

## Johnson and Johnson (JNJ)

**\$148.53** (As of 01/23/20)

Price Target (6-12 Months): **\$163.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:D

Value: B

Growth: C

Momentum: F

### Summary

J&J missed estimates for sales and beat the same for earnings in Q4. J&J is witnessing significant generic/biosimilar headwinds in the Pharma unit. However, the unit is performing above-market levels, supported by contribution from new drugs and successful label expansion of blockbuster drugs Imbruvica, Darzalex and Stelara. J&J is also making rapid progress with its pipeline and line extensions. It gained FDA approval for two new drugs in 2019, Balversa and Spravato. Several pivotal data readouts and regulatory milestones are expected in 2020. 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 underperformed industry in the past year.

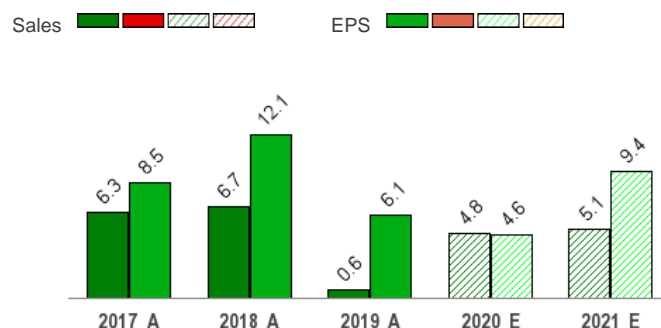
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$150.17 - \$125.00
20 Day Average Volume (sh)	5,786,723
Market Cap	\$390.9 B
YTD Price Change	1.8%
Beta	0.71
Dividend / Div Yld	\$3.80 / 2.6%
Industry	<a href="#">Large Cap Pharmaceuticals</a>
Zacks Industry Rank	Top 20% (50 out of 255)

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



Last EPS Surprise	1.1%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	04/21/2020
Earnings ESP	0.0%
P/E TTM	17.1
P/E F1	16.3
PEG F1	2.4
P/S TTM	4.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					90,432 E
2020	20,604 E	21,316 E	21,620 E	21,877 E	86,027 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					\$9.93 E
2020	\$2.32 E	\$2.29 E	\$2.42 E	\$2.07 E	\$9.08 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 01/23/2020. The reports text is as of 01/24/2020.

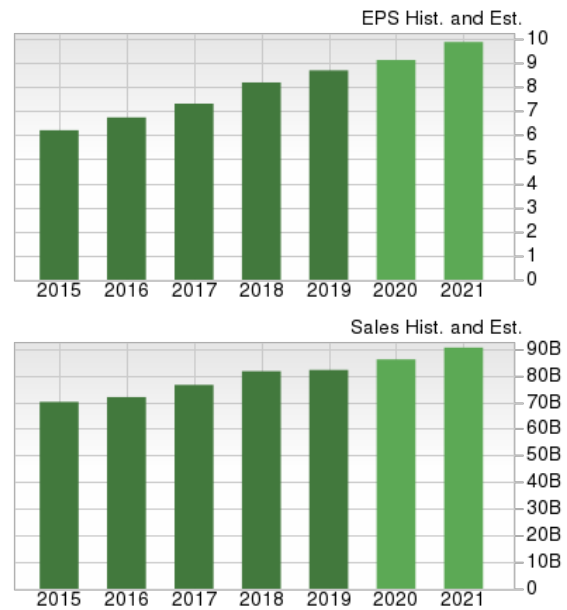
## Overview

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 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, diabetes care 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:

▲ **Above Market Performance of Pharma Unit:** J&J's Pharma segment is performing above-market despite currency headwinds and the impact of biosimilar and generic competition on sales of some key drugs like Remicade and Zytiga. Pharmaceutical segment sales rose 5.8% in 2019 on an organic basis. The sales increase was led by the company's oncology drugs, Imbruvica and Darzalex as well as psoriasis treatment, Stelara. Meanwhile, other core products like Stelara, Simponi/Simponi Aria and Invega Sustenna and new immunology medicines like Tremfya also contributed to growth. Importantly, J&J sounds confident about its Pharmaceutical business continuing to deliver growth above market in 2020, supported by strong performance of key products such as Darzalex, Imbruvica, Tremfya, Stelara and Erleada due to increased penetration and new indications.

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

▲ **Deals to Boost Revenues:** Johnson & Johnson struck several deals, which should boost its top line. The Cougar Biotechnology acquisition allowed Johnson & Johnson to strengthen its oncology portfolio especially in the areas of advanced prostate cancer, breast cancer and multiple myeloma. The acquisition has proved its worth with the approval of prostate cancer therapy, Zytiga. The August 2012 Aragon acquisition added Aragon's lead pipeline candidate, apalutamide, for pre-metastatic prostate cancer (CRPC), to J&J's pipeline. Apalutamide was approved under the trade name of Erleada in the United States in February 2018. Erleada's approval has boosted the company's prostate cancer portfolio especially since Zytiga lost exclusivity. The company has also partnered with Tesaro (now a part of Glaxo) for the development and commercialization of Zejula (niraparib) in prostate cancer. In June 2017, J&J acquired Swiss biotech Actelion for \$30 billion, which diversified its revenues in the pulmonary arterial hypertension (PAH) category and will bolster long-term growth. In February 2017, J&J acquired Abbott's vision care business, Abbott Medical Optics for \$4.325 billion which has strengthened its Medical Device segment.

