Johnson&Johnson

Value Stock Research Report
04/26/2025

Applied Portfolio Management 22:390:658

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1.0 Executive Summary

Recommendation	BUY
Price Target	$217.80
Ticker	JNJ
Sector	Healthcare
Sector Rating	Overweight
Key Data Points	
Share Price	$155.38
Upside	40.17%
52 Week Price Range	$140.68-$169.99
Shares Outstanding	2.4B
Dividend	$5.20
Economic Moat	Wide
Current P/E	17.23
Forward P/E	14.71
Current Ratio	1.11
Quick Ratio	0.78
ROA	8.09
ROE	20.06
ROIC	16.44
Gross Margin	69.10%
Market Capitalizatioı	$375B
Beta	0.47

Johnson & Johnson (NYSE: JNJ) is an American multinational pharmaceutical company headquartered in New Brunswick, New Jersey. Johnson & Johnson (J&J) was founded in 1886 by Robert Wood Johnson, James Wood Johnson, and Edward Mead Johnson and has rapidly grown into one of the largest companies globally. Today, J&J has a global workforce of more than 138,000 employees and a market capitalization of $400 billion. CEO Joaquin Duato leads the company.

1.1 Investment Thesis

Johnson & Johnson's large, prominent market share within the healthcare industry, specifically within pharmaceuticals and medical devices, provides a strong basis for an investment case. J&J's heavy investments in R&D and strong R&D pipeline support a wide economic moat, furthering investment support for the company. The company's strong market share and pharmaceutical growth, particularly in oncology and immunology, provide a strong basis for J&J's continued growth. Furthermore, J&J's strong balance sheet and financials provide another compelling case for investors. With a history of 64 years of consecutive dividend payments, a current ratio above 1, and a 52.92 Debt / Equity ratio, this underlines the financial stability of J&J and the company's commitment to returning value to shareholders. Furthermore, the continued revenue growth of J&J and the company's R&D investments highlight a company committed to growing steadily.

1.2 Valuation

JNJ's current market share price at $155.38 presents a compelling opportunity for value-oriented investors. The company is currently trading in the middle of its 52-week range. With a forward P/E of 14.71, the company's shares suggest relative undervaluation within the sector. Key factors supporting the company's enhanced valuation include its upcoming portfolio advancements within pharmaceuticals and medical devices from its R&D investments, continued earnings and dividend growth, and the company's commitment toward strategic acquisitions for expansion into new therapies and markets. These factors help bolster the BUY rating and support the price target of $217.80, reflecting a 40.17% upside from the current market share price.

2. Company Overview

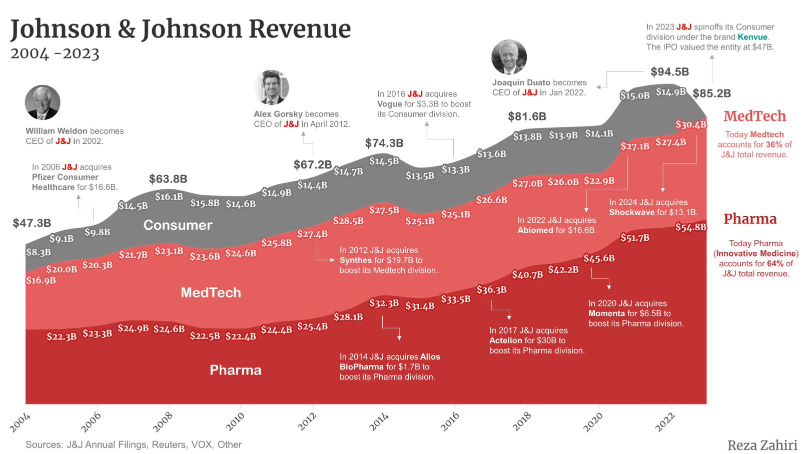
2.1 Company History

J&J was founded in 1886 by Robert Wood Johnson, James Wood Johnson, and Edward Mead Johnson. Shortly after, J&J became the first company to mass-produce antiseptic surgical supplies. Among its inaugural products was sterilized absorbent cotton, a breakthrough in surgical care. In 1888, J&J produced two critical products: a mainstream manual on treating injuries and the first mass-market first-aid kit. Over the next several decades, J&J continued to make new products and expand into new markets, including maternity and infant-care products, consumer health, and contraceptives. In 1944, J&J officially went public on the NYSE. In 1959, J&J expanded into the pharmaceutical business by acquiring two research laboratories. J&J continued to grow within the pharmaceutical and medical device segments over the next several decades. In 2006, J&J's history made a significant acquisition with Pfizer's consumer healthcare division, bringing J&J's business model to three main segments: Innovative Medicine (pharmaceuticals), MedTech, and Consumer Health. Finally, in 2021, J&J announced the divestiture of its consumer health segment into a new publicly traded company: Kenvue. The company completed the spinoff of Kenvue in 2023 to officially divest from its consumer health segment, allowing J&J to focus on the two core aspects of its business model: Innovative Medicine (pharmaceuticals) and MedTech.

Today, Johnson and Johnson has grown into one of the largest pharmaceutical companies in the world. The company is publicly traded on the New York Stock Exchange and is a Dow Jones Industrial Average (DJIA) component. The company ranked No. 42 on the 2024 Fortune 500 list of the largest U.S. companies. The company has a global workforce with an operating presence in over 60 countries and approximately 138,000 employees worldwide. J&J is one of the world's most valuable companies and one of only two U.S.-based companies with a prime credit rating of AAA.

2.2 J&J Recent Financial History

Throughout J&J's history, the company has prioritized its MedTech and pharmaceutical segments. At the beginning of 2004, the company generated nearly $47.3 billion in revenue, with approximately 82.4% of the revenue generated between the MedTech and pharmaceutical segments. However, J&J made a major acquisition of Pfizer's Consumer Healthcare division in 2006 for $16.6 billion to expand its consumer



Source: J&J Annual Filings, Reuters

healthcare division. Over the next two decades, each segment grew organically and inorganically through various acquisitions. Between 2004 and 2023, the pharmaceutical segment grew nearly 146%, with the MedTech segment growing 62.1% and the Consumer Healthcare segment growing almost 79.5%. In 2023, J&J completed the spinoff of Kenvue, divesting its consumer health division completely, leaving two revenue-generating segments: MedTech and Pharmaceuticals. Today, J&J's pharmaceutical segment accounts for nearly 64% of J&J's total revenue, and the MedTech segment accounts for almost 36% of the company's revenue.

2.3 Business Model and Top Products

Business Model

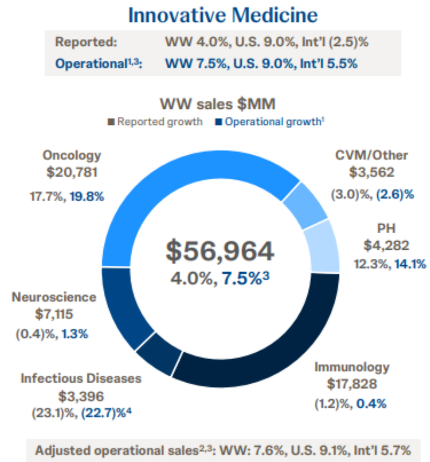
J&J's business model encompasses two segments: Innovative Medicine and MedTech. The Innovative Medicine segment, also called the pharmaceuticals segment, is focused on developing, manufacturing, and distributing pharmaceuticals in six key therapeutic areas: immunology, infectious diseases, neuroscience, oncology, pulmonary, and cardiovascular and metabolic. Within this segment, these products are distributed directly to retailers, wholesalers, distributors, hospitals, and healthcare professionals. In 2024, the Innovative Medicine segment encompassed 64.3% of J&J's revenue. The top products within the pharmaceutical segment include Stelara, Darzalex, Invega Sustenna, Imbruvica, Tremfya, Erleada, Xarelto, Simponi, Opsumit, Remicade, Uptravi, Symtuza, and Edurant. These thirteen products produced over $1 billion in revenue in 2024 for J&J.

The MedTech segment encompasses medical devices and products used in the orthopedic, surgery, cardiovascular, and vision fields. These products are distributed to wholesalers, hospitals, and retailers. The MedTech segment encompassed 35.6% of J&J's revenue. Within the MedTech segment, the top subsegments were electrophysiology, contact lenses, wound closure, trauma, biosurgery, hips, endocutters, knees, energy, surgical vision, abiomed, and the spine. Each segment within MedTech produced over $1 billion in revenue in 2024.

Source: J&J Q4 2024 Earnings Presentation

Source: J&J Q4 2024 Earnings Presentation

2.3.1 Innovative Medicine Portfolio



Source: J&J Q4 2024 Earnings Presentation

J&J's Innovative Medicine Portfolio, also known as its pharmaceutical segment, has demonstrated robust full-year performance in FY 2024, and reported $57.0 billion in revenue. The segment has continued to grow steadily, reporting 4.0% growth year-over-year. This notable growth has been attributed to a nearly $2.2 billion increase in sales, driven primarily by significant demand growth. Specifically, J&J reported robust growth within the oncology segment, reporting a nearly 17.7% jump in revenue or an increase of $3 billion year-over-year. Within the global oncology drugs market, J&J held a nearly 45.92% market share in 2023, commanding nearly half of the U.S. market. This market-leading division has helped solidify J&J as the top oncology drug choice across major global markets. Outside of oncology, J&J also reported a nearly 12.3% jump in revenue within its pulmonary hypertension portfolio, or $400 million in revenue. The company plans to expand opportunities within this segment within the next five years. J&J's primary decline in revenue is driven by a nearly 23.1% fall in sales within its infectious disease portfolio, driven by an 82.4% decline in COVID-19 vaccine sales. In the Q4 2024 earnings call, J&J acknowledged this notable decline but pointed out the robust growth in other segments, such as oncology and pulmonary hypertension, as drivers of its Innovative Medicine business for the coming years.

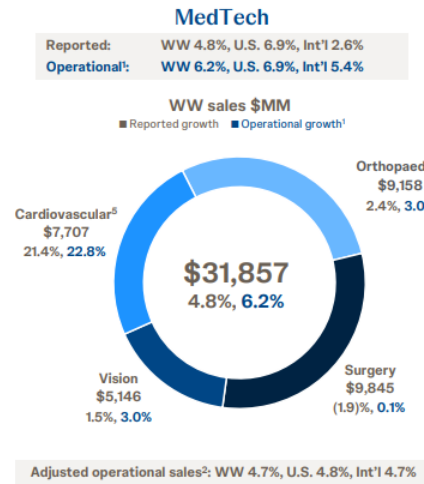
Major Innovative Medicine therapeutic area sales:

(Dollars in Millions)	2024	2023	Total Change	Operations Change	Currency Change
Total Immunology	**$17,828**	**$18,052**	**(1.2%)**	**0.4%**	**(1.6)%**
REMICADE	1,605	1,839	(12.8)	(11.4)	(1.4)
SIMPONI/SIMPONI ARIA	2,190	2,197	(0.3)	4.5	(4.8)
STELARA	10,361	10,858	(4.6)	(3.4)	(1.2)
TREMFYA	3,670	3,147	16.6	18.1	(1.5)
Other Immunology	3	11	(74.1)	(74.1)	—
Total Infectious Diseases	**3,396**	**4,418**	**(23.1)**	**(22.7)**	**(0.4)**
COVID-19 VACCINE	198	1,117	(82.4)	(82.4)	0.0
EDURANT/rilpivirine	1,272	1,150	10.6	10.6	0.0
PREZISTA/PREZCOBIX/REZOLSTA/ SYMTUZA	1,712	1,854	(7.7)	(7.1)	(0.6)
Other Infectious Diseases	214	297	(27.6)	(25.0)	(2.6)
Total Neuroscience	**7,115**	**7,140**	**(0.4)**	**1.3**	**(1.7)**
CONCERTA/methylphenidate	641	783	(18.1)	(15.1)	(3.0)
INVEGA SUSTENNA/XEPLION/INVEGA TRINZA/TREVICTA	4,222	4,115	2.6	3.4	(0.8)
SPRAVATO	1,077	689	56.4	56.8	(0.4)
Other Neuroscience	1,175	1,553	(24.3)	(20.7)	(3.6)
Total Oncology	**20,781**	**17,661**	**17.7**	**19.8**	**(2.1)**
CARVYKTI	963	500	92.7	92.7	0.0
DARZALEX	11,670	9,744	19.8	22.2	(2.4)
ERLEADA	2,999	2,387	25.6	27.3	(1.7)
IMBRUVICA	3,038	3,264	(6.9)	(5.2)	(1.7)
TECVAYLI	549	395	38.8	39.8	(1.0)
ZYTIGA /abiraterone acetate	631	887	(28.8)	(25.0)	(3.8)
Other Oncology	931	484	92.5	94.3	(1.8)
Total Pulmonary Hypertension	**4,282**	**3,815**	**12.3**	**14.1**	**(1.8)**
OPSUMIT	2,184	1,973	10.7	11.9	(1.2)
UPTRAVI	1,817	1,582	14.9	16.1	(1.2)
Other Pulmonary Hypertension	281	260	7.9	18.3	(10.4)
Total Cardiovascular / Metabolism / Other	**3,562**	**3,671**	**(3.0)**	**(2.6)**	**(0.4)**
XARELTO	2,373	2,365	0.3	0.3	—
Other	1,189	1,306	(8.9)	(7.8)	(1.1)
Total Innovative Medicine Sales	**$56,964**	**54,759**	**4.0%**	**5.7%**	**(1.7)%**

Source: 2024 J&J 10-K

2.3.2 MedTech Portfolio

J&J's MedTech portfolio comprises surgery, orthopaedics, cardiovascular, and vision franchises. In 2024, the company reported a 4.8% increase in revenue year-over-year, or a jump of nearly $1.4 billion from the previous year. The surgery franchise sales were $9.8 billion in 2024, representing a 1.9% decrease from 2023. This decline was primarily attributed to competitive pressures in Energy and Endocutters. However, J&J's orthopaedics franchise sales reported an increase of 2.4% year-over-year, or $200 million. The franchise reported total sales of $9.2 billion, primarily driven by the growth of hips and knee-related medical devices. The company's most significant gain was reported within the cardiovascular franchise, mainly attributable to the Shockwave Medical acquisition on May 31, 2024. The sales from this acquisition reported nearly $564 million within the first seven months. The franchise reported total sales of $7.7 billion in 2024, representing a 21.4% increase year-over-year. Finally, the Vision franchise achieved sales of $5.1 billion in 2024, representing a 1.5% increase from 2023. This growth was primarily attributable to growth within contact lenses and the continued strength of recent innovations and commercial execution within their surgical growth medical products.



