

Johnson and Johnson (JNJ)

\$149.67 (As of 04/16/20)

Price Target (6-12 Months): **\$158.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

J&J beat estimates for sales and earnings in Q1. It lowered its 2020 outlook due to coronavirus uncertainty. While the pandemic is hurting its Medical Devices unit, the Pharma and Consumer units remain resilient. 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. Several pivotal data readouts and regulatory milestones are expected in 2020. However, headwinds like generic competition and pricing pressure remain. J&J faces numerous lawsuits, which allege personal injuries to patients caused by the use of its products. These lawsuits have resulted in uncertainty. J&J's shares have outperformed the industry this year so far.

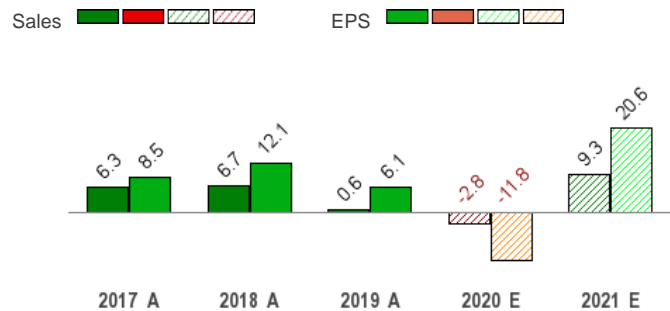
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$154.28 - \$109.16
20 Day Average Volume (sh)	13,287,343
Market Cap	\$394.6 B
YTD Price Change	2.6%
Beta	0.65
Dividend / Div Yld	\$4.04 / 2.5%
Industry	Large Cap Pharmaceuticals
Zacks Industry Rank	Top 9% (24 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.3%
Last Sales Surprise	7.5%
EPS F1 Est- 4 week change	-14.5%
Expected Report Date	07/21/2020
Earnings ESP	0.0%
P/E TTM	16.9
P/E F1	19.5
PEG F1	2.9
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	21,426 E	21,361 E	21,964 E	22,428 E	87,178 E
2020	20,691 A	17,328 E	19,893 E	21,693 E	79,747 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	\$2.29 E	\$2.22 E	\$2.38 E	\$2.18 E	\$9.24 E
2020	\$2.30 A	\$1.44 E	\$2.03 E	\$2.06 E	\$7.66 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 04/16/2020. The reports text is as of 04/17/2020.

Overview

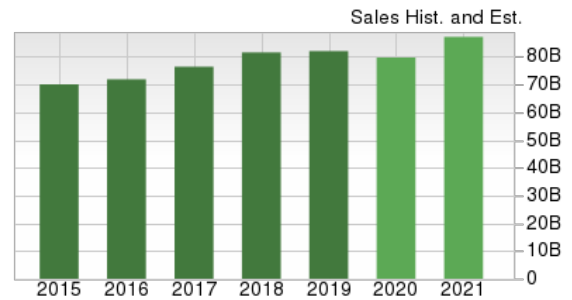
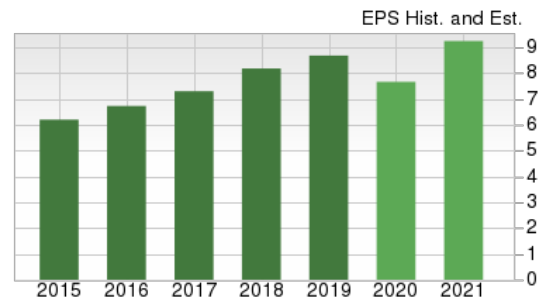
Johnson & Johnson's biggest strength is its diversified business model. It operates through pharmaceuticals, medical devices and consumer products divisions. It comprises some 250 subsidiaries, which clearly means that the business is extremely well diversified. Its diversification helps it to withstand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

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

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

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

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



Reasons To Buy:

▲ **Shares Outperforming Industry:** J&J's shares have risen 2.6% this year so far, outperforming the 4.5% decline for the industry.

▲ **Above Market Performance of Pharma Unit:** J&J's Pharma segment is performing above-market despite currency headwinds and the impact of biosimilar and generic competition on sales of some key drugs like Remicade and Zytiga. Pharmaceutical segment sales rose 5.8% in 2019 on an organic basis and 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 is also contributing to growth. Importantly, J&J sounds confident about its Pharmaceutical business continuing to deliver above-market growth in 2020, supported by strong performance of key products such as Darzalex, Imbruvica, Tremfya, Stelara and Erleada due to increased penetration and new indications.

