

Johnson & Johnson Ticker: JNJ Sector: Health Care Industry: Drug Manufacturers	Intrinsic Value: \$ 110.93 Current Price: \$92.50 Stop Loss: \$78.62 Upside Review: \$127.60	TTM P/E: 19.27 Forward P/E: 14.75 Beta: 0.79	Market Cap: 260.97B Dividend Yield: 2.64 (2.90%) 52 Wk Range: \$ 75.37 - 95.99
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Industry Trends:

Big brand-name pharmaceutical companies face ongoing challenges and uncertainties. The industry has been subjected to heightened the competition from generic drug makers, pricing pressure from payers, and hard to control inflation in R&D. However, big Pharm are struggling to protect its business by cutting cost, improve marketing and sales and reorganize the R&D operations.

Emerging markets such as China, Brazil, Russia and India provide opportunities and drive the growths. Growth in emerging markets offset the loss in developed countries.

Investment Thesis:

Contributing nearly 40% of total revenue, the pharmaceutical division boasts several industry-leading drugs, including immunology drug Remicade and psoriasis drug Stelara. The medical device and diagnostics group brings in around 40% of sales, with the company holding controlling positions in many areas. Research and development efforts are resulting in next-generation products and support its robust revenue base. The multiple business lines generate substantial cash flow. Johnson & Johnson's healthy free cash flow (operating cash flow less capital expenditures) is close to 20% of sales. The company's diverse revenue base, strong pipeline, and robust cash flow generation create a very wide economic moat.

Business Summary:

Johnson & Johnson has more than 250 companies located in 60 countries around the world. The Family of Companies is organized into several business segments comprised of franchises and therapeutic categories. The segments include Consumer healthcare (20.6%), Medical Devices & Diagnostics (39.95%) and Pharmaceuticals (39.44%).

5 year Stock Perfor



Direct Competitor Comparison

	JNJ	COV	NVS	PFE
Market Cap:	261.38B	31.60B	196.22B	206.85B
Employees:	128,000	38,500	135,696	N/A
Qtrly Rev Growth (yoy):	0.05	0.03	0.02	N/A
Revenue (ttm):	71.31B	10.26B	58.83B	51.58B
Gross Margin (ttm):	0.69	0.60	0.67	0.82
EBITDA (ttm):	22.96B	2.84B	16.20B	23.11B
Operating Margin (ttm):	0.27	0.22	0.19	0.33
Net Income (ttm):	13.83B	1.54B	9.18B	11.34B
EPS (ttm):	4.81	3.44	3.70	3.20
P/E (ttm):	19.26	20.33	21.88	9.97
PEG (5 yr expected):	2.61	1.80	2.98	6.60
P/S (ttm):	3.60	3.03	3.32	3.95

Competitive Analysis:

Family of JNJ comprises: The world's sixth-largest consumer health company; The world's largest and most diverse medical devices and diagnostics company; The world's fifth-largest biologics company; And the world's eighth-largest pharmaceuticals company.

Pros:

- Johnson & Johnson keeps leading position across the major health-care industries.
- Diverse health-care segments insulate the company from downturns in the economy, offering a defensive growth opportunity.
- JNJ has strong pricing power because of their specialty drugs.
- High dividend each year.
- The 2007 acquisition of Pfizer's consumer business solidified Johnson & Johnson's position in consumer business market.
- The company has also created new medical devices, including ceramic orthopedics and minimally invasive surgical tools.
- In contrast to most of its peers, Johnson & Johnson faces relatively modest patent losses during the next few years.

Risk Factors:

- The increasing competition to the key drugs products might affect the performance of drug segment.
- A few patent losses on high-margin drugs in next five years.
- Reduced pricing power, regulatory delays and nonapprovals as well as increasingly aggressive generic competition.

Total Return Estimates:

3 Yr FV Reversion*: 7.14%
 5 Yr FV Reversion*: 6.48%
 (* - From limit order price of \$00.00)

Key Valuation Assumptions:

Est. Revenue Growth	3%
WACC	8.12%
Expected Inflation	2.5%
Terminal Growth Rate	3%
10 yr. Risk Free Rate	2.62%
Equity Risk Premium	5.9%
Tax Rate	10.6%

Key Financial Data:

Est. 2013 EPS	5.81
Est. 2014 EPS	6.25
3-5 Yr. Est. EPS Growth	9%
PEG (TTM)	2.9
Credit Quality	A+
ROE	20.78
ROA	11.98
Price /Book	3.76
Price/Cash Flow	16.0
Debt/Equity	21.64
Current Ratio	1.9
Quick Ratio	1.34

CSR characteristics

Human Rights	1/1
Business Ethics Policy	1/1
ESG Disclosure	54.55/47.93
Equal Opportunity	1/1
Emission Reduction	1/1
Environmental Disclosure Score	57.36/46.15

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