Don’t Let Business Resources Baffle You Blue!

Company Research for Anyone New!

Christy Goodnight, Stockton University
Johnson & Johnson has made a $30 billion bid for Actelion Ltd. The all-cash offer for the Switzerland-based biotechnology company works out to about a 28% premium over Actelion's pre-announcement closing price. As part of the transaction, Actelion will spin off its drug discovery operations and early-stage clinical development assets into a new company, which would be called R&D NewCo. Holders of Actelion's shares will receive shares in the new entity. JNJ would start with a 16% stake in the spinoff, and have the option to increase this percentage over time.

What's the attraction for Johnson & Johnson? Actelion's pipeline can provide JNJ access to its high-marginiated offerings that treat rare diseases. The acquisition would also allow the company to widen its portfolio of leading medicines and promising late-stage drugs. The deal was approved by the boards of both companies, but Actelion shareholders must still agree to the purchase. JNJ must acquire at least 67% of the outstanding equity for the deal to be finalized. Regulatory approval is also required. To gain control of Actelion, JNJ has had to offer to pay a high 30 times Actelion's estimated earnings in 2018. Management apparently believes that the price was appropriate because Actelion will diversify its existing portfolio, which is facing pressure from some low-cost alternatives. JNJ believes that the acquisition will be immediately accretive to its earnings. Finally, the $30 billion payout will not have a major impact on the company's impressive balance sheet.

Meanwhile, the company's guidance for 2017 was lowered. Management's estimates for both revenues and adjusted share earnings have been reduced by $600 million and $0.10 a share, respectively. All told, we think JNJ's earnings per share will come in at $6.60 and $7.15 in 2017 and 2018. Our earnings presentation does not include the proposed merger.

These high-yielding shares are neutrally ranked. The price of JNJ stock has declined recently, while the market indices have advanced nicely. As a result, its total return prospects through 2020-2022 are attractive. Hence, patient investors might find this blue chip of interest.

James A. Flood
February 17, 2017
Business Loop
Business Basics to Know

- Public vs. Private Corporations
- Annual report to the Stockholder vs. 10-K annual report
- SWOT analysis vs. Porter’s Five Forces analysis
2011 will be remembered as a year in which our company was severely tested on numerous fronts. Yet, our people continued the hallmark work of Johnson & Johnson, finding new ways to care for the health and well-being of people around the world.

There were challenges we did not expect, particularly those related to the continuing global economic downturn and loss of patent exclusivity on some of our major pharmaceutical products. And there was a challenge we did not expect: the painful and disappointing experience of the McNeil Consumer Healthcare product recall.

Despite the trying moments of 2011, our people introduced new products, advanced our pipelines and expanded our business in emerging markets. We remained true to our tradition of caring for others, driven by values deeply rooted in Our Credo. While we faced some business pressures, we enter 2012 with a strong foundation to achieve long-term sustainable growth.

2011 RESULTS

We continued to deliver earnings growth in 2011, with many of our businesses performing well in light of the macroeconomic conditions. Several factors impacted the health care industry in general and Johnson & Johnson. Medical devices and consumer businesses felt the effects of a continued economic slowdown. In health care, we anticipate continuing to feel those effects in 2012. Although we were associated with U.S. health care reform, which was implemented early in the year, we faced lower sales and remediation costs resulting from our consumer over-the-counter product recall, as well as generic competition in our pharmaceutical businesses.

Despite these challenges, we continued to grow earnings and maintain investments for future revenue and earnings growth. With these investments, we are developing a number of exciting new products that have the potential to address significant unmet health care needs.

Worldwide sales for 2011 were $61.6 billion, a decrease of 1.2 percent on a constant-currency basis (reflecting challenging conditions as well as the third accounting week included in the 2010 results). Adjusted earnings were $13.2 billion, an increase of 2.0 percent despite a sales decline. Adjusted earnings per share increased 3.4 percent.

