Johnson & Johnson: A Family Company

Stavro Najjar and Jameson Borden
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Macro:
- Large, international companies benefiting from tax code change
- Healthcare and large Mkt Cap. provide safety through volatility
- Emerging Markets’ developing consumer markets.

Company:
- Oversold on Asbestos scandal
- Consistently appears as #1 holding in Healthcare ETFs
- Dividend King
Johnson & Johnson
Company Overview

Multinational Healthcare Holding Company headquartered in New Brunswick, NJ

Three Business Segments:
Consumer Healthcare, Medical Devices, and Pharmaceuticals

Ranked #37 on Fortune 500 and Component of DJIA

Operates over 260 subsidiary companies with over 130,000 employees worldwide
Johnson & Johnson
Company History

- **1886**: Johnson & Johnson is founded
- **1944**: JNJ goes Public on the NYSE
- **1957**: McNeil Laboratories & Cilag Chemie Acquisitions
- **1961**: Janssen Pharmaceuticals Acquisition
- **1987**: Safe Kids Worldwide
- **2002**: Tibotec-Virco Acquisition
- **2006**: Pfizer Consumer Healthcare Acquisition
- **2010**: Every Mother, Every Child
Johnson & Johnson
Corporate Governance

Joseph Wolk
Executive VP & CFO

Alex Gorsky
Chairman & CEO

Ashley McEvoy
Executive VP & Worldwide Chairman, Medical Devices
Johnson & Johnson
Business Segments

**Consumer Healthcare**

- WW Sales $MM: $13,853
- Growth: 1.8%, 2.2%

**Pharmaceutical**

- WW Sales $MM: $40,734
- Growth: 12.4%, 11.8%

**Medical Devices**

- WW Sales $MM: $26,994
- Growth: 1.5%, 1.1%

**Worldwide Consumer Sales**

- Consumer worldwide sales increased: 1.8%
- Primary contributors to growth:
  - Women's Health: $1,049 (1.1%), 3.5%
  - Oral Care: $1,555 (1.6%), 1.7%
  - Baby Care: $1,885 (3.0%), (0.8%)
  - Wound Care/Other: $975 (13.4%), (13.8%)
  - Beauty: $4,382 (4.3%), 4.4%

**Worldwide Pharmaceutical Sales**

- Pharmaceutical worldwide sales increased: 12.4%
- Primary contributors to growth:
  - Immunology: $13,120 (7.2%), 6.9%
  - Infectious Diseases: $3,304 (4.8%), 3.5%
  - Neuroscience: $6,077 (1.5%), 0.9%
  - Oncology: $9,844 (35.6%), 34.4%
  - CVM/Other: $15,016 (7.8%), (7.7%)
  - PAH: $2,573 (93.8%), 93.0%

**Worldwide Medical Devices Sales**

- Medical Devices worldwide sales increased: 1.5%
- Primary contributors to growth:
  - Vision: $4,553 (12.1%), 11.8%
  - Interventional Solutions: $2,646 (15.2%), 14.1%
  - Diabetes Care: $1,009 (37.8%), (37.7%)
  - Orthopaedics: $8,085 (1.9%), (2.5%)
  - Surgery: $9,961 (3.6%), 3.4%
Johnson & Johnson
Let's Talc About It

What is Talc?

- Talc is a naturally occurring mineral that is highly stable, chemically inert and odorless
- Talc and Asbestos
  - Talc is non-toxic
  - Asbestos is a carcinogen
  - It is well-documented that asbestos contamination often occurs
- Talc is in many ingestible consumer products

What Does the Talc Scandal Mean for JNJ?

- Determined safe by gov’t and non-gov’t agencies
- National Cancer Institute determined not to cause cancer
- JNJ follows strict protocol guidelines and operates certified mines to source talc
- JNJ has a proven track record of successfully overcoming accusatory headlines
  - 2010 Tylenol Recall, shares have doubled since then

“"We unequivocally believe our baby powder does not contain asbestos”"
- Alex Gorsky, CEO

