

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
 - 2009: 19.81679241 20.31311277 17.31074556 20.7280024
- 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 = $\text{ROE} \times \text{Equity} \times (1 + \text{ROE})^9 = \81B
- Equity in 10 years = $\text{Equity} \times (1 + \text{ROE})^9 = 326\text{B}$
- Market cap = $16\text{M} \times \text{P/E (15)} = \1013B
- Rate of return = ~19% after tax (calculations omitted)
- If we assume 20% ROE: 13%

- >3 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
 - $12.2B / (43.7B + 14B - 13B) = 7\%$