J&J is making rapid progress with its pipeline and line extensions. Several pivotal data readouts and regulatory milestones are expected in 2020.

▲ **Deals to Boost Revenues:** Johnson & Johnson struck several deals, which should boost its top line. The Cougar Biotechnology acquisition allowed Johnson & Johnson to strengthen its oncology portfolio especially in the areas of advanced prostate cancer, breast cancer and multiple myeloma. The acquisition has proved its worth with the approval of prostate cancer therapy, Zytiga. The August 2012 Aragon acquisition added Aragon's lead pipeline candidate, apalutamide, for pre-metastatic prostate cancer (CRPC), to J&J's pipeline. Apalutamide was approved under the trade name of Erleada in the United States in February 2018. Erleada's approval has boosted the company's prostate cancer portfolio especially since Zytiga lost exclusivity. In June 2017, J&J acquired Swiss biotech Actelion for \$30 billion, which diversified its revenues in the pulmonary arterial hypertension (PAH) category and will bolster long-term growth. In February 2017, J&J acquired Abbott's vision care business, Abbott Medical Optics for \$4.325 billion which has strengthened its Medical Device segment. The company has sufficient funds to pursue additional bolt-on acquisitions and deals to boost its portfolio. J&J spent \$5 billion on M&A and major licensing deals in 2016, \$35 billion in 2017, \$1 billion in 2018 and \$5.8 billion in 2019. The company is also returning value to shareholders through share buybacks and dividend payments, which have been hiked for 58 consecutive years.

▲ **Deep Pipeline:** Johnson & Johnson continues to work on strengthening its Pharma segment, which has been driving revenues over the past few quarters.

It expects its Pharmaceutical unit to deliver above-market growth through 2023 and expects to launch or file for approval of more than 10 new products with blockbuster potential between 2019 and 2023. The company is also targeting more than 40 line extensions of existing and new drugs through 2023, 10 of which have more than \$500 million of opportunity. The company's key areas of focus include immunology, infectious diseases & vaccines, neuroscience, cardiovascular & metabolism, and oncology while a sixth therapeutic area -- pulmonary arterial hypertension -- was added with the Actelion acquisition.

Key candidates in the company's pipeline are Tremfya/guselkumab (psoriatic arthritis – under review in the United States and EU), niraparib (prostate cancer – phase III), JNJ-4528/BCMA CAR-T therapy (relapsed or refractory multiple myeloma –phase Ib/II), 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 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 Enjoys Strong Fundamentals:** The company is also working on turning around its Medical Devices business by developing innovative products, expanding global presence and implementing novel commercial models. Organic sales in the segment rose 3.9% in 2019. Though the segment is being hurt due to decline in elective surgical procedures and redeployment of hospital resources to address patients affected by the coronavirus pandemic, J&J is confident that the underlying fundamentals of the market remain intact.

▲ **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:

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

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

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

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

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

J&J faces around 18,000 lawsuits for its talc-based products, primarily its baby powders. The lawsuits allege that its talc products contain asbestos, which caused many women to develop ovarian cancer. In 2018, J&J was ordered by a Missouri court to pay \$4.7 billion in damages to 22 women who made such allegations, affirming a St. Louis court jury's verdict given earlier. J&J has appealed the decision and insists that talc-based products are safe and do not cause cancer. However, the issue has been weighing on the stock price for some time now.

J&J also faces thousands of other lawsuits related to abuse of its opioid-based drugs. These lawsuits claim that J&J is one of the several companies whose opioid-based drugs were responsible for fueling the state's opioid epidemic. In August 2019, J&J was ordered by a district court in Oklahoma to pay \$572 million to the state of Oklahoma in connection with a lawsuit filed by the latter. In October 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 around 12,000 lawsuits alleging that use of its antipsychotic drug, Risperdal causes enlargement of breast tissues in boys – a condition called gynecomastia.

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

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

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

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

This pricing pressure is expected to continue and hurt the top line in the future quarters.

Last Earnings Report

J&J Beats on Q1 Earnings, Cuts View on Coronavirus Impact

J&J's first-quarter results were strong as it beat estimates for earnings as well as sales

First-quarter 2020 earnings came in at \$2.30 per share, which beat the Zacks Consensus Estimate of \$2.03. Earnings rose 9.5% from the year-ago period.

Adjusted earnings exclude after-tax intangible amortization expense and some special items. Including these items, J&J reported first-quarter earnings of \$2.17 per share, up 56.1% from the year-ago quarter.