Source: J&J Q4 2024 Earnings Presentation

Major MedTech franchise sales:

(Dollars in Millions)	2024	2023	Total Change	Operations Change	Currency Change
Surgery	**$9,845**	**10,037**	**(1.9)%**	**0.1%**	**(2.0)%**
Advanced	4,488	4,671	(3.9)	(2.0)	(1.9)
General	5,358	5,366	(0.2)	2.0	(2.2)
Orthopaedics	**9,158**	**8,942**	**2.4**	**3.0**	**(0.6)**
Hips	1,638	1,560	5.0	5.6	(0.6)
Knees	1,545	1,456	6.1	6.5	(0.4)
Trauma	3,049	2,979	2.3	2.9	(0.6)
Spine, Sports & Other	2,926	2,947	(0.7)	(0.1)	(0.6)
Cardiovascular (1)	**7,707**	**6,350**	**21.4**	**22.8**	**(1.4)**
Electrophysiology	5,267	4,688	12.3	14.0	(1.7)
Abiomed	1,496	1,306	14.5	14.9	(0.4)
Shockwave (2)	564	—	*	*	—
Other Cardiovascular	380	356	6.9	8.4	(1.5)
Vision	**5,146**	**5,072**	**1.5**	**3.0**	**(1.5)**
Contact Lenses/Other	3,733	3,702	0.8	2.6	(1.8)
Surgical	1,413	1,370	3.2	4.3	(1.1)
Total MedTech Sales	**$31,857**	**30,400**	**4.8%**	**6.2%**	**(1.4)%**

Source: 2024 J&J 10-K

2.4 Geographic Distribution

J&J is a global multinational company with direct operations in over 60 countries through over 275 subsidiaries and operating companies. The company also sells products in more than 175 countries worldwide. The company has a significant presence in North America, Asia-Pacific, Europe, and the Middle East & Africa. The company has manufacturing sites in Canada, the

U.S., Australia, China, India, Japan, New Zealand, South Korea, Vietnam, Belgium, Italy, the Netherlands, and Switzerland. The company has about two-thirds of its manufacturing facilities outside the U.S.

Revenue by Geography

Johnson & Johnson does not provide specific revenue breakdowns by geography. However, in 2024, J&J sales were roughly evenly divided between the U.S. and international markets. The company generated nearly $50.3 billion in sales in the United States and $38.5 billion in international sales, indicating approximately 43.4% of J&J's revenue was generated from international markets. Specifically, J&J generated over $50 billion in revenue within the United States, $20 billion in Europe, and $15 billion in the APAC region.

2.5 Growth Strategy

Since Joaquin Duato's appointment as CEO in January 2022, Johnson and Johnson reaffirmed its commitment to accelerating healthcare innovation using data science and technology to create breakthroughs in all types of healthcare. During Johnson & Johnson's Enterprise Business Review Day in 2023, J&J revised the company's overarching strategy for long-term growth. The company updated its strategy for each segment: MedTech and Innovative Medicine. The company believes that through its differentiated pipeline and geographic expansion, it can continue to expand its market-leading position in MedTech and report mid-single-digit sales growth over the next five years. Within the Innovative Medicine segment, the company believes that its continued market growth and innovation, which is expected to deliver more than 50 new products and 20 new therapies by 2030, will help deliver mid-single-digit sales growth through 2030.

Inorganic Growth

Source: The Motley Fool

Johnson and Johnson's strategic inorganic growth is driven by a series of calculated acquisitions and synergistic partnerships that have helped to bolster its portfolio and market share, as well as its presence in various franchises. In October 2020, J&J acquired Momenta Pharmaceuticals for $6.5 billion, marking a significant leap for the company within the autoimmune franchise. This integration helped J&J substantially expand its immunology offerings. Similarly, the acquisition of Abiomed in December 2022 for $16.6 billion and Laminar for $400 million in November 2023 helped J&J expand its product offerings within its cardiovascular portfolio and bolster its MedTech division by providing products within the electrophysiology market. In March 2024, J&J acquired Ambrx Biopharma for $2 billion, bolstering its market-leading oncology segment but expanding its offerings in prostate cancer therapies. This acquisition demonstrated J&J's strategic power by allowing the company to initiate new product offerings in a previously uncovered area while expanding its market-leading market share further within oncology. The acquisition of V-Wave for $1.7 billion similarly demonstrated J&J's strategic potential by building its robust offerings within the medical device sector, but providing it with new product offerings in heart failure prevention devices. Notably, J&J also acquired Intra-Cellular Therapies in January 2025 for $14.6 billion. This acquisition vastly expanded J&J's neuroscience division, particularly within its treatments for central nervous system disorders. The move promises to bolster J&J's footprint in neuroscience and signifies the company's foresight in addressing complex health challenges with transformative solutions. Ultimately, these acquisitions demonstrate J&J's commitment to driving growth and innovation by strategically selecting areas where J&J lacks product offerings or expanding its market-leading divisions by strategically selecting weaknesses within their areas of expertise. These strategic acquisitions demonstrate J&J's commitment to expanding its neuroscience, cardiovascular health, and oncology capabilities, aiming to address unmet medical needs and drive future growth.

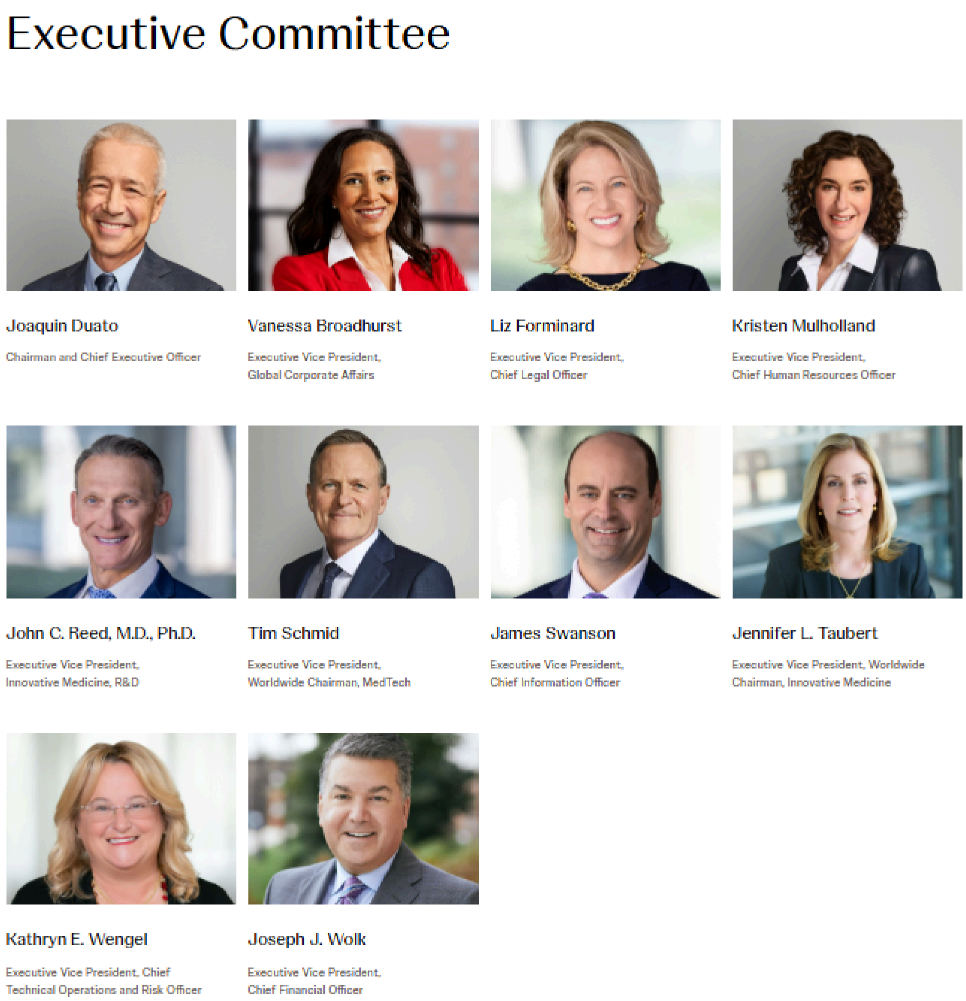
Organic Growth

Johnson & Johnson has distinguished itself as a market leader in organic growth within the pharmaceutical industry. With nearly half the market share within the oncology segment, J&J heavily relies upon the oncology franchise to generate growth within its pharmaceutical segment. Within the oncology segment, J&J's blockbuster drug Darzalex achieved nearly 38.7% growth year-over-year in 2024. Furthermore, J&J's other drugs within this segment, including Erleada, Carvykti, Tremfya, and Sparvato, reported similar growth numbers. These drugs combined contribute to the innovative medicine portfolio's 4.4% year-over-year growth. Furthermore, Johnson & Johnson introduces new electrophysiology products annually. These products are aimed at enhancing treatments for arrhythmias. Additionally, J&J's production of Abiomed and increased production of surgical solutions within general surgery helped grow the MedTech segment. The company expects to continue to increase production of these products and experience similar growth opportunities over the next five years. However, J&J's R&D engine has been the driving force behind its organic growth, helping to solidify its presence across the pharmaceutical and medical device sectors. This has helped power J&J's ambitious strategy to introduce over 20 novel therapies and more than 50 product expansions by 2030. J&J also plans that the current R&D expenses within the medical device segments will help generate one-third of new sales from new products by 2027, focusing on areas like interventional cardiovascular, robotics, and digital platforms. In 2024, J&J spent over $17.2 billion in R&D, up 14.2% from the previous year. In 2025, J&J pledged to increase manufacturing, R&D, and technology investments in the United States to more than $55 billion. This represents a 25% increase in investment compared to the previous four years and demonstrates the company's commitment to cementing its legacy as America's innovation engine within the healthcare sector. The company also plans to invest significantly in extensive R&D infrastructure to develop lifesaving and life-changing treatments in the oncology, immunology, and cardiovascular franchises.

2.6 Economic Moat: Wide

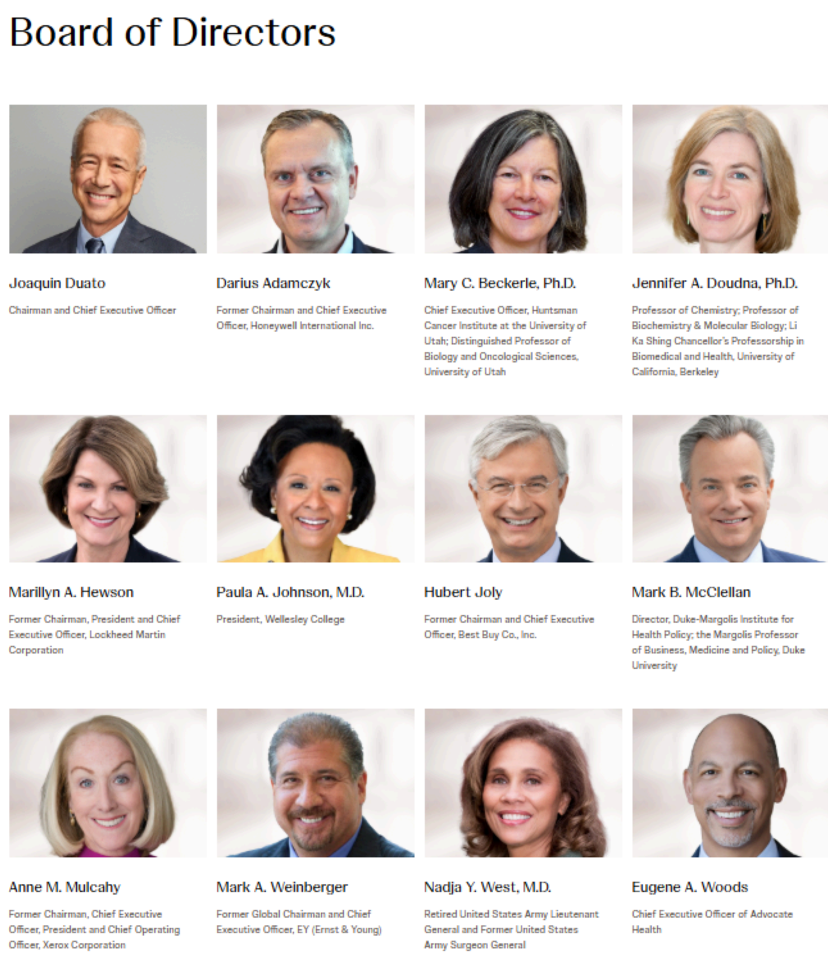
Johnson & Johnson has a wide economic moat supported by several factors, particularly its R&D power, brand reputation, intangible assets, and the industry's strong barriers to entry. In 2024, J&J invested nearly $14.6 billion in R&D, or 16.2% of its total revenue. This moat is anchored by J&J's market-leading oncology division, which holds nearly 45.92% of the market share within oncology. J&J is expected to bolster its presence in the oncology and immunology departments with new investments within these franchises. The company aims to produce 10 new therapies within these two franchises by 2030. Furthermore, J&J consistently maintains a strong reputation as one of the world's most trusted healthcare brands. This reputation is increasingly important to the company and has been carefully cultivated over decades through consistent product quality and ethical practices. While the company faces legal challenges, such as those related to talc-based products, J&J maintains its brand integrity and consumer trust through transparent measures and proactivity. Furthermore, the company seeks methods to give back to the community to continue to bolster its reputation and provide it a strategic advantage over smaller and larger competitors. Additionally, J&J operates within a highly regulated environment. These convoluted laws and regulatory environments serve as a significant barrier to entry for competitors and provide a barrier for companies looking to take market share away from J&J. Finally, J&J holds a vast portfolio of patents protecting its pharmaceutical and medical device innovations. For example, Darzalex, one of J&J's blockbuster immunology and oncology drugs, holds patent protection until 2029. These drugs have become the preferred regimen and treatment options in the immunology and oncology. These patent protections extend the market exclusivity and dominance within the company's immunology and oncology segments and allow J&J to employ strategic lifecycle management practices. Combined with its extensive R&D budget, J&J's economic moat is expansive as it continues to develop next-generation products, secure patent protections and extensions, and utilize the industry's high barriers to entry to maintain its competitive advantage and edge. Overall, the firm's robust R&D strategy, strong intangible assets, and brand reputation reinforce its position in the market, which will allow J&J to continue to support high returns over the coming decades.

