

## Johnson and Johnson (JNJ)

**\$169.16** (As of 01/28/21)

Price Target (6-12 Months): **\$178.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

### Summary

J&J beat Q4 estimates for sales and earnings. It issued an upbeat outlook for 2021. The Pharma unit is performing at above-market levels, supported by successful label expansion of blockbuster drugs, Imbruvica, Darzalex and Stelara. Its Consumer Health unit also performed above-market in 2020 while Medical Devices segment demonstrated a strong second-half recovery. J&J is also making rapid progress with its pipeline and line extensions. Several pivotal data readouts are expected in 2021. However, headwinds like generic competition and pricing pressure continue. J&J faces numerous lawsuits, which allege personal injuries to patients caused by the use of its products. These lawsuits have resulted in uncertainties. J&J's shares have outperformed the industry in the past one year.

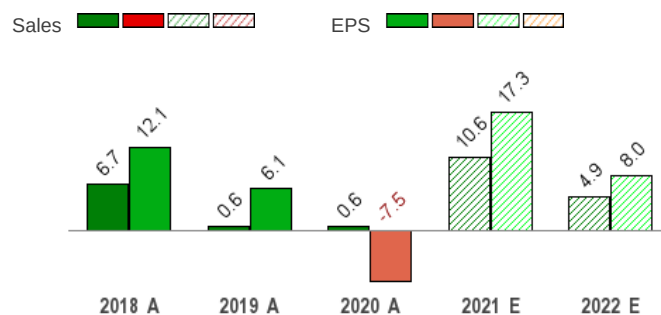
### Price, Consensus & Surprise



### Data Overview

|                                |                              |
|--------------------------------|------------------------------|
| 52-Week High-Low               | \$173.65 - \$109.16          |
| 20-Day Average Volume (Shares) | 7,907,245                    |
| Market Cap                     | \$442.0 B                    |
| Year-To-Date Price Change      | 6.7%                         |
| Beta                           | 0.70                         |
| Dividend / Dividend Yield      | \$4.04 / 2.4%                |
| Industry                       | Large Cap<br>Pharmaceuticals |
| Zacks Industry Rank            | Bottom 22% (197 out of 253)  |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 2.8%       |
| Last Sales Surprise           | 4.0%       |
| EPS F1 Estimate 4-Week Change | 6.6%       |
| Expected Report Date          | 04/13/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 20.9       |
| P/E F1                        | 18.9       |
| PEG F1                        | 2.8        |
| P/S TTM                       | 5.4        |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | 23,002 E | 23,031 E | 24,478 E | 25,278 E | 95,820 E |
| 2021 | 21,793 E | 22,078 E | 23,156 E | 24,110 E | 91,307 E |
| 2020 | 20,691 A | 18,336 A | 21,082 A | 22,475 A | 82,584 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2022 | \$2.48 E | \$2.44 E | \$2.77 E | \$2.46 E | \$10.17 E |
| 2021 | \$2.30 E | \$2.30 E | \$2.52 E | \$2.38 E | \$9.42 E  |
| 2020 | \$2.30 A | \$1.67 A | \$2.20 A | \$1.86 A | \$8.03 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 01/28/2021. The reports text is as of 01/29/2021.

## Overview

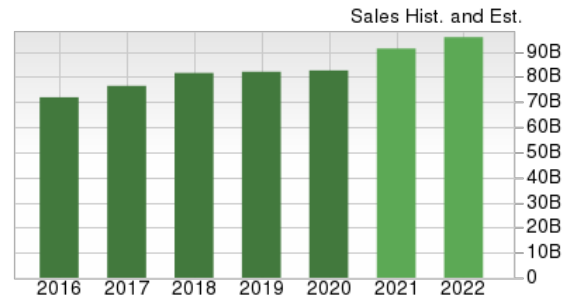
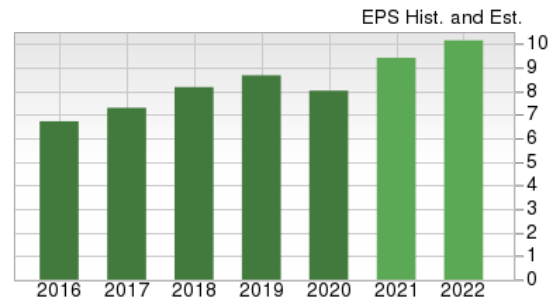
Johnson & Johnson's biggest strength is its diversified business model. It operates through pharmaceuticals, medical devices and consumer products divisions. It comprises some 250 subsidiaries, which clearly means that the business is extremely well diversified. Its diversification helps it to withstand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

