Jul 23, 2020

Johnson and Johnson (JNJ)

$150.01 (As of 07/22/20)

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

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

Summary

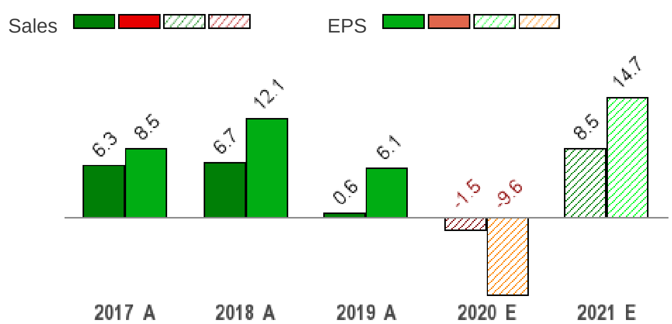
J&J beat estimates for sales and earnings in Q2. It raised its 2020 outlook due to faster-than-expected recovery in the Medical Devices unit. J&J's Pharma unit is performing above-market levels, supported by new drugs and successful label expansion of blockbuster drugs Imbruvica, Darzalex and Stelara. J&J is also making rapid progress with its pipeline and line extensions. Several pivotal data readouts are expected in 2020. However, the Medical Devices unit is being hurt by decline in elective surgical procedures amid the coronavirus pandemic. 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.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$157.00 - $109.16
20 Day Average Volume (sh)	6,502,228
Market Cap	$395.2 B
YTD Price Change	2.8%
Beta	0.69
Dividend / Div Yld	$4.04 / 2.7%
Industry	[Large Cap Pharmaceuticals]
Zacks Industry Rank	Top 17% (42 out of 252)
Last EPS Surprise	11.3%
Last Sales Surprise	4.4%
EPS F1 Est- 4 week change	2.3%
Expected Report Date	10/20/2020
Earnings ESP	0.0%
P/E TTM	18.8
P/E F1	19.1
PEG F1	2.8
P/S TTM	4.9

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

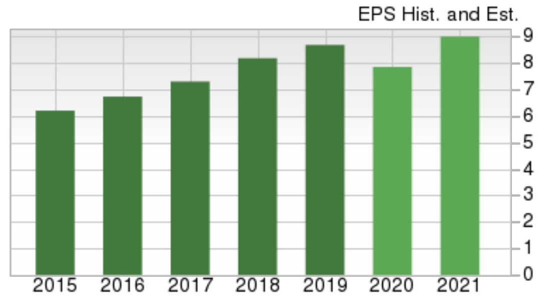
	Q1	Q2	Q3	Q4	Annual*
2021	$2.26 E	$2.19 E	$2.34 E	$2.11 E	$9.00 E
2020	$2.30 A	$1.67 A	$1.98 E	$1.90 E	$7.85 E
2019	$2.10 A	$2.58 A	$2.12 A	$1.88 A	$8.68 A

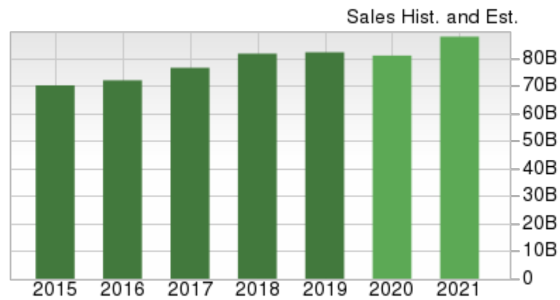
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/22/2020. The reports text is as of 07/23/2020.

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%.

Reasons To Buy:

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

- **Shares Outperforming Industry:** J&J's shares are up 2.8% this year, outperforming the 1.7% increase of 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 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.

- **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 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

- **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:

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

- **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 19,000 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 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. 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.

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

Q3 Dividend – Jul 20

J&J announced that its board of directors has declared a cash dividend for the third quarter of $1.01 per share. The quarterly dividend is payable on Sep 8 to shareholders of record as of Aug 25.

Interim Data on RPGR Gene Therapy – Jul 17

J&J announced interim six-month data from the ongoing phase I/II study evaluating its investigational gene therapy, AAV-RPGR, in patients with X-Linked Retinitis pigmentosa. The data showed that AAV-RPGR was generally well-tolerated and indicated significant improvement in vision in the study.

FDA Approves Tremfya for Active Psoriatic Arthritis – Jul 14

J&J announced that the FDA has granted approval to Tremfya for the treatment of active psoriatic arthritis in adults. The approval was based on data from the DISCOVER-1 and DISCOVER-2 pivotal phase III studies on Tremfya which showed that the drug significantly improved signs and symptoms in joints, skin and soft tissue in adults with active psoriatic arthritis. Tremfya is presently approved to treat moderate to severe plaque psoriasis.

EU Approval for Ebola Vaccine – Jul 1

The European Commission granted approval to J&J's two-dose vaccine regimen for the prevention of Ebola caused by the Zaire strain. The Ebola vaccine has been developed using Janssen's AdVac technology, the same technology used to develop its COVID-19 vaccine candidate. The vaccine is not yet approved in the United States.

To Discontinue Study on Stelara in Lupus – Jun 26

J&J announced its decision to discontinue the phase III study of Stelara in a new indication — systemic lupus erythematosus (SLE) based on data from an interim analysis of the study. J&J's decision to discontinue the LOTUS study was due to lack of efficacy in the disease. Stelara is approved to treat active ulcerative colitis, psoriatic arthritis, moderate-to-severe Crohn's disease and plaque psoriasis.