2.7 Executive Team



Source: Johnson & Johnson Investor Relations

2.8 Board of Directors



Source: Johnson & Johnson Investor Relations

3. Industry Analysis

3.1 Background

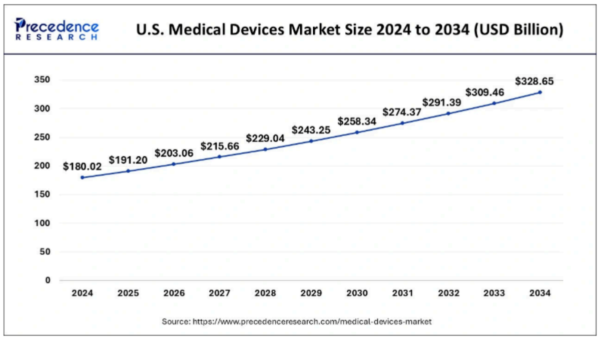
The global pharmaceutical market experienced robust growth from 2019 to 2024, recording total revenues of nearly $1.65 trillion in 2024 at a CAGR of 5.79%. The previous growth was driven by advancements in drug development and the increasing prevalence and spread of chronic diseases worldwide, particularly within older generations. Additionally, this growth was heavily supported by the COVID-19 pandemic, resulting in the massive worldwide production of vaccines and antivirals, the trend toward GLP-1 medications, resulting in massive R&D spending and drug production, and the world's aging population. This growth was persistent across key global markets. Within the Asia-Pacific region, the market achieved a CAGR of around 6.31% ($333.7 billion) between 2019 and 2024, and European markets experienced a similar 5.4% CAGR ($488.2 billion).

Within the MedTech segment in the pharmaceutical industry, the market has experienced stable growth from 2019 to 2024, recording total revenues of nearly $542.2 billion in 2024, and a CAGR of 4.5%. This growth has been primarily driven by expanding hospital equipment and a rise in demand for in-office technology and diagnostics. However, this growth varies between different markets. While the medical device market in the United States ($180.02 billion) is expected to continue to grow at a CAGR of 5.2%, the growth is extremely lackluster in the European market ($102.2 billion) at a CAGR of 2.7%, and at a relatively flat rate in the Asian-Pacific and African markets. This lackluster growth is attributed to the lack of resources and technology necessary within many nations within these regions to support new technologies and medical devices being developed.

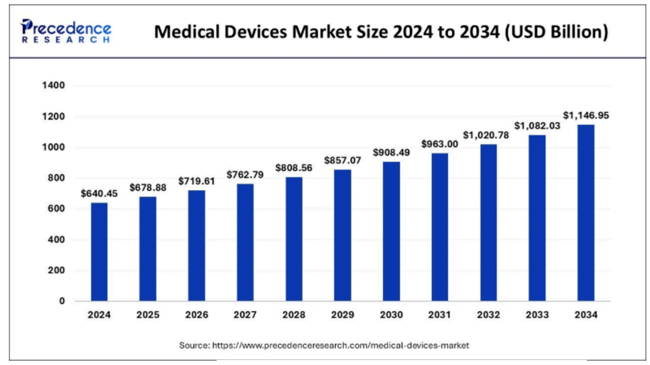
3.2 Market Growth

In the long term, the environment remains favorable in the pharmaceutical industry. The industry is expected to reach $3.18 trillion by 2032. The industry is expected to generate a CAGR of 5.7% from 2025 to 2030 ($857 billion) in the United States. However, further growth is expected overseas with an expected CAGR of 5.9% ($688 billion) in European markets and 7.1% in Asia-Pacific from 2025 to 2030 ($504 billion). This faster growth is attributable to the rapidly aging population in European and Asian countries, technological advances, increased healthcare spending, and continued governmental support. J&J stands in a strong position to benefit from the growing pharmaceutical industry with a strong pipeline across different therapeutic areas and franchises, such as oncology and immunology. Furthermore, the aging global population, strategic acquisitions, strategic patent protections, and upcoming product and drug launches position J&J in a strong position to capitalize on the growing industry to drive its future growth and maintain its competitive edge.

Overall, the environment also remains favorable in the medical device market. Within the United States, the market is expected to grow at a CAGR of 6.2% from 180.02 billion to 328.65 billion by 2034. This growth is expected to be supported by the well-established healthcare system and advanced healthcare facilities in most North American nations that would allow for the adoption of medical devices. Furthermore, North America is at the forefront of medical technological advancements, boosting the demand and adoption of new medical devices within the region. Similarly, growth is expected in other key markets. Within the Asia-Pacific region, India and China are expected to lead the region as the rising per capita income, aging population, and increased governmental investments to advance the healthcare infrastructure provide opportunities for market growth. The region is expected to grow at a CAGR of 7.2% between 2025 and 2034. The medical device market is expected to grow similarly at 3.2% and 3.6% within European and African markets.



Source: Precedence Research



Source: Precedence Research

3.3 Key Competitors

Johnson & Johnson operates within the pharmaceuticals and medical device sectors of the industry. Thus, they face steep competition from competitors within these segments. The pharmaceutical industry is inherently competitive, with dozens of competitors, and no individual company comprises more than 5% of the overall market share. J&J maintained a roughly 3.5% global market share in 2024. In 2024, key competitors of J&J included Pfizer, with a 3.5% market share, AbbVie, with a 3.3% market share, Merck, with a 3.2% market share, and Roche, with a 3% market share. The extremely fragmented market share is attributed to many companies specializing within certain franchises, such as oncology and immunology for J&J. This allows companies to develop significant market share and an economic moat.

Source: Proclincial.com

Outside of these companies, J&J has recently faced increased competition from Eli Lilly and Novo Nordisk. These two companies, each possessing less than 2% of the global market share, grew significantly in 2023 and 2024. Furthermore, both companies are expected to grow significantly over the coming decade due to their blockbuster weight-loss drugs. However, the growth of these two competitors is not expected to significantly alter the global market share within the pharmaceutical or medical device space.

3.4 Industry Drivers

Research and Development (R&D) Spending

R&D is a crucial driver for the pharmaceutical industry's vitality. In 2024, the pharmaceutical industry invested a record $240 billion, with Merck, J&J, and Roche each spending over $15 billion in R&D. Additionally, rising capital costs and risk aversion are slowly redirecting investments toward private and public companies at the expense of early-stage startups.

However, the increased allure toward new technologies, combined with the increased spending toward artificial intelligence and semiconductors, maintains investor interest and confidence in R&D spending in hopes of developing new pharmaceutical innovations. Additionally, international markets like India are implementing policies to enhance foreign investment in the pharmaceuticals and medical devices sectors, helping to ease capital constraints and investor anxiety toward R&D activities.

Consolidation & Strategic Acquisitions

Between 2026 and 2030, a notable "patent cliff" is expected to impact the pharmaceutical industry as patents that currently cover drugs produce over $200 billion of current revenues expire. Consequently, the pharmaceutical industry is seeking to navigate this "cliff" by pursuing a series of strategic mergers and acquisitions to sidestep antitrust scrutiny and shore up late-stage pipelines. This is encouraging Big Pharma to absorb biotech and smaller pharmaceutical companies to sustain and diversify their portfolios, particularly within high-value franchises like oncology and immunology. These acquisitions demonstrate the industry's intent to maintain market dominance and develop further drug innovations despite the impending patent cliff and revenue losses from generic drug production.

Government and Regulatory Support

Governments worldwide have increased efforts to foster growth within the pharmaceutical industry through tax breaks, regulatory support, and fiscal incentives. For example, the United States has issued up to $60 billion in advanced manufacturing tax credits to encourage R&D investments in medical devices and drug manufacturing segments. Internationally, China and India have each committed to multi-billion-dollar investments over the next decade within the pharmaceutical industry to spur innovation and growth within the sector. The international government backing will spur industry growth over the next decade.

Aging Population & Expanding Life Expectancy

The worldwide epidemic of the aging population is providing a massive boon to the pharmaceutical industry. Life expectancies are increasing worldwide, increasing by 7.3% within the past two decades (65 to 73), coupled with rising chronic-disease prevalence among current demographics, is underpinning sustained demand for specialty and biologic therapies. Furthermore, the aging global demographics is expected to further support the pharmaceutical industry, with the global population above 65 expected to rise from 10% in 2023 to 11.7% in 2030. The demographic change will continue to spur industry growth over the next several decades, as in many mature markets, such as the U.S. and Japan, age-related conditions consume 40 %+ of total pharmaceutical and medical device spending, fueling further demand for life-cycle management.

Supply-Chain Resilience & Localization

After COVID-19 and the associated rising global geopolitical tensions, there has been an acceleration in reshoring and onshoring active pharmaceutical ingredients (API) domestically. From 2013 to 2017, 62% of drug shortages were reported to be triggered by manufacturing quality problems, underlining the fragility of the dispersed supply network. By August 2019, only 28% of API facilities were domestic, with the remainder overseas. The offshore concentration creates massive opportunities for single-point-failure risks for generic and branded injectables and medical devices. Since 2020, global governments have provided reshoring incentives to secure critical supply chains and reduce import reliance. For example, the United States has earmarked over $2 billion over the next five years to build domestic capacity for mRNA, viral-vector, and cell-therapy manufacturing. With global geopolitical tensions continuing to rise, combined with the global trade wars between the U.S. and key markets, the global shift toward on-shoring is expected to continue to reduce logistical issues caused by geopolitical and supply chain hurdles and fully integrate manufacturers, despite the potential for higher capex.

3.5 Porter's Five Forces

Bargaining Power of Suppliers - Moderate

In the pharmaceutical industry, suppliers generally have moderate bargaining power due to heavy reliance on highly specialized equipment, technology, and pharmaceutical ingredients. While many small-molecule APIs are commoditized, over 70 percent of the global API capacity is overseas. This high concentration of API production gives a handful of suppliers pricing power. Furthermore, the pharmaceutical industry utilizes various specialty biologics inputs, including cell-culture media and viral-vector technology. These inputs are highly specialized and produced by a few manufacturers worldwide. This allows suppliers to command premiums within the industry. Big pharmaceutical companies have built up their API and biologics manufacturing footprint overseas to mitigate supplier bargaining power to decrease reliance on outside suppliers. This increased vertical integration has diluted supplier leverage as demand for their materials and APIs decreases in favor of domestically produced materials, although these largely are associated with higher capex. Furthermore, many big pharmaceutical companies have increasingly entered long-term supply agreements with fixed pricing points to further dilute supplier leverage in the short to medium term. Overall, there is a moderate amount of pricing power among suppliers within the industry. However, the increasing presence of domestically produced APIs and manufacturing has reduced the bargaining power of suppliers to a more moderate level.

Bargaining Power of Buyers - High

The pharmaceutical industry is characterized by high bargaining power among buyers, particularly in developed markets. The concentration of the market is characterized by medium to large-sized buyers who purchase prescriptions on behalf of consumers. This concentration provides these entities with substantial purchasing power. Within developed markets, such as Europe and the United States, PBMs control significant portions of prescription volume. In the U.S., three PBMs, Express Scripts, CVS Caremark, and OptumRx control nearly 80% of U.S. prescription volume. This purchasing power allows PBMs to negotiate rebates that drove nearly $334 billion of gross-to-net price concessions in 2023. Furthermore, recent governmental action provides further determinants to firms. These governmental actions have long sought to control the cost of medical care and prescriptions. For example, in the U.S., the recent passage of the Inflation Reduction Act will enable Medicare drug negotiation in 2026. This will likely extract 10-25% discounts on select medical prescriptions and drugs. In Europe, the Health Technology Assessment has been launched to seek aggressive price-volume agreements to tighten net prices further. These price negotiations will significantly impact corporations' bargaining power and increase buyers' bargaining power. Consequently, this will also significantly impact pharmaceutical companies' top and bottom lines. Similarly, medical devices also face similar determinants among buyers. The consumer base of medical devices is primarily concentrated on medium to large-sized buyers, large hospital systems, and group purchasing organizations. This concentration places pricing pressure on pharmaceutical companies and enables them to negotiate deep discounts on hospital-administered medical devices and treatments, limiting gross and profit margins.

Threat of New Entrants - Weak

The pharmaceutical industry is characterized by significant entry barriers, primarily due to the time-consuming and costly process of developing assets. Within the United States, it takes approximately 10 to 15 years and $2.6 billion to bring a novel small-molecule or biologic therapy to market. With costs expected to continue rising, new treatments and drugs are expected to take longer and cost more. This makes it increasingly difficult for start-ups, often stemming from academic research, to make a significant entry into the industry, as most run at substantial losses and require significant capital investment and spending before potentially receiving approval to bring a drug to market and turn a profit. Furthermore, FDA/EMA approvals regularly demand extensive clinical trials and post-approval commitments. These trials often find side effects or prove the ineffectiveness of current assets and require firms to continue to invest further R&D to boost the effectiveness of certain drugs to meet the minimum requirements necessary for potential approval. This makes it increasingly difficult for start-ups or other corporations to enter the market due to the industry's capital-intensive nature. Currently, the most common way new entrants emerge is through strategic acquisitions from large pharmaceutical companies or well-backed biotech firms that purchase developing pharmaceutical companies and gain instant access to their assets. However, the threat of new entrants is slowly increasing with increased governmental support and funding within the industry. For example, governmental initiatives in China and India encourage new start-ups to develop new technologies, medical devices, and seek new strategies to develop innovative medicines. However, given the timeline and funding requirements to bring new drugs and devices to market, these hurdles will still take years to overcome. Overall, while the threat of new entrants is growing, the market is considered extremely difficult to penetrate, making the likelihood of new entrants extremely weak.

Threat of Substitutes - Moderate

In the pharmaceutical space, the primary substitutes are generic drugs, biosimilars, digital therapeutics, and non-drug interventions. While the efficacy of substitutes varies significantly, the substitute space is growing dramatically within the pharmaceutical industry. In 2024, generics accounted for $346 billion of global pharmaceutical revenues. The impending "patent cliff" in 2030 provides major potential for substitutes to enter the market. In 2030, nearly $200 billion in annual revenue is at risk. This offers significant potential for substitutes to enter the market. Patent protections offer temporary protection for pharmaceutical companies, yet over time, competitors can introduce similar alternatives. Furthermore, biosimilars are gaining traction within the pharmaceutical industry. In 2024, biosimilar revenue reached nearly $30 billion and is expected to grow at a CAGR of 18%. The current governmental and regulatory support in Europe is accelerating the uptake of biosimilars and poses more risks to the industry. Furthermore, the rise in emerging mobile-health and device-based solutions poses competitive threats to the industry. However, spending is expected to remain low over the next several years. Considering these factors, the threat of substitutes within the pharmaceutical industry is at a moderate level, as generic drugs and biosimilars shape the competitive landscape of the pharmaceutical industry.

