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Jan 16, 2020

Johnson and Johnson (JNJ)

$147.01 (As of 01/15/20)

Price Target (6-12 Months): **$161.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/24/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: C | Momentum: B	

Summary

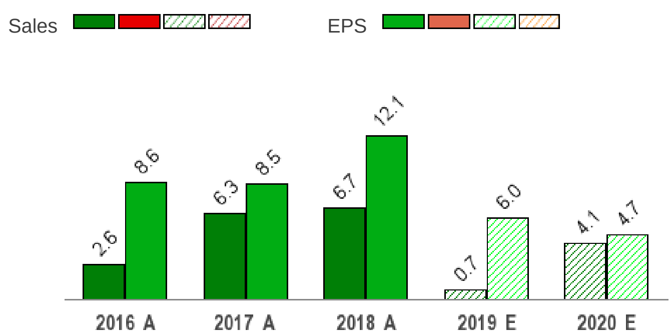
J&J has been witnessing significant generic/biosimilar headwinds in the Pharma unit. However, the unit is performing above-market levels, supported by contribution from new drugs like Tremfya and successful label expansion of cancer drugs like Imbruvica and Darzalex and immunology drug, Stelara. J&J is also making rapid progress with its pipeline/line extensions. However, headwinds like biosimilar/generic competition and pricing pressure remain. Moreover, J&J faces numerous lawsuits, which allege personal injuries to patients caused by the use of its products. These are overhangs on the stock. J&J's shares have slightly outperformed the industry in the past year. Estimates have risen slightly ahead of Q4 results. J&J has a positive record of earnings surprises in the recent quarters.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$147.84 - $125.00**
20 Day Average Volume (sh)	**5,493,988**
Market Cap	**$386.9 B**
YTD Price Change	**0.8%**
Beta	**0.71**
Dividend / Div Yld	**$3.80 / 2.6%**
Industry	[Large Cap Pharmaceuticals]
Zacks Industry Rank	**Top 21% (54 out of 254)**
Last EPS Surprise	**6.0%**
Last Sales Surprise	**3.2%**
EPS F1 Est- 4 week change	**0.1%**
Expected Report Date	**01/22/2020**
Earnings ESP	**0.8%**
P/E TTM	**16.8**
P/E F1	**16.2**
PEG F1	**2.4**
P/S TTM	**4.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	20,604 E	21,316 E	21,620 E	21,877 E	85,560 E
2019	20,021 A	20,562 A	20,729 A	20,791 E	82,171 E
2018	20,009 A	20,830 A	20,348 A	20,394 A	81,581 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$2.32 E	$2.29 E	$2.42 E	$2.08 E	$9.08 E
2019	$2.10 A	$2.58 A	$2.12 A	$1.87 E	$8.67 E
2018	$2.06 A	$2.10 A	$2.05 A	$1.97 A	$8.18 A

*Quarterly figures may not add up to annual.

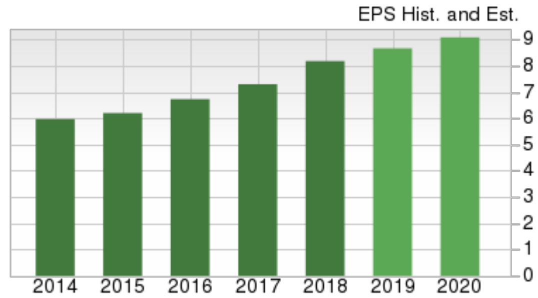
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/15/2020. The reports text is as of 01/16/2020.

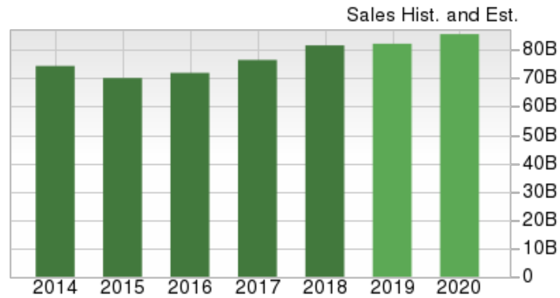
Overview

New Brunswick, NJ based Johnson & Johnson, Inc. focuses on the development, manufacturing and marketing of pharmaceutical, medical, and consumer related healthcare products. Its worldwide business is divided into three segments: Pharmaceutical, Medical Devices and Consumer. In 2018, these segments contributed 50%, 23% and 17%, respectively, to the company's total revenues of $81.6 billion (up 6.7%).

