

JOHNSON & JOHNSON (NYSE) - JNJ

Company Description:

New Brunswick, NJ-based JNJ manufactures and sells health care products. Major lines by segment: Consumer (baby care, nonprescription drugs, sanitary protection, and skin care), Med. Device & Diag. (wound closures, minimally invasive surgical instruments, diagnostics, orthopedics, and contact lenses), and Pharmaceutical (contraceptives, psychiatric, anti-infective, and dermatological drugs). Sales (operating income) by segment: Pharm., 36% (39%); Med. Device & Diag., 38% (46%); Consumer, 25% (15%). Int'l business, 49% of sales; R&D: 12,9% (Pharma: 21.7%). Has 127,100 empl.;CEO: Alex Gorsky www.jnj.com

Basic Description:

The net profits have grown at a consistent rate but slowing rate over the past ten years and even farther back. Like others in pharmaceuticals, JNJ has begun to regularly have significant charge-offs and rely on "adj non GAAP" earnings. In 2015 VL switched to GAAP. The stock price has moved narrowly on an annual basis because of the high degree of consistency and predictability. In addition to a solid dividend, JNJ has occasionally repurchased shares but has also issued for acquisitions. The business has required capital as share issuance and debt show. The presence of these investments demonstrates that JNJ has either found opportunities or been required to reinvest in its businesses. Obviously, the preference is that opportunities have arisen, yet the consumer aspect may require more reinvestment than other drug companies. Top line has slowed considerably and returns on capital have dropped but the margins continue to widen and tax rates continue to drop.

Profitability Description:

Note: Annual reports are located under "corporate governance" and then in "annual meeting materials."

JNJ has three sizeable segments from which to generate revenues and profits. The consumer franchise line is recovering from manufacturing issues and the OTC products are slowly growing, but profit margins are low. The pharmaceutical lines are doing well, in the U.S. and in emerging markets. The R&D percentage is over 20% in the pharma line. Finally, the medical devices area is growing, largely due to acquisitions. The result has been higher margins and a cash-rich balance sheet. JNJ is exposed to Remicade expiration (20% of Pharma) in 2018.

Core Advantage Description:

JNJ has built a powerful competitive advantage as it has continued to acquire sensible businesses, expand product lines and streamline operations, using its size advantage to create depth of research resources and a financial arbitrage, allowing for absorption of higher risk. As an example of size, JNJ dominates in the areas of its involvement within the medical device and pharmaceutical groups. JNJ is effective as a decentralized company. JNJ utilizes advances in convergence technologies, biologics and computer technology to create new product. JNJ is attempting to grow as a traditional pharmaceutical with heavy investment in R&D. JNJ is also attempting partnerships with smaller companies, bringing its vast balance sheet and distribution strengths to bear. Its balance sheet also appears to allow it to be more aggressive as a business strategy so that it can risk significant lawsuit judgments.

Investment Thesis:

JNJ is an extremely large company and, despite many capabilities, runs into the problem of large numbers. As a result, growth rates are likely to be slow. We are assuming a 6% growth rate, (4% organic and 2% inflation) with an increase of the currently impressive operating margins that adds 2% to the growth rate of net profits. Nothing is added on for share repurchasing which is held back by share option compensation. In addition, JNJ is paying more than a 2% dividend yield. All of this is combined with a capacity to be awarded a 20 P/E due to a combination of high cash generation characteristics and low interest rates.

Purchase Description:

ACM considers JNJ a buy at \$80 per share (combo of e.g., e.b values and capl charge) to 4.5% as a Tier I because of its diversity and durable franchises with a buy of \$88 to 3% and with a buy of \$97 to 2% with an initial trim price of \$110 (80% of sell) for half of the position and \$135 (1.1 of sop value and 2X e.b. value) for the rest.