Intensity of Rivalry - High

The pharmaceutical market's intensity of rivalry is influenced by the high concentration of companies and their market strategies. Across key markets, there is a high concentration among top players. Within the sector, the top 10 global pharma companies account for nearly 45% of total prescription-drug sales, leading to fierce competition in oncology, immunology, and other key areas. The remainder of the drug sales comprises numerous startups and smaller pharma companies. While product differentiation could reduce the intensity of rivalry among pharma companies, the top 10 pharma companies have increasingly boosted their R&D investments. Many leading companies have invested nearly 20% of their revenue in R&D to accelerate trial starts and therapeutic trials. These companies have increased their investments to develop "blockbuster" medications that can generate significant revenue. In 2024, J&J, Roche, and Merck each spent over $15 billion on R&D investments in 2024. Furthermore, the expected "patent cliff" at the end of the decade has prompted increased M&A activity to refill pipelines and acquire smaller companies intending to produce similar drugs upon the release from patent protection. This has further helped fuel the rivalry among pharma companies. Ultimately, the high concentration of companies within the industry and high R&D investments, coupled with the impending patent cliff, have led to a high degree of rivalry.

3.6 SWOT Analysis

Strengths

Johnson & Johnson's key strengths lie in its extensive pharmaceutical and MedTech franchise, robust R&D capabilities, and strategic M&A decisions. J&J's diversification with its pharmaceutical and MedTech segments is a key strength of the company, as both segments significantly contribute to sales. Specifically, J&J's pharmaceutical segment is classified as one of the top segments among Big Pharma companies, generating nearly $57 billion in revenue in 2024. These revenue numbers are expected to increase in future years with the introduction of new therapies and medicines. Furthermore, J&J's extensive R&D investments focused on oncology, immunology, and other franchises provide robust pipelines with potential for new innovative therapies in the coming years. In FY 2024, J&J spent nearly $15 billion in R&D, or approximately 20% of its total revenue. Another key strength of the firm is the robust balance sheet and cash return. In Q4 2024, J&J recorded its 63rd consecutive dividend increase and continues distributing over 60% of its free cash flow back to investments over the previous five years. Finally, J&J's balance sheet and market share provide it the power to execute M&A transactions, such as Intra-Cellular and Shockwave Medical, to bolster its pharmaceutical and MedTech segments and expand into new franchises.

Weaknesses

One of the biggest challenges facing J&J is the ongoing legal threats and claims. In 2025, over 60,000 talc-based powder claims remain unresolved. The current proposed settlements have totaled $9 billion and have repeatedly been rejected by courts and drawn judicial scrutiny. These repeated claims and other legal challenges impact the company's stability, with the talc-based power claims drawing the biggest fear among investors. J&J is also facing an impending patent cliff within the coming years. In 2023, J&J lost patent protection over its key Stelara drug, which has been its top-selling drug since 2019. This raises the potential for cheaper biosimilars or generic drugs to enter the market and impact J&J's top and bottom line of J&J. Furthermore, pricing headwinds in 2025 from the Inflation Reduction Act threaten to further impact J&J's revenue and top lines. Similarly, medicare negotiations and price-volume agreements pose similar threats to the company.

Opportunities

One of the major pillars of opportunities for J&J is the Asian-Pacific (APAC) region. Pharma spending within APAC is expected to grow at a 7% CAGR from 2025 to 2030. J&J stands to take advantage of these opportunities based on its major distribution centers in Shanghai and Singapore. Furthermore, J&J has many targeted deals to help fill mid-late-stage pipeline gaps without over-diluting earnings. These M&A transactions can help J&J overcome the impending patent cliff by filling gaps in its vertical integration and expanding operations into new therapies.

Threats

One of the major threats facing J&J is the regulatory and pricing reforms that will be implemented in 2026. The Inflation Reduction Act and EU joint-HTA pilots will constrain net pricing on key franchises. These government interventions will likely threaten the company as the price negotiation constrains margins and top and bottom lines. Furthermore, J&J has a significant portion of its operations overseas. Currently, 72% of API capacity is overseas, exposing J&J to trade disruptions and quality shutdowns. This has hampered their ability to conduct vertical integration and impacts the supply quality of many of their drugs, exposing the company to litigation and legal challenges. Finally, the ongoing talc-powder-based claims impact J&J's reputation, and the impending jury verdicts and financial claims can pose major challenges to J&J's FCF and liquidity in the short term.

4.0 Financial Statement Analysis

4.1 Income Statement

J&J Income Statement			
	Actual	*Actual*	*Actual*
	2022	**2023**	**2024**
Revenue	79,990	85,159	88,821
% Growth		*6.5%*	*4.3%*
Cost of Goods Sold	24,596	26,553	27,471
Gross Profit	**55,394**	**58,606**	**61,350**
Gross Margin	*69.3%*	*68.8%*	*69.1%*
SG&A	20,246	21,512	22,869
R&D Expense	14,135	15,085	17,232
In-Process Research & Impairments	783	313	211
Other Operating Expense (Income)	*(490)*	*(1,261)*	*(1,332)*
Operating Income	**21,503**	**23,270**	**22,581**
Other expense (income)	*4,172*	*7,436*	*5,139*
Restructuring	*275*	*489*	*234*
Interest Expense	*276*	*772*	*755*
Income before taxes	**17,055**	**15,062**	**16,687**
Tax Expense	2,989	1,736	2,621
Net Profit	**14,066**	**13,326**	**14,066**
EBITDA	*26,923*	*46,400*	*24,781*
EBITDA Adjustments	758	(19,456)	2,020
Adjusted EBITDA	*27,681*	*26,944*	*26,801*

Source: J&J 2024 10-K

Note: Due to the divestiture of the consumer health division, J&J has reported all recent financial statements ex-consumer health, despite the divestiture occurring in mid-2023.

Johnson & Johnson's revenue increased significantly from 2020 to 2021 by approximately 10%, largely due to a boom in revenue from COVID-19 vaccinations.. Since 2021, the revenue has tapered off and grown between 4% and 6% annually. The company's total revenue decreased by about 10% between 2022 and 2023 due to the spinoff of J&J's consumer health division. However, when stripping out the consumer health division, J&J continued to experience mid-single-digit revenue growth annually, growing at 6.5% between 2022 and 2023 and 4.3% from 2023 to 2024. The slight slowdown in revenue growth was attributed to possible market saturation and intensifying market pressures from the patent cliffs. Specifically, J&J reported robust growth within the oncology segment, reporting a nearly 17.7% jump in revenue or an increase of $3 billion year-over-year. Within the global oncology drugs market, J&J held a nearly 45.92% market share in 2023, commanding nearly half of the U.S. market. This market-leading division and drug portfolio have helped solidify J&J as the top oncology drug choice across major global markets. Within this franchise, drugs like Darzalex, Erleada, and Carvykti saw double-digit sales growth and significantly contributed to the company's revenue growth. Outside of oncology, J&J also reported a nearly 12.3% jump in revenue within its pulmonary hypertension portfolio, or $400 million in revenue. Within the MedTech segment, the company's revenue growth was driven by a 13.3% increase in medical device revenue from medical procedures. Additionally, the company reported a 21.4% gain within its cardiovascular franchise, largely attributable to the Shockwave Medical acquisition on May 31, 2024. The sales from this acquisition reported nearly $564 million within the first seven months. These gains were slightly offset by a decline in surgery franchise sales, which was attributed to competitive pressures in energy and endocutters. J&J's gross margins have remained relatively stable from 2020 to 2024, fluctuating between 68 and 70 percent. The stability in gross margins points to J&J's ability to maintain these costs and the company's pricing power in key markets. While J&J pointed to increased costs between 2023 and 2024, the resulting price hikes are likely attributed to the stability in gross margins. Operating expenses from the company have declined from nearly 50 to 39 percent between 2020 and 2024. This has been attributed to increased operational efficiency and strong sales growth. J&J's R&D investments have continued to grow significantly from 2020 to 2024. In 2020, J&J reported R&D investments of about 14.7% of revenue. In 2024, R&D expenses accounted for nearly 19.3% of revenue, or an additional $5 billion annually. This has highlighted their dedication to innovation within drug development and medical devices. The sustained focus toward increasing R&D also suggests a focus on enhancing the current product and drug pipeline and preparations to continue to enrich the company's product offerings to ensure long-term growth. J&J has experienced a declining EBITDA margin between 2020 and 2024, as the margin declined from approximately 33% to 25%. This highlights the company's operational efficiency over the recent years. However, in FY 2023, the company reported a massive jump in EBITDA due to the sale of its remaining 9.5% stake in Kenvue. However, this was a one-time anomaly, and the company's EBITDA has remained stable outside of FY 2023. The company's net income margin has remained extremely stable between 2020 to 2024, fluctuating slightly between 17.2 and 17.9 percent. This has pointed out the company's stability, particularly during the COVID-19 pandemic, and its long-term operational and financial efficiency.

4.2 Balance Sheet

J&J Balance Sheet	2022	2023	2024
	Actual	*Actual*	*Actual*
Cash	12,889	21,859	24,105
Accounts Receivable	14,039	14,873	14,842
Inventory	10,268	11,181	12,444
Prepaid Expenses	2,876	4,514	4,085
Other Current Assets	15,222	1,068	417
Total Current Assets	**55,294**	**53,495**	**55,893**
PP&E	17,982	19,898	20,518
Intangible Assets	38,489	34,175	37,618
Goodwill	36,047	36,558	44,200
Deferred Taxes on Income	8,947	9,279	10,461
Other Non-Current Assets	30,619	14,153	11,414
Total Assets	**187,378**	**167,558**	**180,104**
Accounts Payable	9,889	9,632	10,311
Accrued Expenses	27,347	30,206	30,255
Loans and Notes Payable	12,756	3,451	5,983
Other Current Liabilities	5,810	2,993	3,772
Total Current Liabilities	**55,802**	**46,282**	**50,321**
Long Term Debt	26,886	25,881	30,651
Revolver	-	-	-
Lease Liabilities	-	-	-
Long-Term Taxes Payable	4,306	2,881	390
Other non-current Liabilities	23,580	23,740	27,252
Total Liabilities	**110,574**	**98,784**	**108,614**
Retained Earnings	128,345	153,843	155,791
Less Common Stock	(41,694)	(75,662)	(75,680)
Accumulated OCI	(12,967)	(12,527)	(11,741)
Other Equity	$ 3,120	$ 3,120	$ 3,120
Total Equity	**76,804**	**68,774**	**71,490**
Total Liabilities & Equity	**187,378**	**167,558**	**180,104**

Source: J&J 2024 10-K

As of December 31, 2024, J&J had total assets of $180.1 billion, a minor decline from $187.3 billion in 2022, but notably higher than the $174.9 billion in 2020. Total Current Assets remained relatively flat from 2020, increasing from $51.2 billion to $55.9 billion. Notably, the company's cash and cash equivalents have nearly doubled since 2022, rising from $12.9 billion to $24.1 billion. This steep increase suggests potential liquidation of certain assets or the issuance of debt securities in anticipation of settlements from ongoing legal disputes, such as the talc-based powder claims. These possibilities are highlighted by the nearly $20 billion decrease in other non-current assets and the $6 billion issuance of senior secured debt securities between 2022 and 2024. J&J does not officially publish or report the availability of revolvers. Based on the cash and cash equivalents balance, the total liquidity of J&J in 2023 was $21.86 billion. In 2024, the liquidity increased to $24.1 billion. There are no notable reasons that led to the change in total liquidity. Additionally, J&J reported small upticks in PP&E and Goodwill from 2022 to 2024, highlighting the company's continued investments in infrastructure to support R&D investments and premiums from recent acquisitions. The company's total liabilities have remained stable, fluctuating between $110 billion and $112 billion between 2020 and 2024. This highlights the strong current ratio and asset-to-liability ratio of J&J, demonstrating the company's strong financial position. Between 2022 and 2024, the company's long-term debt increased by $6 billion, attributable to a $6.7 billion issuance of senior secured notes in Q2 2024. The net proceeds of this offering were used to fund the acquisition of Shockwave in 2024. However, the associated rise in cash has raised questions about the specific use of the debt proceeds. J&J also reported a sharp reduction in loans and notes payable, falling from $12.7 billion to $5.9 billion. This indicates that while the company is paying down shorter-term debt, the stability in long-term debt means that J&J is continuing to issue long-term debt. The company also saw a strong decrease in long-term taxes payable, falling from $4.3 billion to $390 million. Stockholders' equity showed a small decrease from $76.8 billion to $71.5 billion between 2022 and 2024, indicating a slight decrease in the overall growth in the company's value to its shareholders. J&J's tangible equity decreased from $34.59 billion to $33.87 billion between 2023 and 2024. There is no notable reason for this minor decline in tangible equity. There was a roughly $2.7 billion increase in shareholders' equity that was offset by a $3.4 billion increase in intangible assets.

In conclusion, J&J's balance sheet over the past five years shows that the company remains extremely healthy. The increase in assets and stability in liabilities points to a company carefully maintaining its debt and associated payments while continuing to grow the company. The increased debt balance suggests preparation for litigation settlements or support for ongoing R&D investments. These financial strategies reflect a proactive response to industry dynamics and highlight the company's preparation to sustain continued long-term growth.

4.3 Cash Flow Statement

J&J Cash Flow Statement		
	2023	2024
Cash from Operations	22,791	24,266
Cash from Investing	878	-18,599
Cash from Financing	-15,825	-3,132

Source: J&J 2024 10-K

Johnson & Johnson reported cash flow from operations (CFO) of $24.266 billion in 2024, an increase from $22.791 billion in 2023. This increase was driven by a 60% decline in net earnings, from $35.153 billion to $14.066 billion, caused by the separation of Kenvue from J&J's reporting. However, this was offset by the absence of the "gain on Kenvue separation" line item in 2024, which marked a -$20.984 billion cash outflow in 2023. Additionally, non-cash adjustments increased from $5.6 billion to $8.4 billion between the two fiscal years due to high depreciation and amortization charges within the MedTech segment. Furthermore, J&J's change in working capital increased from a net outflow of $3.5 billion to a net inflow of $2.3 billion in 2024 due to improved efficiency in managing receivables and the spinoff of Kenvue. In 2024, J&J reported a cash flow from investing activities of -$18.6 billion, a sharp decline from a cash inflow of $878 million in 2023. This large decline was primarily linked to the Shockwave Medical acquisition for $13.1 billion in 2024. Furthermore, there were nominal changes in purchases of PP&E from $4.5 billion in 2023 to $4.4 billion in 2024. J&J's cash flow from financing activities increased from -$15.825 billion to -$3.132 billion between 2023 and 2024. This increase was attributed to the $6.7 billion in senior unsecured notes raised to finance the Shockwave Medical acquisition. Furthermore, share repurchases declined from $5 billion in 2023 to $2.4 billion. However, dividend payments remained stable, increasing from $11.7 billion to $11.8 billion in 2024. The negative financing cash flow indicates that the company aims to return value to shareholders and reduce debt levels. J&J's FCF in 2024 stood at $19.8 billion, an increase from $18.2 billion in 2023. These high FCF levels enabled J&J to increase dividends to enhance shareholder value. The ending cash position is also indicative of the company's liquidity. In 2024, J&J's ending cash position increased from $22.9 billion in 2023 to $24.5 billion. J&J continues to demonstrate a strong ability to generate cash through its operational, financing, and investing activities. The company's activities suggest that the firm is committed to returning value to shareholders and long-term growth through a series of mergers and acquisitions. The strong CFO activities suggest strong operating performance and efficiency. Overall, the cash flow of J&J suggests the company's financial strength, granting it flexibility in decision-making and opportunities to pursue acquisitions, research and development, and other growth strategies.