New Brunswick, NJ based J&J's worldwide business is divided into three segments: Pharmaceutical, Medical Devices and Consumer. In 2020, these segments contributed 55%, 38% and 17%, respectively, to the company's total revenues of \$82.6 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 2020 totaled \$45.6 billion, up 8%.

**Medical Devices Segment** – This segment offers products in the orthopedics, surgery, interventional solutions and vision care markets. The segment posted sales of \$22.9 billion in 2020, down 11.6%. 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 \$14.0 billion in 2020, up 1.1%.



Source: Zacks Investment Research

## Reasons To Buy:

▲ **Shares Outperforming Industry:** J&J's shares have risen 12.5% in the past one year, outperforming the 6.3% increase 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 8.4% in 2020 on an organic basis 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 are also contributing to growth. Importantly, J&J sounds confident about its Pharmaceutical business continuing to deliver above-market growth in 2021 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 the near term.

▲ **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. 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.

In 2020, J&J acquired Momenta Pharmaceuticals, which added nivalolumab to its pipeline. Nivalolumab is in mid-and late-stage development for rare autoantibody-driven diseases.

J&J spent \$35 billion on M&A and major licensing deals in 2017, \$1 billion in 2018, \$5.8 billion in 2019 and \$7 billion in 2020. The company has sufficient funds to pursue additional bolt-on acquisitions and deals to boost its portfolio. The company is also returning value to shareholders through share buybacks and dividend payments, which have been hiked for 58 consecutive years.

▲ **Deep Pipeline:** The company's key areas of focus include immunology, infectious diseases & vaccines, neuroscience, cardiovascular & metabolism, oncology and pulmonary arterial hypertension.

Key candidates in the company's pipeline are niraparib (prostate cancer – phase III), ciltacabtagene autoleucel/BCMA CAR-T therapy (relapsed or refractory multiple myeloma – rolling BLA filing), ponesimod (relapsing forms of multiple sclerosis – under review in the United States and EU) amivantamab (non-small-cell lung cancer or NSCLC – regulatory applications filed in United States and EU), JNJ-78436735 (single-dose COVID-19 vaccine candidate - phase III) 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 the past three years driven by consistent uptake and new indications added to their approved labels with the positive trend expected to continue in 2021.

▲ **Medical Devices Segment Enjoys Strong Fundamentals:** The company successfully turned 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. In 2020, though the segment was hurt due to decline in elective surgical procedures amid the coronavirus pandemic, J&J is confident that the underlying fundamentals of the market remain intact. In fact, after a weaker first half, sales in the unit improved in the second half owing to better-than-expected market recovery as medical procedures ramped up faster than expected.

▲ **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

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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:

▼ **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 and 2020, biosimilar competition for Remicade and Procrit and generic competition related to Velcade, Tracleer and Zytiga in the United States hurt revenues significantly.

▼ **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 21,000 lawsuits for its talc-based products, primarily its baby powders. The lawsuits allege that its talc products contain asbestos, which caused many women to develop ovarian cancer. In 2018, J&J was ordered by a Missouri court to pay \$4.7 billion in damages to 22 women who made such allegations, affirming a St. Louis court jury's verdict given earlier. J&J insists that talc-based products are safe and do not cause cancer. Though the verdict was reduced to \$2.1 billion by an appeals court in June 2020, it still rejected J&J's appeal to overturn the 2018 jury verdict.