Sales came in at \$20.69 billion, which beat the Zacks Consensus Estimate of \$19.25 billion. Sales rose 3.3% from the year-ago quarter, reflecting an operational increase of 4.8%, which offset an unfavorable currency impact of 1.5%.

Higher sales of its pharmaceutical and consumer healthcare products led to higher-than-expected sales in the quarter. However, COVID-19 negatively impacted worldwide sales by about 80 basis points as the negative impact on the Medical Devices unit was partially offset by a net positive sales lift in the consumer health and pharmaceutical business segments.

Organically, excluding the impact of acquisitions and divestitures, sales increased 5.6% on an operational basis, higher than 3.4% increase seen in the previous quarter.

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

First-quarter sales in the domestic market rose 5.6% to \$10.7 billion. International sales grew 1% to \$9.99 billion (operational increase of 4.0%). Excluding the impact of all acquisitions and divestitures, on an adjusted operational basis, international sales rose 4.5% 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 Procrit. Meanwhile, incremental COVID-19 demand benefited sales of Imbruvica, Xarelto, Stelara, the PAH portfolio and HIV products in the quarter.

Pharmaceutical segment sales rose 8.7% year over year to \$11.1 billion, reflecting 10.1% operational growth, which was offset by 1.4% negative currency impact. Sales in the domestic market rose 8.6% to \$6.06 billion. International sales grew 8.8% to \$5.07 billion (operational increase of 12.0%). Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales increased 10.2%, higher than 4.5% increase in the previous quarter. The operational sales growth included approximately 100 bps favorable impact from COVID-19.

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 19.7% in the quarter to \$3.01 billion. Other core products like Stelara, Simponi/Simponi Aria and Invega Sustenna also contributed to growth. Sales of new immunology medicine, Tremfya and prostate cancer drug, Erleada brought in additional sales.

Moreover, sales of some other key drugs like Xarelto declined in the quarter. Sales of others like Zytiga (United States), Remicade, Velcade (internationally) and Procrit/Eprex declined due to the impact of generic/biosimilar competition.

Imbruvica sales rose 31.6% to \$1.03 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.

Darzalex sales rose 49% year over year to \$937 million in the quarter. In the United States, strong growth across all lines of therapy driven by the new frontline indication for multiple myeloma transplant-ineligible population drove sales. In outside U.S. markets, increased penetration and share gains drove sales growth.

Stelara sales rose 29.5% to \$1.82 billion in the quarter driven primarily by the Crohn's disease indication.

PAH revenues of \$745 million rose 13.7% year over year driven by strong growth for Uptravi and Opsumit, which offset a decline in Tracleer sales that were hurt by continued generic competition.

Simponi/Simponi Aria sales rose 1.1% to \$529 million in the quarter. Prezista sales rose 10.8% to \$579 million in the quarter. Invega Sustenna sales rose 11.7% to \$883 million in the quarter.

Tremfya recorded sales of \$296 million in the quarter compared with \$270 million in the previous quarter. The drug captured 9% share of the psoriasis market in the United States, up 2.5 points from the year-ago quarter.

Erleada generated sales of \$143 million in the quarter compared with \$116 million in the previous quarter.

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

Zytiga sales rose 1.6% to \$690 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 31.6% to \$155 million in the quarter due to biosimilar competition. Velcade sales declined 59% in the quarter to

Quarter Ending 03/2020

Report Date	Apr 14, 2020
Sales Surprise	7.48%
EPS Surprise	13.30%
Quarterly EPS	2.30
Annual EPS (TTM)	8.88

\$108 million.

Xarelto sales declined 2.7% in the quarter to \$527 million as prescription growth was offset by increased discounts and rebates. Sales of Invokana/Invokamet declined 13.5% to \$175 million.

Sales of Remicade were down 10.2% in the quarter to \$990 million due to increased discounts and share loss to biosimilars in the United States. While U.S. sales declined 19.3%, U.S. exports rose 44.3%. Remicade sales rose 1.5% in international markets.

Medical Devices segment sales came in at \$5.93 billion, down 8.2% from the year-ago period, reflecting an operational decrease of 6.9% and negative currency movement of 1.3%.

Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales decreased 4.8%, less than an increase of 2.7% in the previous quarter. Deferral of elective surgical procedures and redeployment of hospital resources to address patients affected by the pandemic led to a decline in sales of the Medical Devices unit. The pandemic hurt this segment's sales by approximately 750 to 800 basis points across its Surgery, Orthopedics, Interventional Solutions, and Vision businesses.