Valuation

J&J's shares are up 2.8% in the year-to-date period and 15.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 1.7% and 1.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 12.7% and 7.6%, respectively.

The S&P 500 Index is up 1.4% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 17.69X forward 12-month earnings per share which compares to 15.53X for the Zacks sub-industry, 23.43X for the Zacks sector and 23.0X 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 16.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $158 price target reflects 18.6X 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	17.69	15.53	23.43	23
	5-Year High	19.29	17.6	23.43	23
	5-Year Low	12.11	13.61	15.89	15.25
	5-Year Median	16.18	15.33	18.98	17.52
P/S F12M	Current	4.69	4.82	2.87	3.61
	5-Year High	4.98	4.85	3.74	3.61
	5-Year Low	3.37	3.88	2.22	2.53
	5-Year Median	4.34	4.4	2.9	3.02
P/B TTM	Current	6.45	6.89	4.45	4.46
	5-Year High	6.82	7.37	5.07	4.56
	5-Year Low	3.54	3.69	2.94	2.83
	5-Year Median	5.2	5.24	4.3	3.71

As of 7/22/2020

Industry Analysis **Zacks Industry Rank:** Top 17% (42 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Bristol Myers Squibb Company **(BMY)**	Outperform	2
AstraZeneca PLC **(AZN)**	Neutral	2
GlaxoSmithKline plc **(GSK)**	Neutral	3
Eli Lilly and Company **(LLY)**	Neutral	3
MerckCo., Inc. **(MRK)**	Neutral	3
Novartis AG **(NVS)**	Neutral	3
Pfizer Inc. **(PFE)**	Neutral	3
Roche Holding AG **(RHHBY)**	Neutral	2

Industry Comparison Industry: Large Cap Pharmaceuticals

	JNJ	X Industry	S&P 500	Industry Peers: AZN	MRK	PFE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	C	B	A
Market Cap	395.22 B	153.60 B	22.74 B	149.54 B	198.85 B	214.19 B
# of Analysts	9	3	14	5	7	4
Dividend Yield	2.69%	2.51%	1.81%	3.26%	3.10%	3.94%
Value Score	B	-	-	B	B	B
Cash/Price	0.05	0.04	0.06	0.03	0.04	0.05
EV/EBITDA	16.33	14.07	13.19	23.94	14.09	10.14
PEG Ratio	2.84	2.10	3.05	1.69	2.20	3.12
Price/Book (P/B)	6.45	4.01	3.14	12.24	7.60	3.27
Price/Cash Flow (P/CF)	13.02	11.36	12.31	17.99	11.77	9.38
P/E (F1)	19.11	15.64	22.34	28.04	14.81	13.39
Price/Sales (P/S)	4.91	4.23	2.40	5.92	4.14	4.23
Earnings Yield	5.23%	6.40%	4.27%	3.56%	6.75%	7.47%
Debt/Equity	0.41	0.77	0.75	1.32	0.82	0.56
Cash Flow ($/share)	11.52	4.22	6.94	3.17	6.69	4.11
Growth Score	D	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	8.66%	8.07%	10.82%	-2.89%	9.00%	8.07%
Proj. EPS Growth (F1/F0)	-9.55%	2.37%	-9.08%	16.11%	2.48%	-2.37%
Curr. Cash Flow Growth	3.68%	2.90%	5.51%	2.12%	5.54%	-6.57%
Hist. Cash Flow Growth (3-5 yrs)	7.62%	7.37%	8.55%	-0.86%	0.15%	2.54%
Current Ratio	1.31	1.11	1.30	0.75	1.11	1.02
Debt/Capital	29.29%	43.44%	44.41%	56.87%	45.14%	35.70%
Net Margin	22.69%	21.10%	10.46%	5.94%	21.10%	31.17%
Return on Equity	35.70%	33.97%	15.29%	33.97%	52.46%	25.76%
Sales/Assets	0.52	0.46	0.54	0.42	0.57	0.31
Proj. Sales Growth (F1/F0)	-1.46%	5.09%	-2.27%	9.74%	3.16%	-10.61%
Momentum Score	B	-	-	C	A	B
Daily Price Chg	0.18%	0.09%	0.60%	-1.88%	-0.14%	5.10%
1 Week Price Chg	4.90%	4.11%	3.82%	13.65%	4.09%	7.15%
4 Week Price Chg	7.29%	3.41%	7.55%	9.30%	3.84%	19.79%
12 Week Price Chg	-0.15%	3.24%	7.51%	12.34%	-2.46%	1.15%
52 Week Price Chg	15.59%	10.86%	-3.37%	41.21%	-3.63%	-10.10%
20 Day Average Volume	6,502,228	1,950,291	2,037,153	10,327,846	7,406,435	31,679,436
(F1) EPS Est 1 week change	1.58%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.29%	0.06%	0.14%	0.20%	0.13%	0.00%
(F1) EPS Est 12 week change	2.29%	1.04%	-3.51%	1.09%	-5.96%	6.75%
(Q1) EPS Est Mthly Chg	-2.23%	-0.51%	0.00%	0.00%	0.49%	-0.46%

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.

Zacks Style Scores

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

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

Value Score	B
Growth Score	D
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.

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