Talc as a Portion of Revenue

Talc 0.3%

Other Revenue 99.7%
## Full Year 2018 Sales

<table>
<thead>
<tr>
<th>Total Company</th>
<th>2018</th>
<th>2017</th>
<th>% Change</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Reported</td>
<td>Operational¹</td>
</tr>
<tr>
<td>U.S.</td>
<td>$41.9</td>
<td>$39.9</td>
<td>5.1%</td>
<td>5.1%</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>18.8</td>
<td>17.1</td>
<td>9.5</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Western Hemisphere (ex U.S.)</td>
<td>6.1</td>
<td>6.0</td>
<td>1.2</td>
<td>8.2</td>
<td></td>
</tr>
<tr>
<td>Asia-Pacific, Africa</td>
<td>14.8</td>
<td>13.4</td>
<td>10.5</td>
<td>9.4</td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>39.7</td>
<td>36.6</td>
<td>8.5</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>Worldwide (WW)</td>
<td>$81.6</td>
<td>$76.5</td>
<td>6.7%</td>
<td>6.3%</td>
<td></td>
</tr>
</tbody>
</table>

### Full Year 2018 Sales

- **$81.6B** Weltweit
- **6.7%** Weltweit

**Diluted Earnings Per Share**

- $5.61

**Adjusted Diluted Earnings Per Share**

- $8.18

<table>
<thead>
<tr>
<th></th>
<th>Y/E 2018</th>
<th>Y/E 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$19.7</td>
<td>$18.3</td>
</tr>
<tr>
<td>Debt</td>
<td>($30.5)</td>
<td>($34.6)</td>
</tr>
<tr>
<td>Net Debt</td>
<td>($10.8)</td>
<td>($16.3)</td>
</tr>
<tr>
<td>Free Cash Flow¹</td>
<td>$18.6</td>
<td>$17.8</td>
</tr>
<tr>
<td>$5B Share Repurchase Program²</td>
<td>$0.9 billion ~20% complete</td>
<td></td>
</tr>
</tbody>
</table>
Competitors

- Completely exposed to expected drug pricing regulation
- 3yr sales CAGR of 3%, JNJ 5.5%

- Strong oncology portfolio
- Faster acquisition rate

- Poorly capitalized
- Interesting investment into Animal Health
Johnson & Johnson
SWOT Analysis

**Strengths**
- Broad Brand Portfolio
- International Tax Beneficiary

**Opportunities**
- Acquisitions
- Omni-Channel Distribution

**Weaknesses**
- Litigation
- Lowered Sales Growth Guidance

**Threats**
- Harmful Ingredients
- Generic Product Substitutes
- FX Risk
- Regulation
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Tax Code Impact

- Internationally operating corporations with a lot of revenues abroad have faced an important change in relation to the new tax code
  - Corporations will be charged a one-time 15.5% on previously earned overseas revenue that remains liquid, and 8% on reinvested previously earned overseas revenue.
- Bad for short-term
  - One-time tax event amounts to $13.6B
- Great for long-term
  - JNJ will no longer pay tax on foreign earnings
  - Increased mobility of funds
  - More strategic asset allocation opportunities

GAAP Earnings

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2018</td>
<td>$3.0</td>
</tr>
<tr>
<td>Q4 2017</td>
<td>($10.7)</td>
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</table>

Footnotes
Johnson & Johnson
Ratio Analysis

Valuation Football Field

Median
- $113.9
- $143.3

Average
- $14.4
- $140.4

DCF
- $129.8
- $158.5

P/CF
- $108.6
- $138.5

P/S
- $119.1
- $148.2

P/E
- $99.9
- $160.0

Price

Footnotes
Johnson & Johnson
Technical Analysis

[Graph and diagrams related to technical analysis of Johnson & Johnson's stock]

Footnotes
### Portfolio Analytics - Current Portfolio

<table>
<thead>
<tr>
<th>Methodology</th>
<th>95% VaR</th>
<th>97.5% VaR</th>
<th>99% VaR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monte Carlo Simulation VaR</td>
<td>5,150</td>
<td>6,446</td>
<td>8,210</td>
</tr>
<tr>
<td>Historical 1 Year Simulation VaR</td>
<td>5,122</td>
<td>6,224</td>
<td>7,130</td>
</tr>
<tr>
<td>Historical 2 Year Simulation VaR</td>
<td>5,258</td>
<td>6,440</td>
<td>7,667</td>
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<tr>
<td>Historical 3 Year Simulation VaR</td>
<td>5,195</td>
<td>6,750</td>
<td>8,151</td>
</tr>
<tr>
<td>Parametric VaR</td>
<td>5,574</td>
<td>6,642</td>
<td>7,883</td>
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### Contributors