4.4 Ratio Analysis

Growth Ratios

In Millions of USD except Per Share 12 Months Ending	2020 Y 01/03/2021	2021 Y 01/02/2022	2022 Y 01/01/2023	2023 Y 12/31/2023	2024 Y 12/29/2024
1 Year Growth					
Revenue	0.64	13.55	-14.70	6.46	4.30
EBITDA	-0.46	14.94	-12.56	7.23	-2.74
Operating Income	-1.73	19.83	-14.45	7.25	-3.03
Net Income to Common	-2.68	41.89	-14.07	95.94	-59.99
EPS Diluted	-2.13	41.74	-13.83	103.86	-57.80
EPS Diluted before XO	-2.13	41.74	-21.38	-15.31	11.35
EPS Diluted before Abnormal	-7.01	22.43	-8.33	10.85	-1.00
Dividend per Share	6.13	5.28	6.21	5.62	4.47

Source: Bloomberg

Johnson & Johnson's growth trajectory has been positive over the past five years, despite experiencing upticks and downticks in growth rates. The company managed to grow slightly during 2020, but rebounded significantly in 2021 with revenue growing 13.55 percent year over year. The company continued to grow significantly in 2022 with revenue growing by 14.7

percent from 2021. These two large growth rates were largely driven by demand for COVID-19 vaccines and strong demand for its offerings. However, growth moderated in 2023 and 2024, growing at 6.46 and 4.3 percent respectively, signaling a normalization of growth post-COVID. While the declining revenue trend can be alarming to investors, management expects growth to continue between 3 and 5 percent over the next several years. For shareholders, J&J has been a strong dividend payer over the past five years, consistently paying over $4.40 per share. Overall, the growth in revenue points to sustainable long-term growth for J&J.

Profitability Ratios

In Millions of USD except Per Share	2020 Y	2021 Y	2022 Y	2023 Y	2024 Y
12 Months Ending	01/03/2021	01/02/2022	01/01/2023	12/31/2023	12/29/2024
Returns					
Return on Common Equity	23.97	30.41	23.79	48.29	20.06
Return on Assets	8.85	11.70	9.71	19.81	8.09
Return on Capital	15.86	20.20	16.06	33.07	14.10
Return on Invested Capital	18.02	20.13	14.14	16.69	16.44

Source: Bloomberg

Johnson & Johnson's financials exhibit a pattern of stability, highlighted by the stability in ROCE, ROA, ROC, and ROIC from 2020 to 2024. While there’s a notable uptick in 2023 from 23.79 to 48.29, this is attributed to the divestiture of the remaining 9.5% stake in Kenvue, inflating the financial statements and key metrics. The overall stability of J&J’s ROIC from 18.02 to 16.44 between 2020 and 2024 suggests the company continues to earn returns above its capital cost, validating investors' capital allocation concerns. Johnson & Johnson’s return on assets ratio indicates notable upticks from strategic acquisitions in 2021 and 2023, temporarily diluting ROA. However, the overall stability of ROA and the other profitability ratios highlight J&J’s operational profitability and a healthy financial position.

Credit Ratios

In Millions of USD except Per Share 12 Months Ending	2020 Y 01/03/2021	2021 Y 01/02/2022	2022 Y 01/01/2023	2023 Y 12/31/2023	2024 Y 12/29/2024
Total Debt	36,366.0	34,751.0	40,742.0	30,432.0	37,834.0
Short-Term Debt	2,631.0	3,766.0	12,756.0	3,451.0	5,983.0
Long Term Debt	33,735.0	30,985.0	27,986.0	26,981.0	31,851.0
Total Debt/T12M EBITDA	1.33	1.11	1.49	1.04	1.32
Net Debt/EBITDA	0.41	0.10	0.67	0.26	0.47
Total Debt/EBIT	1.84	1.47	2.01	1.40	1.80
Net Debt/EBIT	0.57	0.13	0.91	0.35	0.63
EBITDA to Interest Expense	135.64	171.24	99.28	38.06	37.85
EBITDA-CapEx/Interest Expense	90.59	119.33	71.97	29.50	28.96
EBIT to Interest Expense	98.17	129.22	73.30	28.10	27.86
EBITDA/Cash Interest Paid	30.16	31.65	27.90	16.00	14.36
EBITDA-CapEx/Cash Interest Paid	26.46	27.96	23.82	13.53	12.14
EBIT/Cash Interest Paid	21.83	23.89	20.60	11.82	10.57
Cash Interest Paid	904.0	990.0	982.0	1,836.0	1,990.0
Interest Expense	201.0	183.0	276.0	772.0	755.0
Common Equity/Total Assets	36.18	40.67	40.99	41.04	39.69
Long-Term Debt/Equity	53.31	41.86	36.44	39.23	44.55
Long-Term Debt/Capital	33.86	28.49	23.81	27.20	29.13
Long-Term Debt/Total Assets	19.29	17.02	14.94	16.10	17.68
Total Debt/Equity	57.47	46.95	53.05	44.25	52.92
Total Debt/Capital	36.50	31.95	34.66	30.68	34.61
Total Debt/Total Assets	20.79	19.09	21.74	18.16	21.01
Net Debt/Equity	17.67	4.25	24.04	10.91	18.62
Net Debt/Capital	15.02	4.07	19.38	9.84	15.70

Source: Bloomberg

Johnson & Johnson has demonstrated fiscal stability as evidenced by the relatively flat ratio change from 2020 to 2024. The relative stability in Total Debt / EBITDA from 1.33 in 2020 to 1.32 in 2024 indicates the company's strong ability to pay debt from its operational earnings while taking new debt to fuel R&D investments. This is also evidenced by the slight increases and decreases in Total Debt / EBITDA, suggesting that J&J has taken on additional debt during the five years. This reflects a relatively bullish sign for investors concerned about leverage and cash flow sustainability. The Net Debt / EBITDA trend similarly reflects effective debt management strategies and suggests a strong balance sheet. The sharp decline in EBITDA / Interest Expense from 135.64 to 37.86 indicates the company has higher credit risk. The rise in interest expense from 201 to 755 between 2020 and 2024 is likely linked to the rising interest rate environment during this period. This reflects a relatively bearish sign as the lower interest coverage reduces the company's ability to take on more debt and increases the overall risk of the company. The relative stability and overall downtick in Debt / Equity suggest a cautious approach to leveraging, indicating the firm's commitment to maintaining its capital structure.

Liquidity Ratios

In Millions of USD except Per Share 12 Months Ending	2020 Y 01/03/2021	2021 Y 01/02/2022	2022 Y 01/01/2023	2023 Y 12/31/2023	2024 Y 12/29/2024
Cash Ratio	0.59	0.70	0.40	0.50	0.49
Current Ratio	1.21	1.35	0.99	1.16	1.11
Quick Ratio	0.91	1.04	0.65	0.82	0.78
CFO/Avg Current Liab	0.60	0.53	0.42	0.45	0.50
Common Equity/Total Assets	36.18	40.67	40.99	41.04	39.69
Long-Term Debt/Equity	53.31	41.86	36.44	39.23	44.55
Long-Term Debt/Capital	33.86	28.49	23.81	27.20	29.13
Long-Term Debt/Total Assets	19.29	17.02	14.94	16.10	17.68
Total Debt/Equity	57.47	46.95	53.05	44.25	52.92
Total Debt/Capital	36.50	31.95	34.66	30.68	34.61
Total Debt/Total Assets	20.79	19.09	21.74	18.16	21.01

Source: Bloomberg

Johnson & Johnson's liquidity ratios depict a company with tightening liquidity. While the cash, current, and quick ratios remain relatively constant between 2020 and 2024, the slight decline in cash, current, and quick ratios indicates that the liquidity is tightening and that there is likely aggressive debt-funded expansion. This also suggests potential increased dependence on external financing. The cash and quick ratios maintenance below 1 indicates that J&J struggles to cover its current liabilities without distress when considering its most liquid assets. However, the company's current ratio above 1 indicates its ability to pay its current liabilities without distress when considering all its assets. The firm's relatively consistent CFO / Average Current Liabilities ratio reflects strong cash flow generation. This helps to reinforce investor confidence in its operational efficiency and cash management. The relative stability in Total Debt / Equity indicates the company's commitment to maintaining its current capital structure. Overall, J&J positions itself as financially stable with liquidity to support its ongoing operations and strategic initiatives. While the cash and quick ratio indicate struggles to cover liquidity, this is a common mainstay in the pharmaceutical industry, and the remaining ratios indicate appealing characteristics for current and potential investors.

Working Capital Ratios

In Millions of USD except Per Share 12 Months Ending	2020 Y 01/03/2021	2021 Y 01/02/2022	2022 Y 01/01/2023	2023 Y 12/31/2023	2024 Y 12/29/2024
Accounts Receivable Turnover	5.89	6.50	5.46	5.89	5.98
Days Sales Outstanding	63.02	56.01	66.72	61.79	60.89
Inventory Turnover	3.10	3.03	2.38	2.48	2.33
Days Inventory Outstanding	119.83	120.28	152.84	147.02	156.52
Accounts Payable Turnover	3.19	3.01	2.34	2.81	2.88
Accounts Payable Turnover Days	116.45	121.11	155.73	129.35	126.32
Cash Conversion Cycle	66.40	55.19	63.82	79.45	91.09
Inventory to Cash Days	182.86	176.29	219.55	208.81	217.41
Total Inventory	9,344.0	10,387.0	10,268.0	11,181.0	12,444.0
Inventory Raw Materials	1,410.0	1,592.0	1,719.0	2,355.0	2,337.0
Inventory In Progress	2,040.0	2,287.0	1,577.0	1,952.0	2,815.0
Inventory Finished Goods	5,894.0	6,508.0	6,972.0	6,874.0	7,292.0
Other Inventory	0.0	0.0	0.0	0.0	0.0

Source: Bloomberg

Johnson & Johnson experienced relative stability in its AR, AP, and inventory turnover from 2020 to 2024. However, the slight increase in AR Turnover from 5.89 to 5.98 indicates that J&J collected customer payments quicker, which is typically a bullish sign among investors. The slight decrease in inventory turnover from 3.1 to 2.33 indicates that J&J held its inventory longer. This likely suggests the company is holding onto inventory longer. The decline in AP Turnover from 3.19 to 2.88 implies that J&J took longer to pay its suppliers. This suggests a strategic move from J&J to conserve cash or extend its payment terms with its suppliers. Overall, these ratios suggest relative stability in payment terms among its suppliers and creditors, typically a bullish sign for investors.

5.0 Valuation

5.1 Company Comparable Analysis

			Market Information ($B)				Financials ($B)				Valuation Ratios		
Company Name	**Ticker**	**Last Price**	**Market Cap**	**Shares Out.**	**Net Debt**	**EV**	**Revenue**	**EBITDA**	**Net Income**	**EPS**	**P/E**	**EV/EBITDA**	**EV/Revenue**
Johnson & Johnson	***JNJ***	***$155.38***	***373.86***	***2.41***	***13.31***	***362.44***	***88.82***	***28.58***	***14.07***	***5.84***	***15.8***	***12.68***	***4.37***
Abbvie Inc	ABBV	$177.05	313.2	1.77	62.46	376.19	56.33	17.72	4.28	2.4	23.04	21.23	6.4
Merck & Co, Inc.	MRK	$78.74	198.14	2.53	24.58	276.09	64.17	24.76	17.12	6.76	14.22	11.15	3.42
Bristol-Myers Squibb Co	BMY	$48.53	98.75	2.01	40.02	153.53	48.3	2.37	-8.95	-4.41	8.71	31.17	2.91
Eli Lilly & Co	LLY	$829.42	786.28	0.95	31.37	762.95	45.04	14.88	10.59	11.76	50.23	57.58	16.98
Pfizer Inc.	PFE	$22.39	126.98	5.67	46.52	197.16	63.63	20.08	8.03	1.42	11.53	9.82	2.65
High											50.2	57.6	17.0
75th Percentile											23.0	31.2	9.0
Average											**21.5**	**26.2**	**7.4**
Median											14.2	21.2	4.9
25th Percentile											11.5	11.2	3.3
Low											8.7	9.8	2.9
Implied Enterprise Value											316.46	748.51	659.71
Net Debt											13.31	13.31	13.31
Implied Market Value											303.15	735.20	646.40
Shares Outstanding											2.40	2.40	2.40
Implied Equity Value Per Share											**126.31**	**306.33**	**269.33**

Source: Bloomberg

With a P/E ratio of 15.8, J&J has a lower valuation than the group average (21.5) and much lower than Eli Lilly's 50.2 P/E ratio. While this high P/E ratio likely inflates the average P/E ratio, removing Eli Lilly leads the average P/E ratio to fall from 21.5 to 15.5, implying that J&J trades right around the average of its industry peers. Given the current P/E ratio average, this suggests that J&J has a lower valuation than its industry peers, indicating a more conservative valuation of its earnings. This implies that investors are willing to pay less for each dollar of earnings compared to the industry average, likely due to the lower growth associated with the company from the lack of a revolutionary drug. With an EV/EBITDA multiple of 12.68, J&J is valued significantly below its peer group's average (26.2), suggesting that the company trades at a discount per dollar of EBITDA generated compared to its peers. The lower EV/EBITDA multiple implies that the market is associating a lower valuation with the company than its industry peers. This is likely due to J&J being a well-established company without a revolutionary product, such as Eli Lilly's Mounjaro. J&J's EV/EBITDA multiple is closer to the 25th percentile, implying that roughly 25 percent of companies have a similar or lower value per dollar of EBITDA generated. This further emphasizes the relative undervaluation of J&J based on EV/EBITDA. With an EV/Revenue of 4.37, J&J is valued below its peer group's average (7.4), suggesting that J&J trades at a discount per dollar of revenue compared to its peers. J&J's EV/Revenue is closer to the 25th percentile of the group, implying that roughly 25 percent of companies have a similar or lower value per dollar of revenue generated. This further emphasizes the relative undervaluation of J&J based on the EV/Revenue ratio.