J&J also faces more than 3,100 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. J&J has offered to pay about \$5 billion to settle all opioid lawsuits in the United States. Though J&J expects to settle the opioid litigation in 2021, this issue is an overhang on the 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 complete response letter or 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 Q4 Earnings & Sales Top, 2021 View Encouraging

J&J beat fourth-quarter estimates for earnings as well as sales. Fourth-quarter 2020 earnings came in at \$1.86 per share, which beat the Zacks Consensus Estimate of \$1.81. Earnings however declined 1.1% from the year-ago period.

Adjusted earnings exclude intangible amortization and some other special items. Including these items, J&J reported fourth-quarter earnings of 65 cents per share, down 56.7% from the year-ago quarter.

Sales came in at \$22.5 billion, which beat the Zacks Consensus Estimate of \$21.62 billion. Sales rose 8.3% from the year-ago quarter, reflecting an operational increase of 7.1% and a currency impact of 1.2%.

Organically, excluding the impact of acquisitions and divestitures, sales rose 7.3% on an operational basis compared with 2% increase seen in the third quarter.

The Pharmaceuticals and Consumer Health unit offset a softer performance in the Medical Devices segment due to resurgence of COVID-19 cases. Additional selling days in the quarter also benefited sales, which were partially offset by the impact of the pandemic.

Fourth-quarter sales in the domestic market rose 9.6% to \$11.81 billion. International sales rose 7% on a reported basis to \$10.67 billion, reflecting an operational increase of 4.3% and a currency impact of 2.7%. Excluding the impact of all acquisitions and divestitures, on an adjusted operational basis, international sales rose 4.8% in the quarter.

### Segment Details

Pharmaceutical segment sales rose 16.3% year over year to \$12.27 billion, reflecting 14.6% operational growth and 1.7% positive currency impact. Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales increased 14.6%, higher than 4.7% increase in the third quarter.

Sales in the domestic market rose 15.3% to \$7.11 billion. International sales however rose 17.7% to \$5.15 billion (operational increase of 13.5%).

The sales increase was led by higher penetration and new indications across key products, such as Darzalex, Imbruvica and Stelara. Other core products like Invega Sustenna, J&J's PAH drugs and new drugs, Erleada and Tremfya contributed significantly to sales growth.

Moreover, improvement in sales of some other key drugs like Xarelto and Invokana/Invokamet seen in the past few quarters continued into the fourth quarter of 2020. The sales growth was hurt by generic/biosimilar competition to drugs like Zytiga and Remicade and some negative impact of COVID-19.

Imbruvica sales rose 27.8% to \$1.18 billion driven by market share gains and strong market growth.

Darzalex sales rose 50.9% year over year to \$1.25 billion in the quarter driven by share gains across all lines of therapy. The company also witnessed increased adoption of the subcutaneous formulation launched in the second quarter in Europe and United States.

Stelara sales grew 31.9% to \$2.24 billion in the quarter driven primarily by the Crohn's disease indication and growth from ulcerative colitis indication.

PAH revenues of \$865 million rose 39% year over year, driven by market penetration and share growth for both Upravi and Opsumit.

Invega Sustenna sales rose 10.8% to \$965 million in the quarter. Simponi/Simponi Aria sales grew 12.1% to \$576 million and Prezista sales increased 4.4% to \$569 million.

Xarelto sales rose 3.1% in the quarter to \$629.0 million while sales of Invokana/Invokamet improved 22.9% to \$217.0 million.

Among the newer medicines, Erleada generated sales of \$241 million in the quarter compared with \$206 million in the previous quarter driven by strong share growth, especially in the metastatic indication. Tremfya recorded sales of \$382 million in the quarter, up 41.5% year over year due to share gains in the psoriasis market.

Zytiga sales declined 8.3% to \$622 million in the quarter due to generic competition. Sales of Procrit/Eporex declined 29.5% to \$129 million in the quarter due to biosimilar competition. Sales of Remicade were down 12.9% in the quarter to \$901 million. While U.S. sales declined 13.1%, sales in international markets rose 3.3%.

J&J continues to expect its Pharmaceutical business to deliver above-market growth in 2021 with more balanced quarter-to-quarter growth in the year than seen in 2020. Meanwhile, pricing pressure and generic and biosimilar competition will hurt sales. However, the company does not expect any significant new generic or biosimilar entrants in 2021.