Domestic market sales declined 6.8% year over year to \$2.9 billion. International market sales declined 9.4% year over year to \$3.03 billion. On an operational basis, international sales decreased 6.9%.

The **Consumer** segment recorded revenues of \$3.63 billion in the reported quarter, up 9.2% year over year. On an operational basis, Consumer segment sales increased 11.3%, partially offset by unfavorable foreign currency movement of 2.1%.

Excluding the impact of acquisitions and divestitures, adjusted operational sales growth was 11% worldwide, a significant improvement from 1.4% in the previous quarter. Operational sales growth included approximately 700 bps favorable impact from COVID-19

Higher sales of over-the-counter products like Tylenol and Zyrtec, oral care product Listerine mouthwash, beauty products Neutrogena and Aveeno and Stayfree in international women's health led to the increased sales in the Consumer segment. Consumers stocked up these basic medicines and consumer products due to the global shutdown.

Sales in the domestic market rose 21% from the year-ago period to \$1.74 billion. Meanwhile, the international segment rose 0.3% to \$1.89 billion. An operational increase of 3.9% was offset by negative currency impact of 3.6% in the quarter.

In the Consumer Health segment, the first-quarter surge due to pantry loading is not expected to continue for the rest of the year. J&J expects some negative impact in certain categories like skin care, as a result of reduced store traffic and social distancing. However, J&J believes that the upside opportunities will offset downside risks. J&J is confident that it can achieve its prior outlook for 2020 for Consumer segment.

2020 Guidance

J&J lowered its financial guidance for 2020 to include the impact of the uncertainty surrounding the COVID-19 pandemic and costs related to investments that the company is making to combat the disease.

Overall, its guidance was lowered mainly due to the estimated procedure delays in the Medical Device unit. J&J expects a negative procedure delay-driven sales impact of approximately \$4 billion - \$7 billion in the Medical Devices unit in 2020.

Adjusted earnings per share expectations were lowered from a range of \$8.95 - \$9.10 to \$7.50 to \$7.90. The guidance range now indicates a decline in the range of 9%-13.6% versus prior expectation of growth of 3.1%-4.8%. On an operational, constant currency basis, adjusted earnings per share are expected to decline in the range of 7.3%-11.9%. The prior expectation was of growth in the range of 3.7%-5.4%.

Revenues are now expected in the range of \$77.5-\$80.5 billion, indicating year-over-year decline of 2%-5.5%. Previous expectation for revenues was in the range of \$85.4-\$86.2 billion, indicating year-over-year growth of 4%-5%.

Operational constant currency sales are expected to be flat to down 3.5% compared with the prior expectation of growth in the range of 4.5%-5.5%. Adjusted operational sales, (excluding currency impact, acquisitions/divestitures) are expected to be down 3% to up 0.5% (previous expectation of growth of 5% to 6%).

On its call, J&J briefed about the impact of the COVID-19 crisis on its near-term financial performance. The company's chief financial officer, Joe Wolk said the company believes the relative shape of the COVID-19 curve is more of an acute shorter-term impact rather than a prolonged impact. He went on to say that the global economy will improve coming out of the second quarter with lower unemployment, better insurance coverage and higher procedure capacity. J&J also said that its guidance assumes that the virus does not return with the same intensity in the fall.

J&J expects some of the coronavirus related benefits seen in the Consumer Health segment, mainly its over-the-counter medicines, to reverse in the remaining quarters of 2020. While the negative impact seen in the Medical Devices unit is expected to be most significant in the second quarter, J&J believes that elective procedures will recover in the third quarter and improve in the fourth quarter. Meanwhile, it expects sales in its Pharmaceutical segments to remain strong and continue to grow above market though it expects a small level of disruption associated with delayed diagnosis and new patient starts.

The company said that its major regulatory filings and approvals planned for 2020 are on track and no delay is expected for the pandemic.

J&J expects operating margin to decline by 100 basis points compared to prior expectation of improving 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.

Efforts to Combat Coronavirus

J&J has identified a lead vaccine candidate for COVID-19 and expects to begin phase I human clinical studies on the same in the United States

and Europe by September. J&J plans to begin production at risk imminently and its goal is to supply more than 1 billion doses of the vaccine globally. J&J looks confident of having the first batch of COVID-19 vaccine available for emergency use authorization, on a not-for-profit basis, by early 2021. It has established a new U.S. vaccine manufacturing facility and is in discussions with other potential partners to expand manufacturing capacity in Europe and Asia.