The three valuation metrics provide a wide range in implied EV and market value. The implied EV range ($316.46 billion to $748.51 billion) is higher than the reported EV of $385 billion. While the P/E ratio indicates that the company is slightly overvalued ($316.46 billion compared to $385 billion), the EV/EBITDA and EV/Revenue multiples suggest a strong potential for value growth or the absence of specific synergies from the current market price. The implied market capitalization range ($303.15 billion to $735.20 billion) also vastly exceeds the reported market cap of $375 billion. This reinforces investors' belief that the equity market significantly undervalues J&J and suggests significant upside potential. The discrepancy in EPS ($126.31 to $306.33) suggests that the company could be undervalued considerably as the implied value per share trades below the current share price of $155.38. This analysis indicates that there are factors not currently priced into the stock, such as drugs within the current R&D pipeline, future R&D investments, or strategic acquisitions. The overall analysis indicates that J&J is potentially undervalued based on EV/Revenue, EV/EBITDA, and P/E multiples and EV and equity value.

	Name (BI Peers)	Ticker	Mkt Cap (USD)	Revenue...	Curr Ratio:CY	Quick Ratio:CY	GM:CY	OPM:CY
	Median		255.67B	59.98B	1.16	0.76	71.51%	21.60%
101)	JOHNSON & JOHNSON	JNJ US	373.86B	88.82B	1.11	0.78	69.07%	23.69%
102)	ABBVIE INC	ABBV US	313.20B	56.33B	0.66	0.43	69.99%	16.22%
103)	MERCK & CO. INC.	MRK US	198.14B	64.17B	1.36	0.84	76.32%	31.03%
104)	BRISTOL-MYERS SQUIBB CO	BMY US	98.75B	48.30B	1.25	0.84	71.08%	-15.50%
105)	ELI LILLY & CO	LLY US	786.28B	45.04B	1.15	0.50	81.31%	28.64%
106)	PFIZER INC	PFE US	126.98B	63.63B	1.17	0.74	71.94%	19.51%

Source: Bloomberg

Johnson & Johnson has a current ratio of 1.11 and a quick ratio of 0.78, which is relatively close to the industry median. This suggests that J&J can meet its short-term obligations, but may struggle to meet its short-term commitments based on its most liquid assets. However, based on the industry data, the median current ratio of 1.16 and the median quick ratio of 0.76 suggest this is common within the industry. This is likely because many current assets within pharmaceutical companies are being held as inventory rather than accounts receivable or cash. J&J's gross margin is slightly lower than the industry median, but it suggests a strong ability to control the cost of goods sold and maintain pricing control over its products. J&J's operating margin is slightly higher than the industry median at 23.69% vs 21.60%, suggesting efficiency in managing operational expenses. J&J's operating margin only lags behind Eli Lilly and Merck and is higher than Abbvie, Bristol-Myers Squibb, and Pfizer.

	Name (BI Peers)	Ticker	Mkt Cap (USD)	ROA:CY	ROE:CY	ROIC:CY	Debt/Equity:CY	Debt/Cap:CY	Ast TO:CY	Inv Turnover:CY	A/R Trnovr:CY	A/P Turnover:CY
	Median		255.67B	5.87%	30.43%	13.78%	163.15%	58.06%	0.51	2.38	5.51	3.62
101)	JOHNSON & JOHNSON	JNJ US	373.86B	8.09%	20.06%	16.44%	52.92%	34.61%	0.51	2.33	5.98	2.88
102)	ABBVIE INC	ABBV US	313.20B	3.17%	61.94%	11.13%	2021.97%	95.29%	0.42	4.08	5.10	5.12
103)	MERCK & CO. INC.	MRK US	198.14B	15.30%	40.81%	19.70%	82.53%	45.21%	0.57	2.44	6.22	3.74
104)	BRISTOL-MYERS SQUIBB CO	BMY US	98.75B	-9.53%	-39.10%	-12.22%	312.42%	75.75%	0.51	5.35	5.40	4.04
105)	ELI LILLY & CO	LLY US	786.28B	14.84%	84.84%	30.43%	243.78%	70.91%	0.63	1.26	4.70	3.51
106)	PFIZER INC	PFE US	126.98B	3.65%	9.06%	7.38%	75.70%	43.09%	0.29	1.70	5.62	3.00

Source: Bloomberg

Johnson & Johnson's ROA is well above the industry median at 8.09%, suggesting that the company is effectively generating strong returns based on its assets. However, the company's struggles compared to its peers are based on ROE, generating 20.06% compared to the industry average of 30.43%. This suggests that the company is less effective at generating profits from shareholders' equity than peers like Merck and Eli Lilly. J&J's ROIC is higher than its industry peers, suggesting that the company is effectively generating strong returns based on the capital invested in the company. J&J's Debt-to-Equity and Debt-to-Capital ratios are much lower than the industry median, indicating that the company effectively balances its capital structure while showing a slight preference toward debt. However, the lower ratios show that the company is extremely mindful of overleveraging and strongly prefers maintaining a healthy balance sheet. The company's asset, inventory, and AR turnover are largely in line with the industry median. However, the company's AP Turnover is much lower than the industry median, suggesting that it is taking longer to pay its suppliers and may be struggling with liquidity.

Equity Analyst Recommendations

#	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	TD Cowen	Dr Joshua Jennings	buy	185.00	04/22/25	9.20%	1	13
2)	Freedom Finance	Ilya Zubkov	buy	180.00	04/22/25			
3)	Guggenheim	Dr Vamil K Divan	neutral	164.00	04/20/25	0.00%	4	
4)	Wolfe Research	Alexandria Hammo...	outperform	175.00	04/18/25			
5)	Argus Research Co...	David H Toung	buy	185.00	04/17/25	9.20%	1	10
6)	DZ Bank AG Resear...	Elmar Kraus	buy	180.00	04/17/25	9.20%	1	6
7)	Redburn Atlantic	Steve Chesney	neutral	155.00	04/17/25	0.00%	4	
8)	Barclays	Matt Miksic	equalweight	165.00	04/17/25	0.00%	4	2
9)	Morgan Stanley	Dr Terence Flynn	Equalwt/In-Line	169.00	04/16/25	0.00%	4	3
10)	Ameriprise Advisor...	Christopher Macino	buy		04/16/25			
11)	Bernstein	Lee Hambright	market perform	159.00	04/16/25	0.00%	4	1
12)	Leerink Partners	David R Risinger	outperform	169.00	04/16/25	9.20%	1	
13)	Morningstar	Karen Andersen	buy	164.00	04/16/25			
14)	RBC Capital	Shagun Singh	outperform	181.00	04/15/25	9.20%	1	11
15)	JP Morgan	Christopher T Scho...	neutral	185.00	04/15/25	0.00%	4	9
16)	Citi	Joanne Karen Wuen...	buy	185.00	04/15/25	3.94%	3	
17)	Raymond James	Jayson Bedford	outperform	164.00	04/15/25	9.20%	1	
18)	Stifel	Frederick A Wise "...	hold	155.00	04/15/25	0.00%	4	
19)	Wells Fargo	Lawrence Biegelse...	equalweight	170.00	04/15/25	0.00%	4	7
20)	Punto Research	Bernardo Chavez	buy	183.00	04/15/25			
21)	Goldman Sachs	Asad Haider	buy	172.00	04/08/25			
22)	Baptista Research	Ishan Majumdar	hold	181.00	03/19/25	-12.82%	5	
23)	Zacks	Team Coverage	neutral	171.00	03/18/25	0.00%	4	
24)	DBS Bank	Nico Chen	hold	160.00	02/24/25	0.00%	4	
25)	Daiwa Securities	Narumi Nakagiri	neutral	150.00	01/24/25	4.28%	2	5
26)	HSBC	Morten Herholdt	buy	180.00	12/04/24	9.20%	1	8

Source: Bloomberg

Based on 34 reports from equity analysts, there is a strong consensus toward buying or holding Johnson & Johnson. There is a 55.2% consensus on buying J&J and a 44.8% consensus on holding J&J. The lack of any sell recommendations implies a strong bullish sign for investors as analysts expect the company to remain stable and generate returns over the next several years. The average price target of J&J is $170.36. The current share price of $155.38 indicates an average of 9.6% upside in J&J shares. Overall, the price target distribution is fairly tight, with the lowest price target implying a share price of $150 and the highest price target indicating a share price of $185. With the current share price of $155.38 and the average price target of J&J of $170.36, equity analysts likely view J&J as undervalued at the current price. This is likely a bullish sign for value-oriented investors and shareholders.

Gordon Growth Model / Dividend Discount Model

Home / Dividend Stocks / Health Care / Biotech Pharma / Large Pharma / Johnson & Johnson (JNJ)

Dividend Data | Stock Data

Avg Price Recovery	11.8 Days
Best dividend capture stocks in Apr	→
Payout Ratio (FWD)	46.96%
Years of Dividend Increase	64 yrs
Dividend Frequency	Quarterly
Health Care Avg Yield	1.58%
5 best health care dividend stocks	→

NAME As of 04/24/2025	PRICE	AUM/MKT CAP	YIELD & DIV	EXP RATIO	WATCHLIST
Johnson & Johnson JNJ | STOCK	$154.55 -0.97%	$380 B	3.38% $5.20	-	+

Source: Dividend.com

Johnson & Johnson presents a strong dividend opportunity for investors. With an average dividend yield of 1.58% in the healthcare industry, J&J offers nearly twice the dividend yield at 3.38%, indicating its strong preference and desire to return value to shareholders. Additionally, J&J reports an average price recovery of 11.8 days, indicating a relatively quick bounce back in share price after the issuance of a dividend, an appealing opportunity for value investors and those seeking dividend capture opportunities. J&J's payout ratio stands at 46.96%, further reflecting the company's desire to return value to shareholders while reinvesting earnings for long-term growth. The most appealing aspect of J&J's dividend is that the company has increased dividends for 64 consecutive years, demonstrating the company's strong balance sheet and financials. The robust dividend yield and annual increases provide a strong opportunity for shareholders seeking dividend capture strategies or long-term investment opportunities.

Year	2020A	2021A	2022A	2023A	2024A	2025E
Divided Payout	1.01	1.06	1.13	1.19	1.24	1.30
Yearly Dividend	4.04	4.24	4.52	4.76	4.96	5.20
Growth Rate		4.95%	6.60%	5.31%	4.20%	4.84%

Average Growth Rate	4.78%	(last three years)
Risk Free Rate	4.30%	
Beta	0.47	
ERP	5.50%	
Rate of Return	6.89%	
EPS		
D/(r-g)	247.43	

The Gordon Growth Model (GGM) is a valuation model for companies with stable dividend payouts and growth. Johnson & Johnson has a strong history of dividend growth payments, marking 64 consecutive years of a dividend increase in 2025. This GGM analysis incorporated a 4.3% risk-free rate into the model based on the prevailing 10-year treasury rate. Furthermore, a levered beta of 0.47 was utilized from Bloomberg's data, and a 5.5% equity risk premium from Barron's data, yielding a rate of return of 6.89%. This analysis determined a projected share price of $247.43. Based on the current market price of $155.38, the analysis suggests that Johnson & Johnson shares are undervalued in the current market. This undervaluation, combined with the projected 59.24% upside, could be an extremely appealing aspect for equity or dividend strategy investors.

DCF Valuation

VALUATION ANALYSIS

		2024	2025	2026	2027	2028	2029
			Projected				
		0	*1*	*2*	*3*	*4*	*5*
Free Cash Flow Calculation							
EBIT			$29.9	$32.6	$35.4	$38.4	$41.7
Plus: Depreciation			7.0	7.0	7.0	7.0	7.0
Plus: Amortization			0.3	0.3	0.3	0.3	0.3
EBITDA			**37.2**	**39.9**	**42.7**	**45.7**	**49.0**
Less: Capex			(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
EBITDA Less Capex			**34.2**	**36.9**	**39.7**	**42.7**	**46.0**
Less: Taxes on EBIT	25.0%		(7.5)	(8.1)	(8.9)	(9.6)	(10.4)
Less: Changes in Working Capital			(0.5)	(0.9)	(0.9)	(1.0)	(1.1)
Unlevered Free Cash Flow			**26.2**	**27.8**	**29.9**	**32.1**	**34.5**
DCF Enterprise Value Calculation							
Terminal Value Calculation							
Terminal Value Growth Rate							3.0%
Projected Free Cash Flow							35.5
Discount Rate (WACC)							8.0%
Terminal Enterprise Value							710.5
Implied Term. Value EBITDA Multiple							14.5x
Discounted Cash Flows at WACC							
Unlevered Free Cash Flow			24.3	23.9	23.7	23.6	23.5
Terminal Value							483.5
Total Discounted Cash Flows		**602.5**	24.3	23.9	23.7	23.6	507.0

Summary DCF Valuation (PreDeal)

DCF Enterprise Value	$602.5	*15.7x*	
Less: Net Debt (PreDeal)	(36.9)		
Equity Value	$565.7		
Shares (PreDeal)	2.400		
DCF Value per Share	$235.69	*33.7x*	Forward

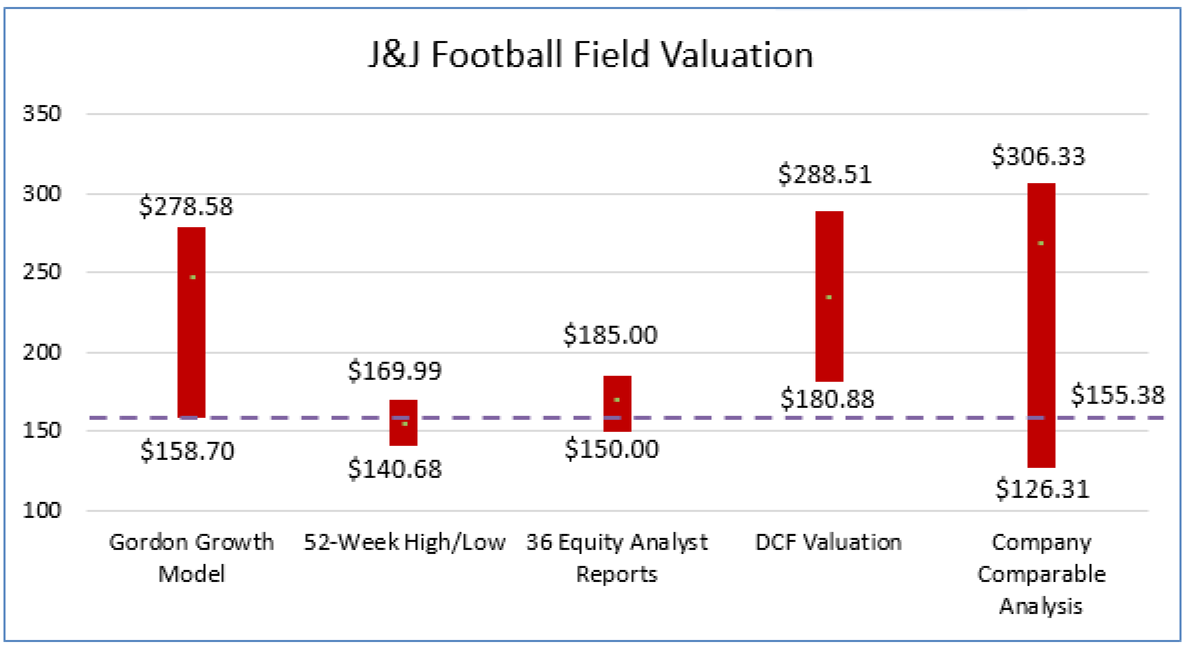
DCF Equity Sensitivity Analysis

	WACC		
Growth	7.0%	8.0%	9.0%
2.0%	244.64	200.48	168.97
3.0%	299.45	235.69	193.21
4.0%	390.81	288.51	227.15

