**
Industry	**Large Cap Pharmaceuticals**
Zacks Industry Rank	**Bottom 23% (194 out of 251)**
Last EPS Surprise	**11.3%**
Last Sales Surprise	**4.4%**
EPS F1 Estimate 4-Week Change	**0.0%**
Expected Report Date	**10/13/2020**
Earnings ESP	**0.0%**
P/E TTM	**18.4**
P/E F1	**18.6**
PEG F1	**2.8**
P/S TTM	**4.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	21,485 E	21,397 E	22,035 E	22,320 E	87,735 E
2020	20,691 A	18,336 A	20,404 E	21,367 E	80,865 E
2019	20,021 A	20,562 A	20,729 A	20,747 A	82,059 A

EPS Estimates

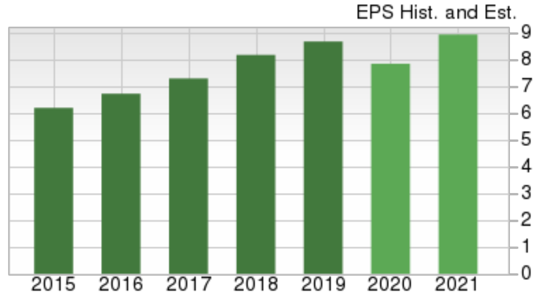
	Q1	Q2	Q3	Q4	Annual*
2021	$2.26 E	$2.19 E	$2.34 E	$2.11 E	$8.94 E
2020	$2.30 A	$1.67 A	$1.98 E	$1.90 E	$7.85 E
2019	$2.10 A	$2.58 A	$2.12 A	$1.88 A	$8.68 A

*Quarterly figures may not add up to annual.

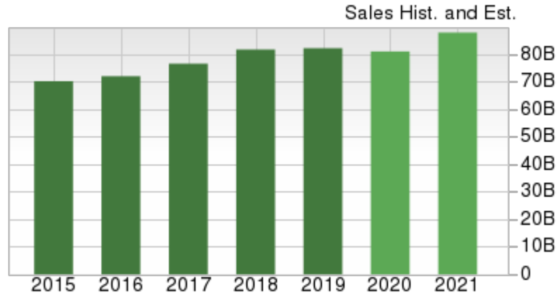
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/02/2020. The reports text is as of 10/05/2020.

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/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 Sell:

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

- **Shares Underperforming Industry:** Though J&J's share price has risen 4.6% in the past six months. It has still underperformed the industry's increase of 6.5%.

- **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.

  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 20,000 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 2,900 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. In October 2019, J&J offered to pay about $4 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 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.

Risks

- **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 the momentum continues in 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 2020 despite the negative impact of the COVID-19 pandemic, supported by strong performance of key products such as Darzalex, Imbruvica, Tremfya, Stelara and Erleada due to increased penetration and new indications.

- **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 niraparib (prostate cancer – phase III), JNJ-4528/BCMA CAR-T therapy (relapsed or refractory multiple myeloma – phase Ib/II), ponesimod (relapsing forms of multiple sclerosis – under review in the United States and EU) 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.

- **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.

Last Earnings Report

J&J Beats on Q2 Earnings & Sales, Ups 2020 Guidance

Quarter Ending	06/2020
Report Date	**Jul 16, 2020**
Sales Surprise	**4.37%**
EPS Surprise	**11.33%**
Quarterly EPS	**1.67**
Annual EPS (TTM)	**7.97**

J&J beat second-quarter estimates for earnings as well as sales.

Second-quarter 2020 earnings came in at 1.67 per share, which beat the Zacks Consensus Estimate of $1.50. Earnings however declined 35.3% from the year-ago period.

Adjusted earnings exclude after-tax intangible amortization expense and some special items. Including these items, J&J reported second-quarter earnings of $1.36 per share, down 34.6% from the year-ago quarter.

Sales came in at $18.3 billion, which beat the Zacks Consensus Estimate of $17.57 billion. Sales however declined 10.8% from the year-ago quarter, reflecting an operational decrease of 9% and an unfavorable currency impact of 1.8%.

Organically, excluding the impact of acquisitions and divestitures, sales decreased 8.8% on an operational basis in contrast to 5.6% increase seen in the first quarter mainly due to the negative impact of the coronavirus pandemic.