	FY End			Stock Price		Market Value																								
	1995	1996	1997	December		\$113.00		\$305,665			1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Net Profit (mln)	2,403	2,887	3,303	4,209	4,800	5,899	6,811	7,197	9,311	10,545	11,133	12,085	11,934	12,906	13,279	13,003	13,662	15,930	17,522	15,549	16,250	18,000								
EPS	\$0.93	\$1.09	\$1.21	\$1.51	\$1.70	\$1.84	\$2.16	\$2.40	\$2.84	\$3.46	\$3.73	\$3.63	\$4.32	\$4.46	\$4.88	\$3.28	\$3.68	\$4.94	\$6.30	\$5.64	\$6.01	\$6.67								
Operating EPS	\$0.93	\$1.09	\$1.21	\$1.49	\$1.70	\$1.91	\$2.23	\$2.70	\$3.10	\$3.50	\$3.76	\$4.15	\$4.32	\$4.69	\$4.86	\$4.79	\$4.92	\$5.65	\$6.30	\$5.64	\$6.01	\$6.67								
Ave. P/E Ratio	18.5	22.4	24.9	31.6	26.4	27.2	25.9	21.9	18.1	18.5	16.6	15.4	14.3	12.5	13.1	12.7	13.0	15.6	17.7	18.1										
Yrly Price Low	13.4	20.8	24.3	38.5	33.1	40.3	41.0	48.1	49.3	61.2	57.3	59.7	52.8	46.3	56.9	59.5	61.7	71.0	86.0	82.0	94.0									
Yrly Price High	23.1	27.0	33.7	53.4	53.0	61.0	65.0	59.1	64.1	68.0	67.0	68.2	71.0	61.2	66.2	65.4	72.0	95.0	109.0	106.0	126.0									
Dividends Paid	829.0	986.1	1,156.8	1,528.7	1,724.8	2,135.0	2,374.6	2,760.2	3,268.1	3,807.4	4,224.1	4,617.0	4,977.0	5,307.5	5,770.9	6,108.8	6,668.4	7,303.8	7,681.9	8,127.7	8,520.8	9,045.0								
Dividends PS	\$0.32	\$0.37	\$0.43	\$0.55	\$0.62	\$0.70	\$0.80	\$0.93	\$1.10	\$1.28	\$1.46	\$1.62	\$1.80	\$1.93	\$2.11	\$2.25	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.35								
Ave. Div. Yld.	1.75%	1.55%	1.48%	1.20%	1.44%	1.38%	1.51%	1.74%	1.94%	1.98%	2.35%	2.53%	2.91%	3.59%	3.43%	3.60%	3.59%	3.12%	2.83%	3.14%	2.86%									
Shares Outstdg	2,590.7	2,665.0	2,690.3	2,779.4	2,781.9	3,050.0	2,968.3	2,968.0	2,971.0	2,974.5	2,893.2	2,850.0	2,765.0	2,750.0	2,735.0	2,715.0	2,778.5	2,820.0	2,783.3	2,755.2	2,705.0	2,700.0								
Buyback \$ (mln)	(341)	(1,776)	(734)	(4,195)	(108)	(13,579)	4,330	16	(170)	(226)	5,053	2,763	5,262	806	923	1,249	(4,245)	(3,445)	3,578	2,645	5,518									
Shr. Equity (m)	9,045	10,836	12,359	16,213	18,808	24,950	22,697	26,869	32,220	37,871	39,318	43,550	42,511	50,850	57,325	63,700	64,826	74,053	69,752	71,150	73,000	81,720								
Book Value PS	\$3.49	\$4.07	\$4.59	\$5.83	\$6.76	\$8.20	\$7.65	\$9.05	\$10.71	\$12.73	\$13.59	\$15.30	\$15.37	\$18.49	\$20.96	\$23.46	\$23.33	\$26.26	\$25.06	\$25.82	\$26.99	\$30.27								
LT Debt (mln)	2,107	1,410	1,126	2,450	2,037	2,200	2,022	2,955	2,565	2,017	2,014	7,074	8,120	8,200	9,250	12,696	11,489	13,328	15,112	12,857	23,250	23,000								
Return On Eq.	26.6%	26.6%	26.7%	26.0%	25.5%	23.6%	30.0%	26.8%	28.9%	27.8%	28.3%	27.7%	28.1%	25.4%	23.2%	20.4%	21.1%	21.5%	25.1%	21.9%	22.3%	22.0%								
Return On Cap	21.5%	23.6%	24.5%	22.6%	23.0%	21.7%	27.6%	24.1%	26.8%	26.4%	26.9%	23.9%	23.6%	21.9%	19.9%	17.0%	17.9%	18.2%	20.6%	18.5%	16.9%	17.2%								

Description:

Instructions:

Analysis:

Observations:

Investment Characteristics

Earnings Analysis:

Use Of Earnings Analysis:

Growth Rate %: 9.87%

Avg Div Payout %: 42.63%

Quality %: 93.93%

Avg Stk Buyback %: 3.58%

	1995	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (mln)	18,842	21,620	22,629	27,471	29,172	32,317	36,298	41,862	46,210	50,514	53,324	61,095	63,747	61,897	61,587	65,030	67,224	71,312	74,331	70,074	72,100	75,000
SPS	\$7.27	\$8.11	\$8.41	\$9.88	\$10.47	\$10.80	\$12.23	\$13.42	\$15.55	\$16.98	\$18.43	\$21.45	\$23.05	\$22.50	\$22.52	\$23.95	\$24.19	\$25.29	\$26.71	\$25.43	\$26.65	\$27.78
Adj. Sales (mln)																						