In a tough global economy, we maintained our financial discipline. We generated free cash flow of approximately $11 billion and held our AAA credit rating. We also executed a $1.1 billion debt offering at the lowest interest rate for long-term corporate debt in history.

We had an above-average decline in total shareholder return of about half a percent. Over a longer time frame, we continue to compare favorably to most stock indices, beating major sector performance benchmarks on a three-year and five-year basis.

The one-year decline in shareholder return was disappointing, but reflects both the uncertainty around health-care reform that has impacted our sector and the impact of our consumer product recalls.

McNEIL CONSUMER HEALTHCARE

Our people dedicate themselves to providing the most trusted, high-quality products to help people around the world.
https://www.sec.gov/edgar/searchedgar/companysearch.html
Company Analysis - SWOT

[Diagram of SWOT analysis with categories: Helpful Internal, Harmful, Weaknesses, Opportunities, Threats]
Industry Analysis — Porter’s 5 Forces

SUPPLIERS → POTENTIAL ENTRANTS

INDUSTRY
Competitive Rivalry

SUBSTITUTES

BUYERS

Bargaining power

Threat of rivalry

Bargaining power

Threat of substitution

Source: Porter

The most comprehensive ABI/INFORM™ database, this comprises ABI/INFORM Global, ABI/INFORM Trade and Industry, and ABI/INFORM Dateline. The database features thousands of full-text journals, dissertations, working papers, key business and economics periodicals such as the Economist, country-and industry-focused reports, and downloadable data. Its international coverage gives researchers a complete picture of companies and business trends around the world.

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Subject coverage
- Business
- Economic conditions

Included databases
- ABI/INFORM Dateline
- ABI/INFORM Global
SWOT ANALYSIS

J&J is one of the world’s largest providers of diverse health products. The company is engaged in the research, development, manufacture and sale of consumer health care products, pharmaceuticals, and medical devices. J&J’s leadership position in various categories enables it to penetrate new markets as new product launches become easier. However, the healthcare reforms could affect the company’s revenues in near future.

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
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<tbody>
<tr>
<td>Leadership position in diverse healthcare segments</td>
<td>Legal proceedings</td>
</tr>
<tr>
<td>Strong brand portfolio</td>
<td>Product recalls may dent J&amp;J’s brand image</td>
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<td>Focus on R&amp;D enabling innovative product launches</td>
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<tr>
<th>Opportunity</th>
<th>Threat</th>
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<tbody>
<tr>
<td>Product approvals likely to help the company in catering to unmet medical needs</td>
<td>Healthcare cost containment measures</td>
</tr>
<tr>
<td>Positive outlook for pharmaceuticals market in the US</td>
<td>Patent expiry for the key product: Remicade</td>
</tr>
<tr>
<td>Acquisitions and collaborations to strengthen the offerings of the company</td>
<td>Healthcare reform in the US could negatively impact J&amp;J’s profitability</td>
</tr>
<tr>
<td>Restructuring of the medical devices business</td>
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**Strength**

Leadership position in diverse healthcare segments

J&J is one of the largest and diversified healthcare companies in the world. It also has strong presence in the medical devices market worldwide. Globally, J&J is the fifth largest pharmaceutical company, and the sixth largest biotech company and consumer health care company. The company also holds leadership positions across several categories, including antithrombotic agents, antipsychotic (injectables), baby and kids care, biosurgicals, disposable contact lenses, electrophysiology diagnostics and catheters, endomechanical, endoscopy, hormone antagonists, infection prevention, oral rinses, orthopaedics.
FIVE FORCES ANALYSIS

The OTC pharmaceuticals market will be analyzed taking manufacturers of OTC drugs as players. The key buyers will be taken as distributors of drugs, including pharmacies, general stores, and supermarkets, and manufacturers of active pharmaceutical ingredients (API) as the key suppliers.

Summary

Figure 7: Forces driving competition in the global OTC pharmaceuticals market, 2015

Leading players in this market are large diversified multinationals, which mollify the degree of rivalry in this market.