The company has sufficient funds to pursue additional bolt-on acquisitions and deals to boost its portfolio. J&J spent \$5 billion on M&A and major licensing deals in 2016, \$35 billion in 2017, \$1 billion in 2018 and almost \$6 billion in 2019. The company is also returning value to shareholders through share buybacks and dividend payments, which have increased for 57 consecutive years.

▲ **Deep Pipeline:** Johnson & Johnson continues to work on strengthening its Pharma segment, which has been driving revenues over the past few quarters. 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 candidates in the company's pipeline are Tremfya/guselkumab (psoriatic arthritis - phase III), niraparib (prostate cancer - filings expected soon), JNJ-4528/BCMA CAR-T therapy (relapsed or refractory multiple myeloma -phase Ib/II) and bermekimab (atopic dermatitis and hidradenitis suppurativa - phase II), among others. New products launched in late 2017/2018, Tremfya for plaque psoriasis and Erleada for prostate cancer, are off to a promising start. J&J gained FDA approval for two new drugs in 2019 - Spravato (esketamine) for treatment-resistant depression and Balversa (erdafitinib) for metastatic urothelial cancer. J&J believes that both Spravato and Balversa have the potential for more than \$1 billion of peak revenues.

▲ **Expanding Labels of Marketed Products:** The company is also working on expanding the label of currently marketed products like Simponi, Stelara, Darzalex, Xarelto and Imbruvica.

Imbruvica is currently approved for nine indications across six different cancer types and the drug is also being evaluated in a number of combination therapies. Darzalex is being evaluated in a comprehensive clinical development program across a range of treatment settings in multiple myeloma, such as in frontline and relapsed settings. For Xarelto, there are several new indications seeking studies underway as part of the EXPLORER clinical development program. Stelara's label was expanded in the U.S. as well as EU for Crohn's disease in 2016 and as a subcutaneous treatment for active ulcerative colitis in 2019. Stelara is also being studied for axial spondylitis in phase III studies.

These drugs drove J&J's sales in 2018 and 2019 driven by consistent uptake and new indications added to their approved labels

▲ **Medical Devices Segment Sales Improving:** The company is also working on turning around its Medical Devices business by developing innovative products, expanding global presence and implementing novel commercial models. Organic sales in the segment rose 3.9% in 2019. J&J is optimistic that this segment will deliver above-market growth by 2020 driven by innovation, strategic partnerships, portfolio management and new business models. 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.

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## Reasons To Sell:

▼ **Shares Underperforming Industry:** Though J&J's share price has risen 15.8% in the past year, it has underperformed the industry's increase of 17.4%.

▼ **Generics Hit Sales:** Quite a few products in the company's portfolio including Invega and Ortho Tri-Cyclen Lo are facing generic competition. Moreover, biosimilar competition for Remicade, which was once J&J's largest product and accounted for 6.5% of sales in 2018, entered several major EU markets in February 2015. In the United States, Pfizer launched Inflectra, the first biosimilar version of Remicade in November 2016 and a number of other biosimilars have been launched since then. Moreover, several generic versions of 250 mg and/or 500 mg tablets of Zytiga have entered the market. J&J received an unfavorable ruling in district court cases related to generic versions of Zytiga, which opened doors for an earlier-than-expected generic launch in 2018. A generic version of Tracleer was launched by Teva in June 2019, which is hurting sales of J&J's branded drug. Invokana/Invokamet and Xarelto are also facing patent challenges in the United States.

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

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

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

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

J&J faces 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.

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

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

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

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

## Last Earnings Report

### J&J Q4 Earnings Surpass Estimates, Sales Fall Short

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

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

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

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

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

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

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

### Segment Details

The Pharma segment performed above-market despite currency headwinds and the impact of biosimilar and generic competition on sales of some key drugs like Remicade and Zytiga.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Quarter Ending 12/2019

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

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

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

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

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

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

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

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

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

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

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

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

## **2019 Results**

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

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

## **2020 Guidance**

J&J announced guidance for 2020.

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

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

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

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

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## Recent News

### EU Approval for Stelara in Children for Psoriasis – Jan 23

Janssen announced that the European Commission has approved expanded use of Stelara for the treatment of pediatric patients (ages 6–11) with moderate-to-severe plaque psoriasis. Stelara is also under review with the FDA for pediatric patients. Stelara is already approved to treat plaque psoriasis in adolescent and adult patients

### Files Label Expansion Application for Imbruvica Combo in EU – Jan 20

Janssen announced the submission of a type II variation application to the European Medicines Agency (EMA) seeking expanded use of Imbruvica in combination with Rituxan for patients with previously untreated chronic lymphocytic leukemia (CLL). The application was based on data from the phase III E1912 study, which showed that treatment with the Imbruvica combination regimen significantly improved progression-free survival and overall survival in the above patients compared to the FCR chemoimmunotherapy regimen.