Medical Devices segment sales came in at \$6.59 billion, down 0.7% from the year-ago period, reflecting an operational decrease of 2.2% and a positive currency movement of 1.5%. The pandemic hit this segment the hardest due to a widespread decline in elective surgical procedures. However, the segment benefited from better-than-expected market recovery in the second half of 2020 amid faster-than-expected ramping up of medical procedures.

| Quarter Ending   | 12/2020      |
|------------------|--------------|
| Report Date      | Jan 26, 2021 |
| Sales Surprise   | 3.97%        |
| EPS Surprise     | 2.76%        |
| Quarterly EPS    | 1.86         |
| Annual EPS (TTM) | 8.03         |

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Late in the fourth quarter, J&J experienced softening in recovery trends and procedure disruptions due to COVID-16 resurgence in countries like the United States and Europe in Q4. However, the impact varied across geographies and business type.

Excluding the impact of all acquisitions and divestitures, on an operational basis, worldwide sales decreased 1.5% compared with a decline of 3.3% in the third quarter.

Domestic market sales rose 1.5% year over year to \$3.18 billion. International market sales declined 2.6% year over year to \$3.41 billion. On an operational basis, international sales decreased 5.5%.

In the first quarter of 2021, J&J expects moderate procedural disruption to continue. However, the company expects revenue growth in each quarter of 2021 versus 2020 due to market recovery. J&J expects the highest growth to occur in the second quarter due to easy comparison to the highly disrupted second quarter of 2020.

The Consumer segment recorded revenues of \$3.62 billion in the reported quarter, up 1.4% year over year. On an operational basis, Consumer segment sales rose 2%. Unfavorable foreign currency movement hurt sales by 0.6%.

Excluding the impact of acquisitions and divestitures, adjusted operational sales increase was 2.1% worldwide compared with a 3.1% increase seen in the third quarter.

Higher sales of Oral Care, Wound Care and outside U.S. Skin Health/Beauty businesses were offset by the negative impact of the COVID-19 pandemic on international OTC and skin health/beauty businesses.

Sales in the domestic market rose 2.7% from the year-ago period to \$1.51 billion. Meanwhile, the international segment rose 0.5% to \$2.1 billion, which included an operational increase of 1.5% and a negative currency impact of 1% in the quarter.

In the first quarter of 2021, sales are expected to be hurt by negative COVID-related sales comparisons primary in the OTC products category and continued SKU rationalization program. Sales growth is expected to be more normalized in the second half as consumers return to more typical usage patterns for skin and health products.

## **2020 Results**

Full-year 2020 sales rose 0.6% to \$82.58 billion, beating the Zacks Consensus Estimate of \$81.77 billion. Sales were slightly above the guided range of \$81.2-\$82.0 billion.

Adjusted earnings for 2020 were \$8.03 per share, which surpassed the Zacks Consensus Estimate of \$7.98 and but were down 7.5% year over year. Earnings were within the guided range of \$7.95 - \$8.05.

## **2021 Outlook**

J&J issued an upbeat financial guidance for 2021. It expects revenues in the range of \$90.5 billion to \$91.7 billion, indicating year-over-year increase of 9.5%-11%.

Operational constant-currency sales are expected to increase in the range of 7.5%-9%. Adjusted operational sales (excluding currency impact, acquisitions/divestitures) are expected to be up 8%-9.5%.

Adjusted earnings per share are expected in the range of \$9.40-\$9.60, indicating an increase in the range of 17.1%-19.6%. On an operational, constant-currency basis, adjusted earnings per share are expected to increase 15.2%-17.7%.

Operating margin is expected to improve more than 200 basis points from 2020 levels.

J&J expects stabilizing employment levels and a reduction in social restrictions as 2021 progresses. The 2021 guidance excludes the potential revenues from the COVID-19 vaccine candidate.