The DCF analysis for J&J integrates a conservative terminal value growth rate of 3% and a tax rate of 25%. According to J&J's Q4 2024 earnings call, the company expects a long-term growth rate of 4%. However, based on prevailing economic conditions since the earnings call, such as tariffs, growing economic uncertainty from trade wars, and a weakening dollar, a further conservative number was used within the analysis. Additionally, J&J's effective tax rate has fluctuated from 17 to 20 percent within the past five years. Thus, a conservative tax assumption of 25% was leveraged for the forecast period of 2025 to 2029 to present a comprehensive view of the company's valuation. The company's growing EBITDA and $49.0 billion projection in 2029 denote a strong financial trajectory over the next several years. Based on a levered beta of 0.47 from Bloomberg's data and an equity risk premium of 5.5% derived from Barron's data, this yields a WACC of 7.03%. However, given the economic instability and uncertainty arising from actions by the Trump administration, a further conservative estimate was taken of 8% within the analysis for WACC. This WACC is crucial to determine the present value of future cash flows and helps to calculate the implied enterprise value and the implied share price of $235.69. This implied share price represents a significant undervaluation from the current market share price of $155.38, implying an upside of 51.68%. The sharp deviation between the market share price and DCF valuation could be attributed to prevailing market and economic conditions, leading to the recent 10% decline in the market share price in recent weeks. Thus, these conditions may be affecting the upside calculation. Based on J&J's recent high of $169.99, this would imply an upside of 38.65%. However, J&J also enjoys many strategic benefits from recent or future acquisitions. These factors, combined with the inputs and assumptions for growth, tax rates, and capital costs, could have led to conservative valuations and understating its long-term value creation capacity.

Football Field Analysis

To assess the mean valuation, a football field analysis was performed based on the DCF Valuation, Gordon Growth Model, Equity Research projections, 52-week high/low, and company comparable analysis.



Note: The purple line represents the current share price of Johnson & Johnson of $155.38 as of April 23rd, 2025.

The football field valuation for Johnson & Johnson incorporates several valuation methodologies, such as the Gordon Growth Model, Equity Analyst Recommendations, DCF Valuation, Company Comparable Analysis, and the 52 Week High/Low analysis into one visual chart. The chart depicts a bullish outlook under the Gordon Growth Model with a minimum price target of $158.70 and an upper-end target of $278.58. The 52-Week High/Low analysis suggests the stock is primarily traded within a narrow range and is currently trading within the middle of the valuation range. The 36 equity analyst recommendation reports indicate a slightly bearish outlook on the lower end, with a price target of $150. However, the upper target suggests a somewhat bullish outlook with a price target of $180.00. The DCF valuation indicates a bullish outlook on the company with a low-end price target of $180.88 and a high-end price target of $288.51. The company's comparable analysis also suggests a bullish high-end price target of $306.88. However, the analysis also depicts a slightly bearish outlook with a low-end price target of $126.31. Collectively, these valuations point toward a bullish consensus that J&J's intrinsic value exceeds its current market share price with the vast majority of valuation methodologies indicating the value of the stock completely exceeds the current trading price or that the share price is currently trading on the lower end of the valuation range and possesses strong upside.

	High	Low	Base	Weighing
Gordon Growth Model	318.7	158.7	247.43	*33.33%*
52-Week High/Low	169.99	140.68	155.34	*0%*
36 Equity Analyst Reports	185	150	170.36	*33.33%*
DCF Valuation	288.51	180.88	235.69	*33.33%*
Company Comparable Analysis	306.33	126.31	269.33	*0%*
Blended Valuation	**217.80**			

When determining the target price, the 52 Week High/Low and Company Comparable analysis was removed from the calculation metric. The company comparable analysis range was too significant to provide an accurate representation of the intrinsic value of J&J. Similarly, the 52-Week High/Low was too narrow to determine an accurate representation of the intrinsic value of J&J. Collectively, the three remaining valuations were calculated with an equal weighting for a blended valuation of $217.80, representing a 40.17% upside based on the current market share price of $155.38. This helps to reinforce the strong buy thesis for long-term investment considerations.

6.0 Risks

Legal & Litigation Risk

Due to their exposure to the pharmaceutical industry, J&J has significant product liability and litigation risk. Currently, J&J is involved in a major lawsuit alleging its talc-based baby powder led to cancer due to asbestos contamination. Recently, a judge rejected the company's $10 billion settlement proposal, marking its third unsuccessful attempt to resolve the litigation. This current litigation has over 60,000+ claims outstanding, forcing J&J to re-negotiate terms and extend the legal overhang into 2026. This settlement and other litigation concerns pose significant risks to J&J due to the settlement amount and overall exposure to lawsuits and legal concerns. To mitigate some concerns, J&J's subsidiary Red River Talc filed for bankruptcy protection in 2024 to help reduce J&J's liabilities. This settlement will likely pose significant cash flow concerns for J&J in the near future.

Opioid-Crisis Exposure

Johnson & Johnson's aggressive marketing of opioids over the past few decades has provided the company with significant exposure to the opioid crisis and litigation. As part of the July 2021 national deal. J&J agreed to pay up to $5 billion toward a multi-state opioid settlement. J&J has also faced many pending legal actions stemming from the opioid crisis. These outstanding legal cases risk J&J's cash flow and overall liquidity.

Patent & Competition Risk

J&J faces the impending patent cliff in 2023, with many key drugs losing their patent protection. Upon the loss of patent protection, many smaller companies and generics are expected to flood the market, severely reducing profitability for these drugs. For example, J&J's blockbuster Stelara lost patent protection in 2023. Consequently, revenues dropped from $10.86 to $10.54 between 2023 and 2024 and are expected to continue to decline to $9.5 billion in 2025 as biosimilars and generics enter key markets. Beyond Stelara, J&J is expected to lose exclusivity over Darzalex and Tremfya, blockbuster oncology drugs, before the decade's end, intensifying generic and biosimilar pressure.

Pipeline & R&D Risk

J&J's long-term future depends heavily on its ability to develop and commercialize new pharmaceutical drugs and medical devices. Thus, the company invests a significant portion of its capital, nearly 20% of its total revenue in 2024, into R&D. The company faces considerable risks, as the drug development process requires extensive investments and strict regulations. Furthermore, this process is characterized by lengthy timelines, unpredictable outcomes, and high failure rates, with only 10% of drugs entering Phase I reaching the approval stage. By relying heavily on new product and drug development, failing to launch new drugs and products successfully can significantly curtail J&J's business. This would affect their ability to cover their R&D expenses and compensate for revenue losses from current drugs losing their patent protection and facing increasing competition.

Regulatory Risk

Johnson & Johnson operates in a highly regulated environment. The pharmaceutical and medical device market is constantly evolving and facing increased challenges globally due to heightened regulatory and governmental scrutiny. This poses significant challenges to Johnson and Johnson as it faces changes in domestic and international laws, increased scrutiny, evolving regulations, and exposure to different licensing and regulatory requirements.

Currency Exchange Risks

Johnson & Johnson has heavy exposure to currency exchange and inflation risks. The company reports that approximately 43% of sales occur outside the U.S., exposing J&J to foreign currency fluctuations and inflationary pressures from various markets worldwide.

Governmental Policy Uncertainty

In recent years, there has been uncertainty about the impact of new governmental regulations on J&J. With the passage of the Inflation Reduction Act, the Medicare authority received approval to negotiate prices on selected high-cost drugs. Within the first wave of drugs, J&J faces exposure with their Xarelto and Stelara drugs included within the initial list. These price cuts are expected to shave 25-50 percent off the initial list price, severely curtailing J&J's profit margin and revenue. This regulation could affect their long-term ability to generate revenue to cover their R&D expenses and create cash flow concerns or reductions in future R&D investments.

Tariffs Uncertainty

The continued evolution of U.S. tariffs on overseas markets places a massive strain on J&J. U.S. tariffs on pharmaceutical imports could impose a $46 billion cost burden on the sector's $213 billion import market. This would likely severely impact margins, forcing J&J to either absorb the increased costs or offset the costs by raising consumer prices. This will likely lead to lower profitability and lower margins for the company.

Rising Cost of Healthcare

Johnson & Johnson faces risks with the trend toward containing the cost of healthcare and associated products. There has also been a backlash against the consolidation of healthcare providers and an increase in favor of government intervention. This can pose profitability concerns for J&J if price caps or other instruments are utilized to manage the price of healthcare.

Supply Chain Vulnerabilities

J&J faces significant risks related to its supply chain and securing the necessary materials and supplies for its operations. Currently, 72% of Johnson & Johnson's APIs for U.S. operations are produced overseas, exposing the company to significant geopolitical, pandemic, and natural-disaster disruptions. Due to the company's exposure to manufacturing operations overseas, political and economic changes in countries where supplies are sourced or manufactured could hinder the availability of raw materials or the manufacturing process. This would adversely affect the company's ability to meet market demands and impact operations.

7.0 Graham's and Buffett's View

7.1 Benjamin Graham's View

Consistent Dividends

Johnson & Johnson has a 63-year streak of continuous dividend increases, demonstrating the profitability of the company and its commitment to generating shareholder returns. This should meet Graham's criterion for a company that rewards shareholders and demonstrates financial health.

Strong Financial Health
The liquidity ratios and balance sheet suggest robust financial health, suggesting that the company can effectively cover short-term and long-term liabilities.

Stable Earnings
J&J has demonstrated decades of uninterrupted EPS growth, reflecting low operating leverage and predictability. This should meet Graham's criterion for a company with stable earnings.

Margin of Safety
The football field analysis indicates that the current share price of J&J is lower than the various valuations, suggesting a margin of safety. This would be attractive from Graham's perspective.

Low Price Volatility
The multiple revenue streams of J&J from their MedTech and Innovative Medicine segments, along with their multiple franchises and products within the segments, help mitigate sector swings. This aligns with Graham's preference for stable, low-beta equities.

Adequate Size of the Enterprise
Johnson & Johnson is a large-cap pharmaceutical company, satisfying Graham's preference for size and established market presence.

Price/Earnings Ratio
Johnson & Johnson's current P/E ratio is 14.95. While this is considered moderate in the overall pharmaceutical industry, Benjamin Graham typically favored P/E ratios below 15. This suggests that earnings are expected to increase, or the stock price will grow into its earnings, aligning it with Graham's valuation approach.

Given the moderate P/E ratio, consistent dividends, stable earnings, and free cash flow, Johnson & Johnson fits the profile of a value stock according to Benjamin Graham. Thus, it is likely that Graham and similar value investors would view this investment positively.

7.2 Warren Buffett's View
Economic Moat
According to the Morningstar Moat Analysis, Johnson & Johnson has an extensive economic moat, implying a strong competitive advantage within the pharmaceutical space. This is likely due to J&J's blockbuster drugs, such as Stelara and Darzalex. These high-value franchises benefit from patent protection, combined with J&J's extensive clinical-trial networks, which provide a vast economic moat that supports their pricing power and volume growth. The company's robust R&D pipeline also creates significant barriers to entry into the industry.

Financial Health
J&J has had robust earnings growth and free cash flow (FCF) generation over several decades, generating an estimated $19.8 billion in free cash flow in 2024. This FCF generation allows J&J to support its R&D investments, its acquisitions, return capital to shareholders, and navigate potential litigation and legal claims.

Consistent Dividends
J&J has raised its dividend for 63 consecutive years, reflecting the management's commitment to returning capital to shareholders. This helps meet Buffett's criterion for companies that deploy excess cash to shareholders rather than chasing marginal growth opportunities.

Strong Management
Under CEO Joaquin Duato and the executive team, J&J has continued to report 5-7 percent annual growth. The company continues to project a similar growth rate over the next five years, even after discounting for pharmaceutical and competitive pressures. The company's continued transparency with shareholders and overall track record, combined with its consistent investment in R&D, reflect positively on the management team's capability and strategic vision.

Long-Term Growth Prospects
Johnson & Johnson operates in the pharmaceutical industry, focusing on pharmaceuticals and medical devices. With the global population continuing to age and life expectancy expanding, the company's products are expected to be continuously in demand. The company's long-term growth is supported by ongoing innovation and technological innovations, as demonstrated by J&J's R&D investments and therapeutic drug developments.

Attractive Relative Valuation
J&J's current forward P/E ratio is at 14.95, slightly below the current forward P/E ratio of the S&P 500 at 18.8x. J&J appears reasonably valued, especially considering the economic moat, persistently strong balance sheet, and free cash flows. Given the lower forward P/E, Buffett would likely favor the company due to its high-quality businesses, suggesting that the company is undervalued.

In summary, J&J aligns with Buffett's value investing principles. The company's economic moat, strong financials, and reasonable relative valuation make it a compelling investment for value investors.

8.0 Field Research

8.1 Interview

I interviewed Shaun Pande, a Rutgers alum, for this research report. He is a Principal Financial Manager at Johnson & Johnson within their Innovative Medicine division. He was happy to take part in the interview but noted that any comment made must be noted as solely his own and not an official view of the company.

Q1: Based on J&J's financial statements, the company seems to prioritize the oncology and immunology franchises over other segments within the Innovative Medicine division. What are some of the logical reasons behind the prioritization of these franchises over others?

SP: J&J's oncology and immunology franchises contribute significantly to J&J's overall revenue within our pharmaceutical - Innovative Medicine - division. I cannot speak to J&J's decision to prioritize this from a logistical or legal standpoint. However, from a pure financial standpoint, we control approximately 45% of the oncology market. This is a market that is expected to grow to a nearly $1 trillion market by the end of the decade. I believe that the market is currently valued at around $250 billion. The company wants to capitalize on this 4 times growth opportunity, and given our strong market share, we view it as a golden opportunity to continue growing as a company. That being said, we are still investing in some of the other franchises you mentioned, we just see oncology as a segment that can contribute to greater growth.