Its Pharmaceuticals unit continued to do well despite the coronavirus crisis. However, the pandemic hurt sales in its Medical Devices segment across its Surgery, Orthopedics, Interventional Solutions, and Vision businesses.

Second-quarter sales in the domestic market declined 8.3% to $9.54 billion. International sales declined 13.4% to $8.8 billion (operational decrease of 9.6%). Excluding the impact of all acquisitions and divestitures, on an adjusted operational basis, international sales declined 9.4% in the quarter.

Segment Details

Pharmaceutical segment sales rose 2.1% year over year to $10.75 billion, reflecting 3.9% operational growth, which was offset by 1.8% negative currency impact. Sales in the domestic market rose 5.8% to $6.12 billion. International sales however declined 2.4% to $4.63 billion (operational increase of 1.4%). Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales increased 3.9%, lower than 10.2% increase in the first quarter.

The sales increase was led by the company's oncology drugs, Imbruvica and Darzalex as well as psoriasis treatment, Stelara, which offset the impact of biosimilar and generic competition on some drugs and the negative impact of COVID-19. Delayed diagnosis and slower new patient starts due to reduced patient interactions with health care providers amid the COVID-19 pandemic hurt sales of some physician-administered drugs in the quarter. The products most impacted by COVID-19 were Darzalex, Imbruvica, Stelara, Tremfya, Invega Sustenna and PAH medicines.

Worldwide sales of J&J's oncology drugs rose 3.5% in the quarter to $2.79 billion. Other core products like Invega Sustenna, J&J's PAH drugs, and new drugs, Tremfya and Erleada contributed significantly to sales growth.

Moreover, sales of some other key drugs like Xarelto and Invokana/Invokamet improved in the quarter after declining in the past few quarters. Sales of others like Zytiga, Remicade, Velcade (internationally) and Procrit/Eprex declined due to the impact of generic/biosimilar competition.

Imbruvica sales rose 14.1% to $941 billion 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. However, delayed diagnosis and the reversal of Q1 stocking related to COVID-19 hurt sales, to an extent, in the quarter.

Darzalex sales rose 16.3% year over year to $901 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.

Stelara sales rose 8.9% to $1.7 billion in the quarter driven primarily by the Crohn's disease indication and growth from the recently approved ulcerative colitis indication.

PAH revenues of $789 million rose 14.2% year over year driven by increased market penetration and share growth for Uptravi and Opsumit.

Invega Sustenna sales rose 7.5% to $879 million in the quarter. Simponi/Simponi Aria sales declined 3% to $546 million in the quarter. Prezista sales declined 4.78% to $510 million in the quarter.

Tremfya recorded sales of $342 million in the quarter compared with $296 million in the previous quarter.

Erleada generated sales of $170 million in the quarter compared with $143 million in the first quarter.

Zytiga sales declined 18.6% to $568 million in the quarter due to generic competition.

Sales of Procrit/Eprex declined 25.6% to $136 million in the quarter due to biosimilar competition. Velcade sales declined 56.1% in the quarter to $98.0 million.

Xarelto sales rose 1.7% in the quarter to $559 million. Sales of Invokana/Invokamet rose 1.6% to $179 million.

Sales of Remicade were down 15.5% in the quarter to $935 million due to increased discounts and share loss to biosimilars in the United States.

While U.S. sales declined 25.8%, sales in international markets declined 14.5%.

J&J continues to expect its Pharmaceutical business to deliver above-market growth in 2020 despite the negative impact of the COVID-19 pandemic. The sales increase will be led by increased penetration and new indications across key products such as Darzalex, Imbruvica, Tremfya, Stelara and Erleada.

Medical Devices segment sales came in at $4.29 billion, down 33.9% from the year-ago period, reflecting an operational decrease of 32.7% and negative currency movement of 1.2%. The pandemic has hit this segment of J&J the hardest due to widespread decline in elective surgical procedures and redeployment of hospital resources to address patients affected by COVID-19. An additional selling day benefitted sales in the segment by about 50 basis points.

However, the segment witnessed less steeper than expected decline in the second quarter and the company now looks for a lower-than-previously expected decline for the second half of the year. In the third quarter, J&J expects the Medical Devices unit to decline in the range of 10-25% (previously 20-60%) while in the fourth quarter, the range is a decline of 15% to 0%, both less than that anticipated in April.

Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales decreased 32.5%, much steeper than a decrease of 4.8% in the previous quarter.