## **Update on Coronavirus Vaccine Study**

J&J is conducting the ENSEMBLE phase III study on its single-dose COVID-19 vaccine candidate, JNJ-78436735. The study has enrolled approximately 45,000 participants. Along with the earnings press release, the company said it expects to report interim efficacy data from the ENSEMBLE study early next week. The company had previously said that it expected to publish data from the study by the end of January. On the call, J&J said it expects to meet all its advance supply orders in 2021.

Meanwhile, J&J continues to enroll its two-dose COVID vaccine study with data expected in the back end of the year.

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## Recent News

### FDA Approves Cabenuva – Jan 21

J&J and Glaxo's HIV subsidiary, ViiV Healthcare announced that the FDA has approved their long-acting injectable regimen of Glaxo's cabotegravir and J&J's Edurant (rilpivirine) for the treatment of HIV-1 infection in virologically suppressed adults. The regimen will be marketed by the trade name of Cabenuva and will be provided as a co-pack with the two injectable medicines, cabotegravir and Edurant. Cabenuva is already approved in Canada and EU. The long-acting regimen will reduce the frequency of treatment days from 365 to 12 per year, thereby removing the need to take daily oral pills. The approval of Cabenuva is based on data from the pivotal phase III ATLAS and FLAIR studies.

The FDA simultaneously approved Vocabria (cabotegravir oral tablets) for short-term HIV treatment in combination with rilpivirine tablets.

### FDA Approves Darzalex Faspro for New Indication – Jan 15

J&J announced that the FDA has granted approval to Darzalex Faspro in combination with bortezomib, cyclophosphamide and dexamethasone for treating newly diagnosed light chain amyloidosis, a rare blood cell disorder, in adult patients. Darzalex Faspro is presently approved to treat multiple myeloma. Darzalex Faspro is the subcutaneous formulation of J&J's blockbuster multiple myeloma drug, Darzalex.

### Q1 Dividend – Jan 12

J&J board of directors declared a cash dividend for the first quarter of 2021 of \$1.01 per share. The quarterly dividend will be paid out on Mar 9 to shareholders of record as of Feb 23.

### Files MAA for Amivantamab – Dec 28

J&J announced that it has filed a marketing authorization application (MAA) to the European Medicines Agency seeking approval of amivantamab for metastatic NSCLC with EGFR exon 20 insertion mutations whose disease has progressed on or after platinum-based chemotherapy. A similar application is under review in the United States.

### Begins Rolling BLA Filing for BCMA CAR-T Therapy – Dec 21

J&J announced that it has initiated the rolling submission of its biologics license application (BLA) to the FDA for its BCMA CAR-T therapy, ciltacabtagene autoleucel (cilta-cel). Cilta-cel has been developed for the treatment of adult patients with relapsed/refractory multiple myeloma ("MM"). A rolling review of the BLA for the BCMA CAR-T candidate has been agreed upon by the FDA. In the said review, completed portions of the application will be submitted and reviewed at regular intervals. The BLA is based on data from the ongoing phase Ib/II CARTITUDE-1 study.

### COVID-19 Vaccine Study Fully Enrolled – Dec 15

J&J announced that its ENSEMBLE phase III study on its single-dose COVID-19 vaccine candidate, JNJ-78436735, is now fully enrolled with approximately 45,000 participants. J&J had earlier said it will enroll 60,000 participants globally. However, it clarified that 45,000 participants will be sufficient to generate the data needed to determine the efficacy and safety of the candidate. J&J expects to report interim efficacy data from the ENSEMBLE study by end of January 2021. If the data are positive, J&J will file application for EUA from the FDA in February.



## Valuation

J&J's shares are up 15.2% in the past six months and 12.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 5.0% and 5.3%, respectively in the past six months. Over the past year, Zacks sub-industry and sector are up 6.3% and 6.9%, respectively

The S&P 500 Index is up 16.6% in the past six months and 16.2% in the past year.