<table>
<thead>
<tr>
<th>Name</th>
<th>VaR</th>
<th>Marginal VaR (x100)</th>
<th>Partial VaR</th>
<th>Conditional VaR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financials</strong></td>
<td>3,801</td>
<td>-25.11</td>
<td>-1,307</td>
<td>4,932</td>
</tr>
<tr>
<td><strong>Consumer Staples</strong></td>
<td>3,292</td>
<td>9.67</td>
<td>-851</td>
<td>4,082</td>
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<tr>
<td><strong>Energy</strong></td>
<td>3,157</td>
<td>-3.31</td>
<td>-30</td>
<td>3,932</td>
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<tr>
<td><strong>Industrials</strong></td>
<td>1,934</td>
<td>-26.96</td>
<td>-305</td>
<td>2,468</td>
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<tr>
<td><strong>Not Classified</strong></td>
<td>2,810</td>
<td>-10.31</td>
<td>1,425</td>
<td>3,548</td>
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<tr>
<td><strong>Consumer Discretionary</strong></td>
<td>2,466</td>
<td>45.45</td>
<td>-728</td>
<td>3,179</td>
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<tr>
<td><strong>Information Technology</strong></td>
<td>3,498</td>
<td>16.02</td>
<td>326</td>
<td>4,319</td>
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<tr>
<td><strong>Communication Services</strong></td>
<td>3,257</td>
<td>-11.26</td>
<td>-827</td>
<td>4,115</td>
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<tr>
<td><strong>Materials</strong></td>
<td>882</td>
<td>-8.62</td>
<td>-282</td>
<td>1,116</td>
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<tr>
<td><strong>Utilities</strong></td>
<td>1,111</td>
<td>-.46</td>
<td>-43</td>
<td>1,341</td>
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<tr>
<td><strong>Health Care</strong></td>
<td>4,339</td>
<td>-9.87</td>
<td>-586</td>
<td>5,573</td>
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<tr>
<td><strong>Real Estate</strong></td>
<td>2,141</td>
<td>1.63</td>
<td>-59</td>
<td>2,622</td>
</tr>
</tbody>
</table>
## Portfolio Analytics - JNJ Inclusion

### VaR Comparison

<table>
<thead>
<tr>
<th>Model</th>
<th>Portfolios Value</th>
<th>VaR (P&amp;L)</th>
<th>Methodology</th>
<th>95% VaR</th>
<th>97.5% VaR</th>
<th>99% VaR</th>
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<tbody>
<tr>
<td>Blooomberg Risk Unit P&amp;L</td>
<td>137,627 USD</td>
<td>5,669</td>
<td>Historical 1 Year Simulation VaR</td>
<td>5,524</td>
<td>6,677</td>
<td>8,063</td>
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<tr>
<td>Historical 2 Year Simulation VaR</td>
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<td>6,657</td>
<td>8,564</td>
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<tr>
<td>Historical 3 Year Simulation VaR</td>
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<td>6,890</td>
<td>8,591</td>
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#### VaR

<table>
<thead>
<tr>
<th>Name</th>
<th>VaR</th>
<th>Marginal VaR (x100)</th>
<th>Partial VaR</th>
<th>Conditional VaR</th>
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</thead>
<tbody>
<tr>
<td>Financials</td>
<td>4,054</td>
<td>-19.24</td>
<td>-1,226</td>
<td>5,295</td>
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<tr>
<td>Consumer Staples</td>
<td>3,277</td>
<td>10.17</td>
<td>471</td>
<td>4,058</td>
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<tr>
<td>Energy</td>
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<td>9.37</td>
<td>153</td>
<td>3,782</td>
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<td>Industrials</td>
<td>2,035</td>
<td>-17.47</td>
<td>-302</td>
<td>2,565</td>
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<tr>
<td>Non Classified</td>
<td>2,810</td>
<td>-6.63</td>
<td>1,369</td>
<td>3,548</td>
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<tr>
<td>Consumer Discretionary</td>
<td>2,525</td>
<td>95.24</td>
<td>-551</td>
<td>3,237</td>
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<td>-11.43</td>
<td>-740</td>
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<td>59</td>
<td>1,282</td>
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<td>Health Care</td>
<td>2,975</td>
<td>-7.80</td>
<td>-430</td>
<td>3,770</td>
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<td>Real Estate</td>
<td>2,093</td>
<td>6.52</td>
<td>32</td>
<td>2,581</td>
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</tbody>
</table>
We are proposing 35 shares at ~$127 worth ~$4,445

Total position in JNJ if vote passes, ~$6,000
Questions