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 2018 totaled $40.7 billion, up 12.4%. Several products in this segment are facing generic competition.

Medical Devices Segment – This segment offers products in the orthopedics, surgery, interventional solutions, diabetes care and vision care markets. The segment posted sales of $27.0 billion in 2018, up 1.5%. 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 2018, up 1.8%.

Reasons To Buy:

J&J is making rapid progress with its pipeline and line extensions. It has already gained FDA approval for two new drugs in 2019, Balversa and Spravato.

- **Shares Outperforming Industry:** J&J's shares have risen 13.9% in the past one year compared with the industry's increase of 13.5%.

- **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 6.2% in the first nine months of 2019 on an operational 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.

- **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 almost $6 billion in 2019 so far. 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. J&J has gained regulatory approvals for 18 new products since 2011 in HIV, cancer and cardiovascular areas.

  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 late-stage candidates in the company's pipeline are Tremfya/guselkumab (psoriatic arthritis - phase III) and niraparib (prostate cancer - filings expected soon) 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. Sales in the segment improved in 2017 and 2018 from 2016 levels. 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. Meanwhile, the restructuring initiative in this segment is expected to deliver approximately $800 million - $1 billion in annual savings. Approximately $500 million and $750 million in savings were realized in 2017 and 2018 respectively.

- **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.

Reasons To Sell:

> Challenges for the company remain in the form of generic competition, pricing pressure and pipeline setbacks.

- **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.

  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 16,000 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 more than 13,000 similar lawsuits alleging that use of its antipsychotic drug, Risperdal causes enlargement of breast tissues in boys – a condition called gynecomastia. In October, a Philadelphia jury ordered J&J to pay punitive damages of $8 billion to a man who claimed that the use of Risperdal caused him to develop 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, J&J said in October 2017 that it will not file regulatory applications for sirukumab in rheumatoid arthritis due to increased competitive pressure in the RA market.

  In the same month, J&J 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. In 2018, J&J's net prices declined between 6% and 8%. 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 Q3 Earnings and Sales Beat Estimates

Quarter Ending	09/2019
Report Date	Oct 15, 2019
Sales Surprise	3.22%
EPS Surprise	6.00%
Quarterly EPS	2.12
Annual EPS (TTM)	8.77

J&J beat third-quarter estimates for both earnings and sales and raised its financial outlook for the year.

Third-quarter adjusted earnings came in at $2.12 per share, which beat the Zacks Consensus Estimate of $2.00 and increased 3.4% from the year-ago period.

Adjusted earnings exclude after-tax intangible amortization expense and some special items. Including these items, J&J reported third-quarter earnings of $1.81 per share, up 25.7% from the year-ago quarter.

Sales of $20.73 billion beat the Zacks Consensus Estimate of $20.08 billion. Sales rose 1.9% from the year-ago quarter, reflecting an operational increase of 3.2%, which offset an unfavorable currency impact of 1.3%. Organically, excluding the impact of acquisitions and divestitures, sales increased 5.2% on an operational basis, higher than 3.7% increase seen in the previous quarter.

Sales rose in all the three segments on an organic basis. It accelerated in the Medical Device and Pharma units but decelerated in the Consumer unit on a sequential basis.

Third-quarter sales rose 1.2% in the domestic market to $10.79 billion and 2.6% in international markets to $9.94 billion. However, international sales reflected 5.4% operational growth, which was offset by 2.8% negative currency impact. Excluding the impact of all acquisitions and divestitures, on an adjusted operational basis, international sales rose 7.3% 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.

At the call, the company said that it is seeing about $2 billion of incremental negative impact from biosimilar and generics which was lower than its guided range of being around $3 billion. This may have contributed to the above-market sales growth in the Pharma unit.

Pharmaceutical segment sales rose 5.1% year over year to $10.88 billion, reflecting 6.4% operational growth, which was offset by 1.3% negative currency impact. Sales in the domestic market rose 4% to $6.34 billion. International sales grew 6.8% to $4.54 billion (operational increase of 10.0%). Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales increased 6.4%, improving from 4.4% 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.