The stock is currently trading at 18.89X forward 12-month earnings per share which compares with 14.54X for the Zacks sub-industry, 22.76X for the Zacks sector and 22.47X 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 16.46X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$178 price target reflects 19.9X 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       | 18.89 | 14.54        | 22.76  | 22.47   |
|                           | 5-Year High   | 19.29 | 16.62        | 22.89  | 23.8    |
|                           | 5-Year Low    | 12.11 | 13.18        | 15.9   | 15.3    |
|                           | 5-Year Median | 16.46 | 15.05        | 19.13  | 17.82   |
| P/S F12M                  | Current       | 5     | 4.63         | 2.85   | 4.45    |
|                           | 5-Year High   | 5.04  | 4.85         | 3.17   | 4.45    |
|                           | 5-Year Low    | 3.37  | 3.88         | 2.26   | 3.2     |
|                           | 5-Year Median | 4.42  | 4.42         | 2.85   | 3.67    |
| P/B TTM                   | Current       | 6.91  | 6.66         | 4.48   | 6.46    |
|                           | 5-Year High   | 6.96  | 7.37         | 5.11   | 6.64    |
|                           | 5-Year Low    | 3.91  | 3.69         | 3.02   | 3.73    |
|                           | 5-Year Median | 5.65  | 5.38         | 4.36   | 4.95    |

As of 1/28/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 22% (197 out of 253)



## Top Peers

| Company (Ticker)                 | Rec     | Rank |
|----------------------------------|---------|------|
| AbbVie Inc. (ABBV)               | Neutral | 3    |
| Bayer Aktiengesellschaft (BAYRY) | Neutral | 3    |
| GlaxoSmithKline plc (GSK)        | Neutral | 3    |
| Merck & Co., Inc. (MRK)          | Neutral | 2    |
| Novartis AG (NVS)                | Neutral | 3    |
| Pfizer Inc. (PFE)                | Neutral | 3    |
| Roche Holding AG (RHHBY)         | Neutral | 4    |
| Sanofi (SNY)                     | Neutral | 3    |

