Johnson & Johnson (JNJ)

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Disclaimers

• I am not a registered investment advisor and I do not offer any investment advise

• No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments
Johnson & Johnson - business

- **Product areas:**
  - Consumer
  - Pharmaceuticals
  - Med devices

- **Split:**
  - Almost 1/3 each (consumer 1/4, others 3/8 each)
    - Skin care 20%, Baby care 15%, Oral care 10%, OTC/Nutri 35%, Women’s 12%, Wounds 8% - customer split
  - Almost 50/50 US/International
Johnson & Johnson - Misc thoughts

• Big well known business
• Complicated
• Healthcare reform?
• Med device screwups (medicated stents, etc.) - I’d prefer >
customer exposure
• Big pharma issues too
Is it a good business?

- It is a great business. 😊 >10 year history of profits
- ROE:
  - 25.70 25.50 23.40 29.10 26.80 26.70 27.50 28.10 24.40 30.50
  - 2009: ~28
- Margins
- Strong balance sheet
  - Cash+short term investments cover debt
  - 50.3B book, only 18B net tangible assets!
- ROIC = Earnings / (Equity + Debt - Cash) = Earnings / (Assets - non-debt liabilities - Cash)
  - ~ROE
Is business cheap?

- ROE 28% - conservatively assume 25%
- Earnings in 10 years = ROE\times\text{Equity}\times(1+\text{ROE})^9 = $81B
- Equity in 10 years = \text{Equity}\times(1+\text{ROE})^9 = 326B
- Market cap = 16M \times \text{P/E (15)} = $1013B
- Rate of return = \sim19\% after tax (calculations omitted)
- If we assume 20\% ROE: 13%

- >3 \text{ P/Book} - not a net net
Is business cheap?

- Discounted cash flow
  - Current earnings of ~12.2B
  - 10% growth for 5 years, leveling after that
    - 10% discount -> $184B current valuation (if you buy company at <\$184B, you will get 10% return or higher)
    - 15% discount -> $119B current valuation
  - 5% growth for 10 years, leveling after that
    - 10% discount -> $173B current valuation
    - 15% discount -> $110B current valuation

- Owner’s yield = earnings / (market cap + debt - cash) = earnings/EV
  - 12.2B / (43.7B + 14B - 13B) = 7%