J&J committed to invest more than \$1 billion in partnership with BARDA to co-fund vaccine research, development, and clinical testing.

In addition to the vaccine development efforts, J&J is also working in partnership with the Rega Institute at the University of Leuven in Belgium to screen Janssen's compounds with antiviral activity to identify potential treatments against coronavirus. Meanwhile, J&J is exploring immunomodulators to protect against Acute Respiratory Distress Syndrome or ARDS in COVID-19.

Recent News

Increases Dividend by 6.3% - Apr 14

J&J announced that its board of directors has approved a 6.3% increase in quarterly dividend rate from 95 cents per share to \$1.01. The quarterly dividend amounts to an annual dividend of \$4.04 per share compared to the previous rate of \$3.80 per share. The new quarterly dividend will be paid out on Jun 9 to shareholders of record as of May 26

J&J Identifies Coronavirus Vaccine Candidate – Mar 30

J&J announced that it has identified a lead vaccine candidate for COVID-19 and expects to begin phase I human clinical studies on the same by September.

J&J is using its subsidiary, Janssen's technologies, which will help it to rapidly upscale production of the vaccine candidate. These technologies are already in use for development of vaccine candidates for other virus-caused infections namely Ebola, HIV and for respiratory syncytial virus, a common respiratory virus. The company is also rapidly upscaling its manufacturing facilities with the goal of supplying more than a billion doses of COVID-19 vaccine across the globe.

J&J sounded confident to have the first batch of a COVID-19 vaccine available for emergency use authorization by early 2021.

Meanwhile, the company has also identified two back-up candidates apart from the lead COVID-19 candidate. The company has selected the lead candidate in collaboration with researchers from Beth Israel Deaconess Medical Center, a teaching hospital of Harvard Medical School and other academic institutions that have done pre-clinical testing for candidates with most promising immune response.

Phase III Study on Xarelto Meets Endpoints – Mar 28

J&J announced that the VOYAGER PAD on Xarelto met its primary efficacy and principal safety endpoints. Data from the phase III study showed that treatment with Xarelto plus aspirin led to 15% reduction in the risk of major adverse limb and cardiovascular (CV) events in patients with symptomatic peripheral artery disease (PAD) after lower-extremity revascularization compared to aspirin alone.

Files NDA for Ponesimod in United States – Mar 18

J&J announced that it has submitted a new drug application (NDA) in the United States, seeking approval of ponesimod for treating adults with relapsing forms of multiple sclerosis (RMS). A marketing application seeking approval of ponesimod in Europe was filed in early March. The regulatory filings were based on data from the head-to-head OPTIMUM phase III study comparing ponesimod to Sanofi's MS drug, Aubagio.

Collaboration to Develop Coronavirus Vaccine – Mar 13

J&J announced that it has entered into a collaboration with the Beth Israel Deaconess Medical Center ("BIDMC"), a teaching hospital of Harvard Medical School, to support development of a vaccine candidate for COVID-19.

FDA's Breakthrough Tag for JNJ-6372 – Mar 10

J&J announced that the FDA has granted Breakthrough Therapy status to JNJ-6372, a dual-targeting EGFR-MET bispecific antibody, for the treatment of non-small cell lung cancer (NSCLC) in patients with EGFR Exon 20 insertion mutations. The designation was based on data from a phase I study evaluating the candidate in adult patients with advanced NSCLC.

Files MAA in Europe for Ponesimod – Mar 4

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

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

Valuation

J&J's shares are up 2.6% in the year-to-date period and 8.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 4.5% and 8.1%, respectively, in the year-to-date period. Over the past year, stocks in the sub-industry are up 10.1% while that in the sector are down 0.3%.