### EU Approval for Darzalex +Velcade Combo in Transplant Eligible Multiple Myeloma – Jan 20

Janssen announced that the European Commission approved Darzalex in combination with Velcade (bortezomib), thalidomide and dexamethasone (VTd) in newly-diagnosed, transplant eligible multiple myeloma patient population. The approval was based on data from a phase III CASSIOPEIA study.

The FDA had approved this Darzalex combination treatment regimen in the front-line setting for transplant eligible MM patients in September 2019. This is the sixth EU approval for Darzalex and the third for newly diagnosed patients.

### 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.

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## Valuation

J&J's shares are up 15.8% in the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 17.4% and 6.2% over the past year. The S&P 500 Index is up 23.8% in the past year.

The stock is currently trading at 16.26X forward 12-month earnings per share which compares to 15.59X for the Zacks sub-industry, 21.77X for

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the Zacks sector and 19.14X 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 \$163 price target reflects 17.8X 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	16.26	15.59	21.77	19.14
	5-Year High	19.29	18.1	21.77	19.34
	5-Year Low	14.11	13.94	15.85	15.17
	5-Year Median	16.09	15.56	18.91	17.44
P/S F12M	Current	4.55	4.78	2.88	3.56
	5-Year High	4.92	4.84	3.82	3.56
	5-Year Low	3.49	3.93	2.43	2.54
	5-Year Median	4.27	4.43	2.94	3
P/B TTM	Current	6.72	6.93	4.61	4.54
	5-Year High	6.75	7.26	5.03	4.55
	5-Year Low	3.54	3.78	3.43	2.85
	5-Year Median	4.96	5.17	4.29	3.61

As of 1/23/2020



## Industry Analysis Zacks Industry Rank: Top 20% (50 out of 255)



## Top Peers

Bristol-Myers Squibb Company (BMY)	Outperform
Eli Lilly and Company (LLY)	Outperform
Pfizer Inc. (PFE)	Outperform
AstraZeneca PLC (AZN)	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
<b>VGM Score</b>	<b>D</b>	-	-	<b>C</b>	<b>A</b>	<b>D</b>
Market Cap	390.91 B	133.65 B	24.65 B	131.71 B	225.47 B	225.29 B
# of Analysts	9	3	13	5	6	6
Dividend Yield	2.56%	2.54%	1.77%	1.75%	2.76%	3.54%
<b>Value Score</b>	<b>B</b>	-	-	<b>C</b>	<b>B</b>	<b>C</b>
Cash/Price	0.05	0.04	0.04	0.04	0.03	0.04
EV/EBITDA	15.42	15.26	13.98	20.17	18.16	13.81
PEG Ratio	2.42	1.96	2.05	1.49	1.77	4.26
Price/Book (P/B)	6.72	6.14	3.38	9.64	8.42	3.44
Price/Cash Flow (P/CF)	13.62	12.64	13.60	15.63	14.27	9.67
P/E (F1)	16.30	16.01	19.07	24.02	15.99	15.54
Price/Sales (P/S)	4.76	4.50	2.69	5.46	4.90	4.25
Earnings Yield	6.13%	6.24%	5.24%	4.16%	6.26%	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
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>A</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	9.06%	8.42%	10.60%	-2.47%	7.23%	8.42%
Proj. EPS Growth (F1/F0)	4.95%	6.77%	7.53%	15.09%	7.41%	-11.59%
Curr. Cash Flow Growth	13.87%	10.96%	13.90%	-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	1.22	0.92	1.26	0.90
Debt/Capital	31.62%	40.27%	42.99%	56.26%	45.72%	35.53%
Net Margin	22.18%	20.26%	11.21%	8.42%	20.26%	30.57%
Return on Equity	39.30%	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)	4.24%	5.10%	4.08%	9.65%	5.95%	-11.58%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>B</b>	<b>A</b>	<b>A</b>
Daily Price Chg	0.19%	-0.28%	-0.04%	-0.50%	-1.22%	1.29%
1 Week Price Chg	2.83%	2.32%	2.29%	2.97%	1.61%	2.58%
4 Week Price Chg	1.85%	2.66%	2.05%	0.70%	-3.04%	3.38%
12 Week Price Chg	12.49%	9.81%	6.92%	2.39%	2.19%	6.10%
52 Week Price Chg	16.92%	20.68%	21.50%	40.26%	21.03%	-0.59%
20 Day Average Volume	5,786,723	1,994,557	1,518,423	1,902,212	7,299,390	15,751,139
(F1) EPS Est 1 week change	-0.59%	0.00%	0.00%	0.67%	0.10%	0.00%
(F1) EPS Est 4 week change	-0.54%	0.00%	0.00%	0.38%	0.88%	1.29%
(F1) EPS Est 12 week change	-1.01%	1.22%	-0.23%	1.95%	3.44%	4.18%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	NA	NA

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## 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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### 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>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>D</b>
VGM Score	<b>C</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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