Pharmacies and drugstores form the most important distribution channel for OTC pharmaceuticals. These distributors typically have less buyer power than the large supermarkets, due to their smaller operational size.

Suppliers include manufacturers of active pharmaceutical ingredients (API). These ingredients are most often supplied to pharmaceutical companies under contractual arrangements, increasing switching costs and enhancing the power of suppliers.

Market entry is considered more difficult as some OTC manufacturers invest in new product development which involves high product development costs. The need to obtain approval for products from the regulatory authorities also creates barriers for the operators in this market as it may require costly and time consuming procedures.
Company Research

Johnson & Johnson (NYS: JNJ) by Company Analysts Ltd

Address: One Johnson & Johnson Plaza, New Brunswick, NJ 08933 United States | Phone: 732 524 0400 | Fax: 732 214 0332 | Company Website: www.jnj.com

Incorporated: November 1867, NJ, United States
IEC Number: 2210242440
CUSIP: 47516010
CIN: Securities filed: PiperJaffray
Transfer Agent: Computershare Trust Company, N.A., Canton, MA
Country: United States

Business Summary
Johnson & Johnson is a holding company. Through its subsidiaries, Co. is engaged in the research and development, manufacture and sale of a range of products in the health care field. Co. is organized into three business segments: Consumer, which includes a range of products used in the baby care, oral care, skin care, over-the-counter pharmaceutical, women's health and wound care markets; Pharmaceutical, which is focused on five therapeutic areas: immunology, infectious diseases and vaccines, neuroscience, ophthalmology and cardiovascular and metabolic diseases; Medical Devices, which includes products used in the orthopaedic, surgical, cardiovascular, diabetes care and vision care fields.

Pricing Summary
Time Period: 1 week

Key Executives
Alex Gorsky
Chairman, Chief Executive Officer
Age 56, Salary 1,600,000

Domenic Caruso
Executive Vice President, Chief Financial Officer
Age 59, Salary 999,500

Johnson Mullany
Executive Vice President
Age 54, Salary 875,000

Peter Fasulo
Executive Vice President, Chief Human Resources Officer
Age 54, Salary 534,769

Joseph Jimenez
Executive Vice President
Age 55

Key Financials
(In USD as of 01/01/2017)

Income Statement
Revenue 71,690m
Net Income 18,540m
EPS from Continuing Operations 5.99
EPS - Net Income - Diluted 5.99
Revenue per Share 20.34

Balance Sheet
Total Assets 141,200m
Total Liabilities 70,790m
Shareholders' Equity 70,410m
Total Assets per Share 52.17
Net Assets per Share 20.02
Cash from Operations 18,790m
We want to hear from you! Please follow the link located here to participate in our annual survey.

### Johnson & Johnson (JNJ) ★★

<table>
<thead>
<tr>
<th>Stock Price JNJ</th>
<th>More...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>03/06/2017 - 04/04/2017</td>
</tr>
<tr>
<td>JNJ &amp; JNJ</td>
<td>-0.8%</td>
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</table>

### Dividends JNJ

- **Declared Date**: 02/24/2017
- **Ex-Dividend Date**: 02/24/2017
- **Latest Indicated Dividend Amount**: 0.8800
- **Yield**: 2.55%
- **Projected Yield**: 2.55%

### Recent Dividends

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Amount</th>
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<tbody>
<tr>
<td>02/24/2017</td>
<td>Cash Dividends</td>
<td>0.8800</td>
</tr>
<tr>
<td>11/18/2016</td>
<td>Cash Dividends</td>
<td>0.8800</td>
</tr>
<tr>
<td>08/14/2016</td>
<td>Cash Dividends</td>
<td>0.8800</td>
</tr>
<tr>
<td>03/20/2016</td>
<td>Cash Dividends</td>
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</tr>
</tbody>
</table>

### Purchase Options
- **Direct Investment**: No
- **Dividend Reinvestment Plan**: Yes

### Competitors JNJ

- **ITM Sales**
J&J’s diverse operations help mitigate increasing competitive pressures in the drug business.