Domestic market sales declined 39.6% year over year to $1.86 billion. International market sales declined 28.8% year over year to $2.43 billion. On an operational basis, international sales decreased 26.4%.

The Consumer segment recorded revenues of $3.3 billion in the reported quarter, down 7% year over year. On an operational basis, Consumer segment sales decreased 3.6%. Unfavorable foreign currency movement hurt sales by 3.4%.

Excluding the impact of acquisitions and divestitures, adjusted operational sales decline was 3.4% worldwide against 11% growth seen in the previous quarter. As expected, the massive coronavirus related stockpiling benefit seen in the Consumer Health segment in the first quarter reversed in the second quarter due to lockdown-related lower consumption.

Higher sales of OTC products like Tylenol and Zyrtec, oral care product Listerine mouthwash and digestive health products were offset by the negative impact of the COVID-19 pandemic on certain categories like skin care and beauty care products in the second quarter. Sales in the skin care and beauty care categories were hurt as a result of reduced store traffic and reduced consumption due to government lockdowns. On the contrary, OTC and Oral Care businesses were positively impacted by increased COVID-19 demand. Sales in the women's health care products and international baby care products categories were also hurt by the pandemic. Overall, COVID-19 had a negative estimated impact of 700 basis points on Consumer Health segment sales.

Sales in the domestic market rose 1.3% from the year-ago period to $1.56 billion. Meanwhile, the international segment declined 13.4% to $1.74 billion which included an operational decrease of 7.4% and a negative currency impact of 6.0% in the quarter.

In Consumer Health unit, J&J's focus will be on delivering growth in core product categories including OTC and skin health, as well as ongoing e-commerce channel expansion

2020 Guidance

J&J raised its financial outlook for the year due faster-than-expected recovery in sales of the Medical Devices unit as economies around the world began opening sooner than anticipated. J&J now expects a negative procedure delay-driven sales impact of approximately $3.8 billion-$5.3 billion in the Medical Devices unit in 2020 versus $4 billion - $7 billion expected earlier. J&J also expects continued strength in Pharma and improving growth across Consumer health unit.

Adjusted earnings per share expectations were raised from a range of $7.50 - $7.90 to $7.75-$7.95. The guidance range now indicates a decline in the range of 8.4%-10.7% versus the prior expectation of decline of 9%-13.6%. On an operational, constant currency basis, adjusted earnings per share are expected to decline in the range of 7.3%-9.6%. The prior expectation was of a decline in the range of 7.3%-11.9%.

Revenues are now expected in the range of $79.9-$81.4 billion, indicating year-over-year decline of 0.8%-2.6%. Previous expectation for revenues was in the range of $77.5-$80.5 billion, indicating year-over-year decline of 2%-5.5%.

Operational constant currency sales are expected to be up 0.5% to down 1.3% compared with the prior expectation of flat to down 3.5%. Adjusted operational sales, (excluding currency impact, acquisitions/divestitures) are expected to be down 0.8% to up 1% (previous expectation was down 3% to up 0.5%).

On its call, J&J said that it saw improving demand trends throughout the quarter as countries and states began to reopen. Joseph Wolk, J&J's chief financial officer, said that though visits to doctor's office were still declining, the decline was less steep than in the earlier stages of the pandemic in mid-April. He also said that category trends are improving in the Consumer Health unit.

When asked about a possible second wave of coronavirus cases, management sounded positive and said that the healthcare system should be better able to manage through a possible second wave, with better testing capabilities, better isolation and other preventative measures and adequate supply of necessary medical equipment.

J&J expects operating margin to decline by 100 basis points in 2020. J&J expects higher manufacturing costs related to COVID-19 sales impact to be partially offset by spending reductions.

Progress in Coronavirus Vaccine Efforts

J&J plans to initiate a phase I/II human clinical study on its vaccine candidate for COVID-19 in late July, rather than September as announced earlier. The phase I/II study will be conducted in 1045 healthy adults aged 18 to 55 years, plus adults aged 65 years and older and will be initiated in the United States and Belgium. The study in Belgium will begin on July 22 while that in the United States will begin in the following week. J&J is holding talks with the National Institutes of Allergy and Infectious Diseases to begin pivotal phase III studies on the candidate sooner than planned, potentially in late September, if data from the phase I/II study is positive.

J&J's goal is to supply more than 1 billion doses of the vaccine globally by end of 2021 if it proves to be safe and effective.