The S&P 500 Index is down 13.6% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 17.04X forward 12-month earnings per share which compares with 14.33X for the Zacks sub-industry, 20.43X for the Zacks sector and 18.65X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.67X and as low as 14.15X, with a 5-year median of 16.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$158 price target reflects 18.0X 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	17.04	14.33	20.43	18.65
	5-Year High	18.67	18.12	21.07	19.34
	5-Year Low	14.15	13.04	15.81	15.19
	5-Year Median	16.12	15.38	18.81	17.45
P/S F12M	Current	4.52	4.47	2.59	3.09
	5-Year High	4.84	4.83	3.84	3.44
	5-Year Low	3.49	3.92	2.25	2.54
	5-Year Median	4.3	4.39	2.96	3.01
P/B TTM	Current	6.64	5.11	3.54	3.69
	5-Year High	6.87	7.19	5.04	4.54
	5-Year Low	3.55	3.8	3.01	2.9
	5-Year Median	5.07	5.2	4.29	3.64

As of 4/16/2020

Industry Analysis Zacks Industry Rank: Top 9% (24 out of 253)



Top Peers

Eli Lilly and Company (LLY)	Outperform
AstraZeneca PLC (AZN)	Neutral
Bristol-Myers Squibb Company (BMY)	Neutral
GlaxoSmithKline plc (GSK)	Neutral
Merck & Co., Inc. (MRK)	Neutral
Novartis AG (NVS)	Neutral
Pfizer Inc. (PFE)	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 Neutral
VGM Score	C	-	-	D	B	D
Market Cap	394.58 B	134.46 B	19.06 B	128.94 B	210.51 B	199.05 B
# of Analysts	9	3	14	5	7	5
Dividend Yield	2.54%	2.54%	2.26%	3.79%	2.94%	4.24%
Value Score	C	-	-	C	C	B
Cash/Price	0.05	0.06	0.06	0.05	0.05	0.05
EV/EBITDA	16.30	13.02	11.49	20.60	14.74	9.50
PEG Ratio	2.90	1.91	2.09	1.52	2.16	3.00
Price/Book (P/B)	6.62	4.09	2.55	8.83	8.13	3.13
Price/Cash Flow (P/CF)	12.99	11.22	10.06	15.51	12.41	8.73
P/E (F1)	19.54	14.64	17.56	24.13	14.64	13.30
Price/Sales (P/S)	4.77	4.36	1.94	5.29	4.49	3.85
Earnings Yield	5.12%	6.83%	5.57%	4.15%	6.83%	7.53%
Debt/Equity	0.45	0.57	0.70	1.11	0.87	0.57
Cash Flow (\$/share)	11.52	4.33	7.01	3.17	6.69	4.11
Growth Score	B	-	-	D	B	F
Hist. EPS Growth (3-5 yrs)	9.27%	8.34%	10.92%	-2.79%	8.10%	8.48%
Proj. EPS Growth (F1/F0)	-11.70%	8.17%	-3.36%	16.34%	9.25%	-8.54%
Curr. Cash Flow Growth	3.68%	4.27%	5.93%	2.12%	5.54%	-6.57%
Hist. Cash Flow Growth (3-5 yrs)	7.62%	7.62%	8.55%	-0.86%	0.15%	2.54%
Current Ratio	1.26	1.26	1.24	0.86	1.24	0.88
Debt/Capital	30.82%	39.95%	42.78%	52.63%	46.65%	36.17%
Net Margin	24.47%	22.35%	11.64%	5.38%	21.01%	31.44%
Return on Equity	40.01%	32.05%	16.74%	32.24%	49.41%	27.01%
Sales/Assets	0.53	0.49	0.54	0.40	0.56	0.32
Proj. Sales Growth (F1/F0)	-3.13%	5.72%	-0.14%	9.81%	4.13%	-12.32%
Momentum Score	F	-	-	C	C	C
Daily Price Chg	1.36%	1.36%	-0.20%	2.29%	1.13%	-0.25%
1 Week Price Chg	5.26%	5.20%	16.01%	1.59%	8.18%	5.20%
4 Week Price Chg	17.80%	17.35%	14.56%	22.43%	17.35%	17.95%
12 Week Price Chg	0.77%	-7.00%	-22.94%	-2.13%	-6.28%	-11.86%
52 Week Price Chg	8.84%	11.67%	-15.02%	26.62%	13.40%	-8.89%
20 Day Average Volume	13,287,343	4,775,906	3,220,598	5,567,569	12,679,769	29,657,468
(F1) EPS Est 1 week change	-8.05%	0.00%	0.00%	0.79%	-0.43%	-3.64%
(F1) EPS Est 4 week change	-14.48%	-0.77%	-7.09%	0.89%	-0.90%	-3.56%
(F1) EPS Est 12 week change	-14.98%	0.03%	-9.32%	-1.93%	2.48%	2.98%
(Q1) EPS Est Mthly Chg	-35.93%	-3.55%	-10.68%	-4.00%	-7.26%	-5.11%

Zacks Style Scores

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

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

Value Score	C
Growth Score	B
Momentum Score	F
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.

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