Worldwide sales of J&J's oncology drugs rose 6.7% in the quarter to $2.76 billion. Other core products like Stelara, Simponi/Simponi Aria and Invega Sustenna and new immunology medicines like Tremfya also contributed to growth. However, sales of some other key drugs like Xarelto were soft in the quarter. Sales of others like Zytiga, Remicade, Procrit/Eprex declined due to the impact of generic/biosimilar competition.

Imbruvica sales rose 30.6% to $921 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 the European, Asia-Pacific, and Latin America markets.

Darzalex sales rose 53.5% year over year to $765 million in the quarter. In the United States, market growth and market share gains across all lines of therapy drove sales. In outside U.S. markets, increased penetration and share gains drove sales growth.

Stelara sales rose 29.6% to $1.7 billion in the quarter driven primarily by the Crohn's disease indication.

PAH revenues of $654 million declined 0.3% year over year as strong demand for Uptravi and Opsumit was partially offset by a decline in Tracleer sales, which were hurt by continued generic competition in Europe and recent generic launch in the United States.

Simponi/Simponi Aria sales rose 9.6% to $586 million in the quarter. Prezista sales rose 3.7% to $508 million in the quarter. Invega portfolio's sales rose 13.7% to $851 million.

Tremfya recorded sales of $290 million in the quarter compared with $235 million in the second quarter. J&J said that the product is seeing strong demand trends with the drug capturing 8.1% share of the psoriasis market in the United States, up 2.5 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. J&J said that Erleada gained almost 3 points of market share in the United States.

Regarding Spravato, which was approved and launched in the first quarter, J&J said that the drug is off to a strong start and patient demand is strong.

Zytiga sales declined 22.7% to $741 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 22.4% to $198 million in the quarter due to biosimilar competition.

Xarelto sales were almost flat in the quarter at $613 million as prescription growth was offset by increased discounts and rebates. Sales of Invokana/Invokamet declined 5.8% to $179 million.

Sales of Remicade were down 17.6% in the quarter to $1.14 billion due to increased discounts and share loss to biosimilars in the United States. While U.S. sales declined 24.1%, U.S. exports went down 12%. Remicade sales rose 2.5% in international markets.

Medical Devices segment sales came in at $6.38 billion, down 3.1% from the year-ago period, reflecting an operational decrease of 2% and negative currency movement of 1.1%.

Excluding the impact of all acquisitions and divestitures primarily the divestitures of LifeScan and ASP, on an operational basis, worldwide sales increased 5.3%, better than 3.2% in the previous quarter. Sales in the quarter benefitted by around 80 basis points due to some forward buying 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, international energy products 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 innovations 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.

Domestic market sales declined 4.4% year over year to $3.06 billion. International market sales decreased 1.9% year over year to $3.33 billion. On an operational basis, international sales increased 0.3%.

The Consumer segment recorded revenues of $3.47 billion in the reported quarter, up 1.6% year over year. On an operational basis, Consumer segment sales increased 3.3%, partially offset by unfavorable foreign currency movement of 1.7%.

Excluding the impact of acquisitions and divestitures, adjusted operational sales growth was 1.3% worldwide, a deceleration from 2.3% 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 .

Sales in the domestic market rose 1.7% from the year-ago period to $1.39 billion. Meanwhile, the international segment rose 1.4% to $2.08 billion. An operational increase of 4.3% was offset by negative currency impact of 2.9% in the quarter.

2019 Guidance

J&J raised its full-year earnings and sales view on strong third quarter results.

Adjusted earnings per share in 2019 are expected in the range of $8.62 - $8.67, up from the prior range of $8.53 - $8.63. The guidance range indicates growth of 5.4-6% (previously 4.3-5.5%). On an operational, constant currency basis, adjusted earnings per share are expected to grow in the range of 8.1 - 8.7%, up from the prior expectation of 6.7-7.9%.