Meanwhile. J&J has formed collaborations with Emergent BioSolutions and Catalent Biologics to support commercial manufacturing of the vaccine.

Recent News

FDA Approves Simponi Aria for Juvenile Arthritis – Sep 30

J&J announced that the FDA has granted approval to its TNF inhibitor, Simponi Aria for the treatment of children 2 years and older with active polyarticular course juvenile idiopathic arthritis (pcJIA). The FDA also expanded Simponi Aria's active psoriatic arthritis (PsA) indication use for pediatric patients 2 years and older. Simponi Aria is presently approved as a 30-minute intravenous infusion for moderately-to-severely active rheumatoid arthritis, active PsA and ankylosing spondylitis in adults.

Seeks Approval of Uptravi for IV Use – Sep 30

J&J filed a new drug application seeking approval of Uptravi as an injection for intravenous (IV) use in patients who are unable to take the currently marketed oral formulation of the drug. The NDA was based on data from a phase III study, which evaluated safety and tolerability of temporarily switching from oral Uptravi to Uptravi IV in patients with PAH, and then transitioning back to the initial oral dose. Uptravi was added to J&J's product portfolio with the 2017 acquisition of Actelion.

Begins Phase III Study on Coronavirus Vaccine – Sep 23

J&J launched a large pivotal phase III study to evaluate the safety and efficacy of a single dose of its investigational COVID-19 vaccine candidate, JNJ-78436735. J&J's phase III study (ENSEMBLE) will enroll 60,000 adult participants and will compare a single vaccine dose of JNJ-78436735 (previously Ad26.COV2.S) to placebo. It aims to enroll participants in Argentina, Brazil, Chile, Colombia, Mexico, Peru, South Africa and the United States at across more than 200 sites. Results of the phase III study are expected by year end or early next year. The ENSEMBLE study has been initiated in collaboration with BARDA and NIAID.

Interim Data from Phase I Study on Amivantamab – Sep 20

J&J announced interim data from a phase Ib study (CHRYSALIS) evaluating amivantamab in combination with third-generation tyrosine-kinase inhibitor (TKI) llazertinib in patients with EGFR-mutated NSCLC. In the study the amivantamab plus lazertinib combination achieved a 100 percent overall response rate. The data was presented at the at the European Society for Medical Oncology (ESMO) virtual congress. Meanwhile, a phase III MARIPOSA study has been initiated to evaluate amivantamab in combination with lazertinib versus third-generation TKI osimertinib.

Files sBLA for Darzalex Faspro for a Rare Disease – Sep 10

J&J filed a supplemental biologics license application (sBLA) seeking label expansion of Darzalex Faspro for treating patients with newly diagnosed light chain (AL) amyloidosis, a rare life-threatening disorder. The sBLA was based on data from the phase III ANDROMEDA study. Darzalex Faspro is the subcutaneous formulation of J&J's blockbuster drug, Darzalex, which is approved to treat multiple myeloma.

Tremfya Gets Canada Approval for Psoriatic Arthritis – Sep 10

J&J announced that Health Canada has approved Tremfya for active psoriatic arthritis based on results from two pivotal phase III studies - DISCOVER-1 and DISCOVER-2. Tremfya was until now approved in Canada for moderate-to-severe plaque psoriasis.

Ends Development of Influenza Candidate, Pimodivir – Sep 2

J&J announced its decision to discontinue development of pimodivir, its investigational antiviral treatment for influenza A infection. Data from an interim analysis of a phase III study on the candidate prompted the company's decision. Data from this study in hospitalized patients with influenza A indicated that pimodivir in combination with the standard of care (SOC) was unlikely to demonstrate added benefit in this patient population compared to SOC treatment alone. In addition to this study in in hospitalized patients with influenza A, another study in outpatients with influenza A will be stopped.

Valuation

J&J's shares are up 0.2% in the year-to-date period and 9.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 1.7% and 0.9%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 9.5% and 11.7%, respectively.