Q2: What are some strategies the company plans to incorporate to boost the revenue growth for your franchises?

SP: Research and Development. As a pharmaceutical company, as you might expect, we invest extremely heavily into R&D. I believe that the latest financials displayed that we invested nearly 19% of our revenue into our R&D pipeline. We believe that this is the best way to boost our product offerings and intensify our efforts to remain competitive in the industry. Beyond this, we also believe that by onshoring some of our production will help alleviate some supply chain pressures and help costs remain stable for our consumers. I can't get into specifics about this as it's something the company is actively exploring. Additionally, we are also trying to expand our product offerings and outreach into emerging markets. We think that these three main approaches are ideal to help the company grow.

Q3: J&J makes a lot of acquisitions. Is this another strategy that J&J uses to contribute to revenue growth? Does the company ever worry about poor synergies or taking on too much debt to fund these acquisitions?

SP: I am not actively involved with the M&A specialists within our finance team at J&J, so I can't speak too much about this topic. However, we are actively seeking ways to grow as a company. At Johnson & Johnson, we want to balance growth and sustainability. Part of the way is realizing that we cannot expand into every single part of the world, or every single franchise. This would be impractical and certainly not cost-effective. We pursue acquisitions to fuel our pipeline and generate long-term growth. However, to your point, one of the major concerns that our team deals with is looking into how these companies fit into J&J and impact our financials. One thing I would like to note, especially, and I know we have discussed this before, is that J&J is extremely protective of its reputation and credo. If our team finds a company that we believe will not fit into J&J's values and pursue our credo, we will not pursue the opportunity further. As for the capital structure, we try to prioritize our capital allocation by focusing on investments that allow us to expand into new franchises and markets as these would provide us the greatest opportunities for growth. When looking into these opportunities, our team runs a variety of analyses to ensure that these acquisitions would allow us to maintain our strong balance sheet and manageable debt levels, ensuring our longevity as a company. Again, I can't provide specific examples as I am not actively involved within this segment of our team, but our credo and our balance sheet are two things that we heavily rely on when looking into opportunities.

Q4: You mentioned a little about J&J's credo. Can you expand on how that drives J&J's decision-making from a financial standpoint?

SP: Absolutely. I think one of the best examples is from several decades ago. I believe that in the 1980s, perhaps 1982 or 1983, J&J recalled 31 million bottles of Tylenol worldwide after a couple of deaths in Chicago because of Cyanide contamination. This truly demonstrates our credo as it displays our commitment to our patients, people, and public safety over short-term profits. We also offered replacement products free of charge to all consumers that were affected. I believe that this ended up costing the company millions of dollars, but we solely did it because it's the right thing to do. As you pointed out earlier, our credo is something that is extremely important to us and drives our financial decision-making. From exploring strategic acquisitions or pursuing opportunities within our R&D pipeline, if we feel that something will not align with our credo, we stop pursuing the opportunity and realign it or abandon it altogether. It often leads to high costs and lost opportunities, but we believe that this is more important for the company's reputation and long-term success over short-term profits and generating quick profits for investors.

Q5: When we first met a few months ago, you briefly mentioned that you worked within the Consumer Health segment at J&J. What led to the decision for the spinoff, and how has the spinoff changed J&J's priorities?

SP: So, to clarify, I actually worked within our supply chain department within the Consumer Health segment at the time. So, I can't comment on the decision-making process from a financial standpoint beyond what's public. However, what I can mention is that the spinoff was largely processed to allow J&J to focus on its MedTech and Innovative Medicine segments. The company believes that these two segments would be instrumental toward long-term growth and that the divestiture of Kenvue would allow us to focus more heavily on these segments. From the second aspect of your question, it has rapidly changed our priorities for a financial standpoint. Without the stability that the Consumer Health division often provided from a revenue perspective, the company has doubled down on its efforts to secure and bolster its R&D pipeline. We have worked to expand our ongoing trials and our work within oncology and immunology, which as we discussed earlier, are among J&J's top performing segments. Additionally, the company has also sought further opportunities to look into other franchises and overseas markets that the company isn't currently operating in to further revenue growth.

Q6: So, I want to quickly shift gears quickly, since I know you are on a tight schedule, and focus a little about some ongoing risks to J&J. During my report, I've read a lot about the Inflation Reduction Act and how the law will potentially affect consumers and companies like J&J by putting price caps on certain products. How does the company navigate these new regulations and ensure revenue isn't significantly impacted?

SP: Yes, this is definitely something that we are looking into at the company. I can't speak to what the company is doing from an operational standpoint beyond what's already public, but from a financial standpoint, we are seeking strategies to help mitigate costs for drugs like Stelara, which will likely be targeted in the first few rounds of price caps. Beyond that, we realize that this will be something that the entire industry will have to deal with. It's not just us. We also want to align with our credo. So it becomes a balance within the company and in my position as a finance manager on how to recommend the company to navigate this new environment. Do we take the hit to our operating margins to do what's right for consumers or do we cut production and costs and focus on producing drugs with a higher profit margin that aren't affected by price caps? It's something we're discussing quite frequently. You'll have to wait to see what the company ends up doing [laughs].

Q7: First, I want to thank you for taking the time to help me explore a little more about J&J and doing this interview. My final question is one that I have been relatively curious about. There have been significant advancements in the weight-loss drug space, particularly with the advancements of GLP-1s. Does J&J expect to join this booming market? It seems like it would dramatically boost revenue for the company.

SP: [Laughs]. From a financial standpoint, I can absolutely agree that it seems like a good opportunity at first glance. However, as we did further research into the market, our team realized that the market is already extremely saturated. Additionally, we see greater opportunities elsewhere in neurology and oncology. From my own perspective, I don't think we will never see the company in the weight-loss drug market, but it won't happen in the near future. It's also important to remember that it takes several years to even decades to get approval for drugs and millions of dollars in investments to develop a new drug. There's a strong possibility that with the number of market players already involved that the market could evolve dramatically by the time our drug comes to market.

8.2 Takeaways

Overall, Shaun confirmed a lot of perspectives that I initially assumed when completing this report. One important factor that he pointed out was the emphasis of the company's credo on the company. While this impacts financials in the short term, this emphasis and prioritization of the company's credo helps to cement their long-standing reputation as one of the top healthcare and pharmaceutical companies in the world. This emphasis would also likely allow them to maintain this reputation and prevent them from making company-defining decisions that could lead to the company's demise. Furthermore, Shaun also confirmed that the company is rapidly exploring growth opportunities in the acquisitions market and through their R&D pipeline. These opportunities would likely be a bullish sign for investors as the company is committed to long-term growth. Ultimately, this interview helped confirm my expectations and reasoning on why J&J is often viewed as a strong buy among value investors, from its strong balance sheet and financials, growth opportunities, and commitment to protecting the company's reputation. The company seems committed to growing steadily over the next several decades.

9.0 Appendix

Projected Income Statement

INCOME STATEMENTS

		Historical	Projected				
		2024	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue		88.8	94.2	100.9	108.1	115.8	124.1
Less: Total COGS		(34.5)	(38.1)	(40.3)	(42.7)	(45.2)	(47.9)
Gross Profit		54.4	56.1	60.6	65.4	70.6	76.1
Less: Total SG&A		(23.2)	(26.2)	(28.1)	(30.0)	(32.1)	(34.4)
EBIT		31.2	29.9	32.6	35.4	38.4	41.7
Interest & Other Expense / (Income):	*Rate*						
Term Loan	*3.20%*		1.0	1.0	1.0	1.0	1.0
Sr. Sub. Notes	*4.95%*		0.3	0.3	0.3	0.3	0.3
Total Interest Expense			1.3	1.3	1.3	1.3	1.3
Less: Interest Income	**3.6%**		(0.9)	(1.0)	(1.0)	(1.1)	(1.1)
Financing Costs Amortization	**7.0 y**		1.5	1.5	1.5	1.5	1.5
Pretax Income			28.0	30.7	33.6	36.7	40.0
Less: Income Taxes	*40.00%*		(11.2)	(12.3)	(13.4)	(14.7)	(16.0)
Net Income			16.8	18.4	20.2	22.0	24.0
Shares Outstanding			2.400	2.400	2.400	2.400	2.400
Earnings per Share (EPS)			$7.0	$7.7	$8.4	$9.2	$10.0
EBITDA Reconciliation:							
EBIT			29.9	32.6	35.4	38.4	41.7
Plus: Depreciation			7.0	7.0	7.0	7.0	7.0
Plus: Amortization			0.3	0.3	0.3	0.3	0.3
EBITDA			37.2	39.9	42.7	45.7	49.0

Projected Balance Sheet

BALANCE SHEETS

	Historical	Projected				
	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28	Dec-29
ASSETS:						
Required Cash	$24.1	26.6	28.2	29.8	31.6	33.5
Excess Cash	0.4	(16.5)	(0.5)	(18.5)	(1.9)	(20.8)
Total Cash	$24.5	10.2	27.7	11.3	29.7	12.7
Accounts Receivable	14.9	15.8	16.9	18.1	19.4	20.7
Inventory	12.4	13.7	14.5	15.4	16.3	17.3
Prepaid Expenses	4.1	4.5	4.8	5.1	5.4	5.7
Current Assets	55.9	44.2	63.9	49.9	70.7	56.5
Net PP&E	20.5	23.5	26.5	29.5	32.5	35.5
Intangibles	37.6	37.3	37.0	36.7	36.4	36.1
Deferred Taxes	10.5	11.0	11.5	12.1	12.7	13.3
Goodwill	44.2	46.9	49.7	52.6	55.8	59.1
Other Assets	11.4	14.1	15.1	16.2	17.4	18.6
Total Assets	$180.1	$177.0	$203.7	$197.1	$225.6	$219.2
LIABILITIES & EQUITY:						
Accounts Payable	10.3	11.4	12.1	12.8	13.5	14.3
Accrued Expenses	34.0	37.6	39.8	42.1	44.6	47.3
Current Liabilities	44.3	49.0	51.8	54.9	58.1	61.6
Term Loan	30.7	30.7	30.7	30.7	30.7	30.7
Sr. Sub. Notes	6.6	6.6	6.6	6.6	6.6	6.6
Total Debt	37.3	37.3	37.3	37.3	37.3	37.3
Other Liabilities	27.0	27.0	27.0	27.0	27.0	27.0
Total Liabilities	108.6	113.3	116.1	119.2	122.5	126.0
Common Equity	83.2	100.0	118.1	138.3	159.9	183.9
Accumulated Other Comprehensive Income	(11.7)	(36.4)	(30.5)	(60.4)	(56.8)	(90.6)
Liabilities & Equity	$180.1	$177.0	$203.7	$197.1	$225.6	$219.2
Check	0.000	0.000	0.000	0.000	0.000	0.000

Projected Cash Flow Statement

CASH FLOW STATEMENTS

	Projected				
	Dec-25	Dec-26	Dec-27	Dec-28	Dec-29
Operating Activities:					
Net Income	$16.8	$18.1	$20.2	$21.6	$24.0
Depreciation	7.0	7.0	7.0	7.0	7.0
Amortization	0.3	0.3	0.3	0.3	0.3
Financing Costs Amortization	1.5	1.5	1.5	1.5	1.5
Subtotal	25.6	26.9	29.0	30.4	32.8
Changes in Working Capital	(0.5)	(0.9)	(0.9)	(1.0)	(1.1)
Cash Flow from Operations	25.1	26.0	28.0	29.4	31.7
Investing Activities:					
Less: Capital Expenditures	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Plus: Investment Gains/(Losses)	0.0	0.0	0.0	0.0	0.0
Cash Flow from / (Used by) Investing	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Cash Available for Debt Repayment	22.1	23.0	25.0	26.4	28.7
Financing Actitivies Capital Inflow / (Outflow):					
Revolver	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Term Loan	**(39.0)**	**(7.0)**	**(43.0)**	**(9.8)**	**(47.5)**
Sr. Sub. Notes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Cash Flow from / (Used by) Financing	**(39.0)**	**(7.0)**	**(43.0)**	**(9.8)**	**(47.5)**
Net Increase / (Decrease) in Cash	**(16.9)**	**16.0**	**(18.0)**	**16.6**	**(18.9)**

Operating Assumptions

OPERATING ASSUMPTIONS

	Historical			Projected				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue	$79.9	$85.2	$88.8	$94.2	$100.9	$108.1	$115.8	$124.1
Growth		*6.6%*	*4.3%*	*6.1%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*
Cost of Goods Sold:								
COGS (Excl. Depn.)	24.6	26.6	27.5	31.1	33.3	35.7	38.2	40.9
% Sales	*30.8%*	*31.2%*	*30.9%*	*33.0%*	*33.0%*	*33.0%*	*33.0%*	*33.0%*
Depreciation	6.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0
% Sales	*8.6%*	*8.2%*	*7.9%*	*7.4%*	*6.9%*	*6.5%*	*6.0%*	*5.6%*
Total COGS	31.5	33.6	34.5	38.1	40.3	42.7	45.2	47.9
% Sales	*39.4%*	*39.4%*	*38.8%*	*40.4%*	*39.9%*	*39.5%*	*39.0%*	*38.6%*
SG&A Expense:								
SG&A Expense (Excl. Amt.)	20.2	21.5	22.9	25.9	27.8	29.7	31.8	34.1
% Sales	*25.3%*	*25.3%*	*25.7%*	*27.5%*	*27.5%*	*27.5%*	*27.5%*	*27.5%*
Amortization	0.1	0.4	0.3	0.3	0.3	0.3	0.3	0.3
% Sales	*0.1%*	*0.5%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.2%*
Total SG&A Expense	20.3	21.9	23.2	26.2	28.1	30.0	32.1	34.4
% Sales	*25.4%*	*25.7%*	*26.1%*	*27.8%*	*27.8%*	*27.8%*	*27.8%*	*27.7%*
EBITDA	35.1	37.1	38.5	37.2	39.9	42.7	45.7	49.0
Margin	*43.9%*	*43.6%*	*43.3%*	*39.5%*	*39.5%*	*39.5%*	*39.5%*	*39.5%*
Growth		*5.8%*	*3.8%*	*(3.3%)*	*7.1%*	*7.1%*	*7.1%*	*7.1%*
Operating Profit (EBIT)	28.1	29.7	31.2	29.9	32.6	35.4	38.4	41.7
Margin	*35.2%*	*34.9%*	*35.1%*	*31.8%*	*32.3%*	*32.7%*	*33.2%*	*33.6%*
Total Capital Expenditures	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0
% of Sales	*5.0%*	*4.7%*	*4.5%*	*3.2%*	*3.0%*	*2.8%*	*2.6%*	*2.4%*

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