Revenues are expected in the range of $81.8-$82.3 billion, up from the previous range of $80.8-$81.6 billion, including currency impact. Currency impact is expected to negatively hurt sales by 230 basis points, higher than the previous estimate of 200 basis points. Operational constant currency sales growth is expected to be in the range of 2.5%-3%, better than 1%-2% expected previously. Adjusted operational sales growth, (excluding currency impact, acquisitions/divestitures) is expected to be in the range of 4.5% to 5%, higher than 3.2% to 3.7% expected previously.

J&J expects higher R&D costs in the fourth quarter due to potentially increased investment in the pipeline. Fourth-quarter earnings in 2018 had benefited from $800 million of adjusted other income primarily due to the LifeScan divestiture, which would not be reported in the fourth quarter of 2019.

Also the full-year tax rate guidance was tightened from 17.5% - 18.5% to 18% - 18.5%.

Preliminary 2020 Outlook

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.

Update on Talc/Opioid Litigations

In relation to the Philadelphia jury verdict, Joseph Wolk, the company's chief financial officer said that J&J is confident that it will be overturned and the amount will be significantly reduced. Regarding, the talc litigations, he said that plaintiff's attorneys have developed big business with class-action lawsuits like these. He said that J&J will continue the product, which the company knows is safe and does not cause cancer. With respect to opioids, it took two divergent approaches. In Oklahoma, it could not find a reasonable settlement approach and decided to fight it by appealing. In Ohio, the company saw a reasonable amount in proportion to other companies that were involved as defendants. So, it decided to enter into a settlement under appropriate terms.

Recent News

Seeks Label Expansion for Spravato in EU – Jan 15

J&J submitted a type II variation application to the European Medicines Agency (EMA), seeking label expansion of Spravato (esketamine) nasal spray in patients with major depressive disorder (MDD) who have current suicidal ideation with intent in Europe.

Announces Dividend for Q1 – Jan 2

J&J's board of directors declared a quarterly dividend for first-quarter 2020 of 95 cents per share. The dividend will be paid out on Mar 10 to shareholders of record at the close of business on Feb 25.

Completes Acquisition of Bermekimab From XBiotech – Dec 30

J&J announced that it has completed the previously announced agreement to acquire all rights to the investigational anti-IL-1alpha monoclonal antibody (mAb), bermekimab from XBiotech Inc. for $750 million.

ViiV Healthcare's Long-Acting HIV Regimen Gets CRL From FDA – Dec 21

J&J and partner, GlaxoSmithKline's HIV subsidiary, ViiV Healthcare, received a complete response letter (CRL) from the FDA for their investigational long-acting injectable regimen of cabotegravir and J&J's Edurant (rilpivirine) for the treatment of HIV-1 infection in virologically suppressed adults.

Glaxo said the CRL was related to chemistry, manufacturing and controls (CMC) and there were no reported safety issues related to CMC.

ViiV Healthcare had filed the NDA for the long-acting regimen in April, which was granted priority review by the FDA in July. The regimen was co-developed as part of a collaboration between Janssen and ViiV.

Buys Small Cancer Biotech – Dec 20

J&J announced the acquisition of small private biotech TARIS Biomedical specializing in the development of a novel drug delivery technology for the treatment of bladder diseases including cancer. The company's lead clinical-stage product, TAR-200, uses the proprietary TARIS System, to evaluate novel, locally-delivered therapeutics for patients with localized bladder cancer. The TARIS technology strengthens J&J's targeted oncologic therapy approach.

Spravato Gets Approval in Europe – Dec 19

Janssen announced that the European Commission has granted approval to Spravato (esketamine) nasal spray as a combination therapy for adults with major depressive disorder.

Valuation

J&J's shares are up 13.9% in the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 13.5% and 4.3% over the past year. The S&P 500 Index is up 23.6% in the past year.

The stock is currently trading at 16.12X forward 12-month earnings per share which compares to 15.62X for the Zacks sub-industry, 21.58X for the Zacks sector and 18.95X 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 $161 price target reflects 17.7X 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	16.12	15.62	21.58	18.95
	5-Year High	19.29	18.1	21.58	19.34
	5-Year Low	14.11	13.94	15.88	15.17
	5-Year Median	16.09	15.56	18.95	17.44
P/S F12M	Current	4.51	4.77	2.84	3.52
	5-Year High	4.92	4.84	3.81	3.52
	5-Year Low	3.49	3.93	2.42	2.54
	5-Year Median	4.26	4.43	2.93	3
P/B TTM	Current	6.65	6.89	4.54	4.49
	5-Year High	6.65	7.26	5.02	4.49
	5-Year Low	3.78	3.78	3.42	2.85
	5-Year Median	5.16	5.16	4.28	3.61