Investment Thesis 07/19/2016

Johnson & Johnson stands alone as a leader across the major healthcare industries. The company maintains a diverse revenue base, a developing research pipeline, and exceptional cash flow generation that together create a wide economic moat.

J&J holds a leadership role in diverse healthcare segments, including medical devices, over-the-counter products, and several pharmaceutical markets. Contributing just over 40% of total revenue, the pharmaceutical division boasts several industry-leading drugs, including immunology drug Remicade and psoriasis drug Stelara. The medical device group brings in more than one third of sales, with the company holding controlling positions in many areas, including orthopedics and Ethicon Endo-Surgery’s surgical devices. The acquisition of Synthes positions the company as a leader in the fast-growing trauma segment. The consumer division largely rounds out the remaining business lines, and despite manufacturing issues over the past several years, the group still holds many brands with strong pricing power.

Research and development efforts are resulting in next-generation products. The pharmaceutical group has recently launched several new blockbusters. However, relative to the company’s size, J&J needs to increase the number of meaningful drugs in late-stage development to support long-term growth. The company has also created new medical devices, including ceramic orthopedics and minimally invasive surgical tools.

Morningstar’s Take JNJ

Morningstar Research

Price 124.8 USD
Fair Value Estimate 108 USD
Uncertainty Low

Consider Buy 86.4 USD
Consider Sell 135 USD
Economic Moat Wide

Bulls Say

• The majority of JNJ’s near-term patent losses are for products that are hard to make, including the biologic drug Remicade, which should slow generic competition.
• Diverse healthcare segments insulate JNJ from downturns in the economy, offering a defensive growth opportunity with a stable and likely growing dividend.
• Several of Johnson & Johnson’s key drugs and pipeline drugs are specialty drugs that tend to carry stronger price power and fewer regulatory hurdles for approval.

Bears Say

• Product recalls and manufacturing issues in the consumer business could dent Johnson & Johnson’s powerful brand name in a segment where brand recognition is critical.
• Potential legal action regarding product recalls for hip and knee replacements along with several consumer products could damage the company’s image, cost billions of dollars, and create distractions for management.
• Several of Johnson & Johnson’s important drugs are facing increasing competition, which should slow the growth rate of the pharmaceutical group.
Johnson & Johnson has made a $30 billion bid for Actelion Ltd. The all-cash offer for the Switzerland-based biotechnology company works out to about a 28% premium over Actelion’s pre-announcement closing price. As part of the transaction, Actelion’s drug discovery operations and early-stage clinical development assets will be divested and transferred to J&J, which will call it R&D NewCo. Holders of Actelion will receive shares in the new entity. JNJ would start with a 60% stake in the new company, and have the option to increase its stake to 100%.

What’s the attraction for Johnson & Johnson? The Swiss company will provide JNJ access to its high-margin offerings that treat rare diseases. The acquisition would also allow the company to widen its portfolio of leading medicines and promising late-stage drugs. The deal was approved by the boards of both companies, but Actelion shareholders must still agree to the purchase. JNJ must acquire at least 67% of the outstanding equity for the deal to be finalized. Regulatory approval is also required. To gain control of Actelion, JNJ has had to offer to pay a high 30 times Actelion’s estimated earnings.

Meanwhile, the company’s guidance for 2017 was lowered. Management’s estimates for both revenues and adjusted share earnings have been reduced by $600 million and $0.10 a share, respectively. All told, we think JNJ’s earnings per share will come in at $6.60 and $7.15 in 2017 and 2018. (Our earnings presentation does not include the proposed merger.) These high-yielding shares are neutrally ranked. The price of JNJ has declined recently, while the market indices have advanced nicely. As a result, its total return prospects through 2020-2022 are attractive. Hence, patient investors might find this blue chip of interest.

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Questions?

Thank you!

Christy Goodnight, Stockton University

Feel free to contact me with any questions: christy.goodnight@stockton.edu or 609-626-5502