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

| Industry Comparison Industry: Large Cap Pharmaceuticals |           |            |           | Industry Peers |            |           |
|---------------------------------------------------------|-----------|------------|-----------|----------------|------------|-----------|
|                                                         | JNJ       | X Industry | S&P 500   | BAYRY          | PFE        | RHHBY     |
| Zacks Recommendation (Long Term)                        | Neutral   | -          | -         | Neutral        | Neutral    | Neutral   |
| Zacks Rank (Short Term)                                 | 3         | -          | -         | 3              | 3          | 4         |
| VGM Score                                               | B         | -          | -         | B              | C          | B         |
| Market Cap                                              | 441.95 B  | 175.11 B   | 26.55 B   | 56.55 B        | 201.44 B   | 304.55 B  |
| # of Analysts                                           | 9         | 3          | 13        | 3              | 3          | 4         |
| Dividend Yield                                          | 2.41%     | 2.27%      | 1.45%     | 3.51%          | 4.19%      | 1.62%     |
| Value Score                                             | B         | -          | -         | A              | B          | C         |
| Cash/Price                                              | 0.07      | 0.05       | 0.06      | 0.30           | 0.11       | 0.02      |
| EV/EBITDA                                               | 18.14     | 14.63      | 14.63     | 7.06           | 9.59       | NA        |
| PEG F1                                                  | 2.81      | 2.00       | 2.53      | 5.80           | 2.35       | 3.95      |
| P/B                                                     | 6.85      | 5.21       | 3.85      | 1.54           | 3.07       | 8.43      |
| P/CF                                                    | 14.68     | 11.33      | 14.48     | 4.44           | 8.73       | 13.95     |
| P/E F1                                                  | 18.92     | 13.46      | 20.44     | 7.83           | 11.46      | 15.91     |
| P/S TTM                                                 | 5.35      | 4.26       | 2.92      | NA             | 4.14       | NA        |
| Earnings Yield                                          | 5.33%     | 7.45%      | 4.80%     | 12.80%         | 8.72%      | 6.30%     |
| Debt/Equity                                             | 0.51      | 0.76       | 0.69      | 1.12           | 0.76       | 0.36      |
| Cash Flow (\$/share)                                    | 11.52     | 4.22       | 6.90      | 3.48           | 4.11       | 3.20      |
| Growth Score                                            | C         | -          | -         | D              | D          | A         |
| Historical EPS Growth (3-5 Years)                       | 7.80%     | 6.69%      | 9.69%     | -4.05%         | 6.54%      | NA        |
| Projected EPS Growth (F1/F0)                            | 11.28%    | 6.16%      | 12.69%    | 0.00%          | 15.78%     | 3.90%     |
| Current Cash Flow Growth                                | 3.68%     | 2.90%      | 4.97%     | -8.03%         | -6.57%     | 11.61%    |
| Historical Cash Flow Growth (3-5 Years)                 | 7.62%     | 7.37%      | 8.07%     | 6.30%          | 2.54%      | 9.89%     |
| Current Ratio                                           | 1.48      | 1.23       | 1.38      | 1.10           | 1.40       | 1.23      |
| Debt/Capital                                            | 33.64%    | 42.47%     | 41.88%    | 52.78%         | 43.19%     | 26.41%    |
| Net Margin                                              | 17.82%    | 17.85%     | 10.47%    | -22.32%        | 17.85%     | NA        |
| Return on Equity                                        | 34.07%    | 34.07%     | 15.37%    | 14.23%         | 24.88%     | NA        |
| Sales/Assets                                            | 0.51      | 0.43       | 0.50      | 0.34           | 0.28       | NA        |
| Projected Sales Growth (F1/F0)                          | 7.43%     | 5.70%      | 6.10%     | -0.89%         | 19.29%     | 4.01%     |
| Momentum Score                                          | A         | -          | -         | B              | D          | F         |
| Daily Price Change                                      | 0.76%     | 0.37%      | -2.74%    | 1.78%          | -1.05%     | 0.22%     |
| 1-Week Price Change                                     | 2.03%     | 1.19%      | -0.02%    | 1.26%          | -0.41%     | 1.39%     |
| 4-Week Price Change                                     | 7.49%     | 1.37%      | -0.38%    | 3.98%          | -2.58%     | 1.67%     |
| 12-Week Price Change                                    | 21.04%    | 6.78%      | 9.81%     | 19.61%         | -1.46%     | 0.72%     |
| 52-Week Price Change                                    | 12.50%    | -2.68%     | 6.94%     | -24.51%        | -3.26%     | 4.85%     |
| 20-Day Average Volume (Shares)                          | 7,907,245 | 3,290,067  | 1,872,056 | 630,557        | 31,012,314 | 2,168,665 |
| EPS F1 Estimate 1-Week Change                           | 6.65%     | 0.00%      | 0.00%     | 0.00%          | 1.86%      | 0.00%     |
| EPS F1 Estimate 4-Week Change                           | 6.61%     | 0.20%      | 0.22%     | 0.52%          | -4.62%     | -2.95%    |
| EPS F1 Estimate 12-Week Change                          | 5.15%     | 1.17%      | 1.79%     | -8.36%         | 7.84%      | -3.79%    |
| EPS Q1 Estimate Monthly Change                          | 3.72%     | 1.23%      | 0.00%     | 2.47%          | 6.67%      | NA        |

Source: Zacks Investment Research

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

### Zacks Rank

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

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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>A</b> |
| VGM Score      | <b>B</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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**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

**TTM:** Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

**F1:** Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

**F2:** Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

**F12M:** Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

**P/CF Ratio:** The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

**P/FCF Ratio:** The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

**Earnings Yield:** The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ( $3/35 = 0.0857$ ) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

**Debt/Equity Ratio:** The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

**Cash Flow (\$/share):** Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

**Current Ratio:** The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

**Debt/Capital Ratio:** Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.



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**Net Margin:** Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

**Return on Equity:** Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

**Sales/Assets Ratio:** The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

**Historical EPS Growth (3-5 Years):** This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

**Projected EPS Growth (F1/F0):** This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

**Current Cash Flow Growth:** It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

**Historical Cash Flow Growth (3-5 Years):** This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

**Projected Sales Growth (F1/F0):** This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

**EPS F1 Estimate 1-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

**EPS F1 Estimate 4-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

**EPS F1 Estimate 12-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

**EPS Q1 Estimate Monthly Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.