The S&P 500 Index is up 4.0% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 16.84X forward 12-month earnings per share which compares to 14.28X for the Zacks sub-industry, 22.11X for the Zacks sector and 21.89X 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 16.33X. Our Underperform recommendation indicates that the stock will perform worse than with the market. Our $124 price target reflects 14.3X 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	16.84	14.28	22.11	21.89
	5-Year High	19.29	16.62	23.19	23.46
	5-Year Low	12.11	13.61	15.89	15.26
	5-Year Median	16.33	15.24	19.02	17.67
P/S F12M	Current	4.47	4.56	2.77	4.02
	5-Year High	4.98	4.85	3.25	4.3
	5-Year Low	3.37	3.88	2.24	3.18
	5-Year Median	4.38	4.42	2.87	3.67
P/B TTM	Current	6.11	5.27	3.88	5.77
	5-Year High	6.82	7.37	5.07	6.19
	5-Year Low	3.61	3.69	2.95	3.75
	5-Year Median	5.37	5.28	4.29	4.87

As of 10/02/2020 *Source: Zacks Investment Research*

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 251)

Source: Zacks Investment Research

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	2
MerckCo., Inc. **(MRK)**	Neutral	3
Novartis AG **(NVS)**	Neutral	3
Pfizer Inc. **(PFE)**	Neutral	3
Roche Holding AG **(RHHBY)**	Neutral	4

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

Industry Comparison Industry: Large Cap Pharmaceuticals

	JNJ	X Industry	S&P 500	AZN	MRK	PFE
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	A	B	C
Market Cap	385.02 B	147.14 B	23.15 B	142.29 B	204.36 B	202.16 B
# of Analysts	9	3	14	5	7	5
Dividend Yield	2.76%	2.31%	1.66%	1.62%	3.02%	4.18%
Value Score	C	-	-	C	B	B
Cash/Price	0.05	0.05	0.08	0.04	0.05	0.11
EV/EBITDA	15.86	14.52	13.23	22.51	14.52	9.70
PEG F1	2.77	1.98	2.82	1.59	2.10	2.95
P/B	6.11	3.74	3.31	10.42	7.35	3.13
P/CF	12.69	11.58	12.85	17.12	12.08	8.85
P/E F1	18.63	14.30	21.20	26.74	14.19	12.66
P/S TTM	4.78	4.16	2.51	5.54	4.33	4.11
Earnings Yield	5.37%	7.00%	4.49%	3.74%	7.04%	7.89%
Debt/Equity	0.40	0.78	0.70	1.14	0.94	0.78
Cash Flow ($/share)	11.52	4.22	6.92	3.17	6.69	4.11
Growth Score	C	-	-	B	B	D
Historical EPS Growth (3-5 Years)	8.66%	7.34%	10.45%	-2.71%	9.70%	7.38%
Projected EPS Growth (F1/F0)	-9.55%	7.45%	-2.97%	15.89%	9.72%	-2.58%
Current Cash Flow Growth	3.68%	2.90%	5.47%	2.12%	5.54%	-6.57%
Historical Cash Flow Growth (3-5 Years)	7.62%	7.37%	8.52%	-0.86%	0.15%	2.54%
Current Ratio	1.25	1.10	1.35	0.82	1.32	1.42
Debt/Capital	28.47%	43.90%	42.68%	53.34%	48.53%	43.90%
Net Margin	22.69%	19.20%	10.32%	8.36%	22.20%	28.80%
Return on Equity	35.21%	31.21%	14.77%	37.72%	52.94%	25.11%
Sales/Assets	0.51	0.43	0.51	0.43	0.55	0.29
Projected Sales Growth (F1/F0)	-1.46%	5.05%	-0.89%	7.69%	2.03%	-10.17%
Momentum Score	B	-	-	A	D	D
Daily Price Change	-0.73%	-0.10%	0.46%	-0.15%	-1.03%	0.03%
1-Week Price Change	-2.36%	-3.54%	-2.32%	-1.67%	-3.36%	-1.58%
4-Week Price Change	-2.21%	-1.77%	-1.82%	0.11%	-5.49%	-0.05%
12-Week Price Change	2.63%	-1.50%	7.71%	0.46%	5.36%	8.73%
52-Week Price Change	11.47%	7.10%	3.04%	25.60%	-2.34%	2.62%
20-Day Average Volume (Shares)	6,169,916	2,389,613	2,142,397	4,462,715	7,867,388	20,476,514
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	-0.06%	0.00%	-0.10%	-0.01%	-0.64%
EPS F1 Estimate 12-Week Change	2.29%	1.40%	3.87%	0.00%	7.38%	-0.21%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	-0.24%	1.21%

Source: Zacks Investment Research

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.

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	C
Momentum Score	B
VGM Score	C

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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 mediumterm 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 mostrecent 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.

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.

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.

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.