As of 1/15/2020

Industry Analysis **Zacks Industry Rank:** Top 21% (54 out of 254)

Top Peers

Eli Lilly and Company **(LLY)**	Outperform
Pfizer Inc. **(PFE)**	Outperform
AstraZeneca PLC **(AZN)**	Neutral
Bristol-Myers Squibb Company **(BMY)**	Neutral
GlaxoSmithKline plc **(GSK)**	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
VGM Score	B	-	-	B	A	D
Market Cap	386.91 B	134.39 B	24.31 B	133.29 B	233.06 B	225.07 B
# of Analysts	8	3	13	5	6	6
Dividend Yield	2.58%	2.59%	1.76%	1.73%	2.67%	3.54%
Value Score	B	-	-	C	B	C
Cash/Price	0.05	0.04	0.04	0.04	0.04	0.04
EV/EBITDA	15.27	15.19	14.08	20.39	18.74	13.80
PEG Ratio	2.41	1.95	2.06	1.51	1.83	4.25
Price/Book (P/B)	6.65	6.11	3.33	9.75	8.70	3.44
Price/Cash Flow (P/CF)	13.48	12.55	13.62	15.81	14.75	9.66
P/E (F1)	16.19	15.93	18.86	24.47	16.55	15.52
Price/Sales (P/S)	4.74	4.49	2.65	5.52	5.07	4.24
Earnings Yield	6.18%	6.28%	5.27%	4.09%	6.04%	6.44%
Debt/Equity	0.46	0.68	0.72	1.29	0.84	0.55
Cash Flow ($/share)	10.90	4.30	6.94	3.21	6.21	4.21
Growth Score	C	-	-	C	A	F
Hist. EPS Growth (3-5 yrs)	9.06%	8.42%	10.56%	-2.47%	7.23%	8.42%
Proj. EPS Growth (F1/F0)	4.83%	7.01%	7.52%	14.57%	7.30%	-11.59%
Curr. Cash Flow Growth	13.87%	10.96%	14.88%	-3.77%	3.40%	8.89%
Hist. Cash Flow Growth (3-5 yrs)	7.92%	4.99%	9.00%	-5.68%	-1.53%	2.30%
Current Ratio	1.26	1.17	1.23	0.92	1.26	0.90
Debt/Capital	31.62%	40.27%	42.99%	56.26%	45.72%	35.53%
Net Margin	21.09%	20.26%	11.14%	8.42%	20.26%	30.57%
Return on Equity	39.81%	38.63%	17.16%	38.63%	48.16%	28.10%
Sales/Assets	0.53	0.53	0.55	0.40	0.55	0.33
Proj. Sales Growth (F1/F0)	4.28%	5.12%	4.18%	9.66%	5.95%	-11.59%
Momentum Score	B	-	-	A	A	A
Daily Price Chg	0.33%	1.04%	0.08%	1.24%	1.79%	1.50%
1 Week Price Chg	0.54%	1.19%	0.39%	-0.48%	-1.88%	1.44%
4 Week Price Chg	2.67%	3.87%	1.93%	3.17%	2.14%	4.58%
12 Week Price Chg	13.17%	13.53%	6.50%	13.67%	10.46%	10.61%
52 Week Price Chg	14.82%	21.11%	22.56%	41.94%	22.69%	-3.42%
20 Day Average Volume	5,493,988	1,879,466	1,571,506	2,044,132	6,856,789	16,038,946
(F1) EPS Est 1 week change	0.05%	0.00%	0.00%	-0.19%	0.65%	1.29%
(F1) EPS Est 4 week change	0.15%	0.22%	0.00%	0.29%	0.78%	1.29%
(F1) EPS Est 12 week change	-0.43%	0.63%	-0.52%	0.78%	3.34%	4.24%
(Q1) EPS Est Mthly Chg	2.81%	0.00%	0.00%	NA	NA	NA

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 have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

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

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

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

Value Score	B
Growth Score	C
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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