Sales Analysis:

Sales Analysis (last 5 yrs.):

Growth Rate %: 7.34%

Growth Rate %: 2.09%

Growth Rate PS %: 7.10%

Growth Rate PS %: 2.16%

	1995	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Oper. Margin	23.2%	24.6%	25.1%	27.0%	27.4%	29.0%	31.2%	30.5%	32.0%	32.0%	30.8%	29.6%	30.9%	30.5%	31.8%	32.0%	35.7%	33.3%	33.7%	33.5%	34.0%	35.0%
Tax Rate	27.6%	28.4%	27.8%	27.5%	27.5%	27.6%	29.6%	30.2%	27.6%	24.0%	23.3%	23.4%	24.0%	22.0%	21.1%	20.1%	23.1%	17.2%	20.6%	19.7%	18.0%	20.0%
Deprec. (mln)	857.0	1,009.0	1,067.0	1,444.0	1,515.0	1,655.0	1,662.0	1,869.0	2,020.0	2,093.0	2,177.0	2,495.0	2,832.0	2,270.0	2,900.0	3,158.0	3,666.0	4,104.0	3,895.0	3,746.0	3,600.0	3,635.0
Depreciation %	35.66%	34.95%	32.30%	34.31%	31.56%	28.06%	24.40%	25.97%	21.69%	19.85%	19.55%	20.65%	23.73%	17.59%	21.84%	24.29%	26.83%	25.76%	22.23%	24.09%	22.15%	20.19%

Description:

Instructions:

Analysis:

Observations:

Description & Analysis of Profitability (mlns):

	2000														2013	2014	2015				
Revenues:	6.3%	29,172													71,312	74,331	70,074				
3% Consumer - Domestic: % of rev.		3,403	11.7%	10.7%	9.9%	9.5%	8.9%	8.7%	8.6%	10.5%	10.9%	11.0%	9.0%	7.9%	7.5%	5,197	7.3%	5,096	6.9%	5,222	7.5%
7% Consumer - International		2,868	9.8%	8.9%	8.2%	8.3%	8.7%	9.3%	9.8%	13.2%	14.3%	14.5%	14.7%	15.0%	14.0%	9,500	13.3%	9,400	12.6%	8,285	11.8%
5% Pharmaceutical - Domestic		8,441	28.9%	31.7%	32.8%	31.7%	31.6%	28.7%	28.3%	25.5%	23.3%	21.1%	20.3%	19.0%	18.5%	13,925	19.5%	17,432	23.5%	18,333	26.2%
8% Pharmaceutical - International		4,220	14.5%	14.3%	14.4%	14.9%	15.1%	15.5%	15.3%	15.2%	15.3%	15.3%	16.0%	18.4%	19.2%	14,200	19.9%	14,881	20.0%	13,097	18.7%
5% Med Devices & Diag - Domestic		5,472	18.8%	19.0%	19.1%	19.2%	18.1%	18.8%	19.0%	17.1%	16.5%	17.8%	18.5%	17.5%	18.4%	12,790	17.9%	12,254	16.5%	12,132	17.3%
7% Med Devices & Diag - Internatic		4,768	16.3%	15.5%	15.6%	16.4%	17.5%	19.0%	19.1%	18.5%	19.7%	20.3%	21.4%	22.2%	22.4%	15,700	22.0%	15,268	20.5%	13,005	18.6%
Expenses:	5.9%	22,623													52,355	53,194	51,785				
6% Cost of goods sold: % of rev.		8,957	30.7%	29.6%	28.8%	29.1%	28.3%	27.6%	28.2%	29.1%	29.0%	29.8%	30.5%	31.3%	32.2%	22,342	31.3%	22,746	30.6%	21,536	30.7%
5% Selling, general and administ		10,495	36.0%	34.8%	33.7%	33.8%	33.5%	33.4%	32.7%	33.5%	33.7%	32.0%	31.5%	32.2%	31.0%	21,830	30.6%	21,954	29.5%	21,203	30.3%
7% Research and development €		3,105	10.6%	11.1%	10.9%	11.2%	11.0%	12.5%	13.4%	12.6%	11.9%	11.3%	11.1%	11.6%	11.4%	8,183	11.5%	8,494	11.4%	9,046	12.9%
Acquired in-process research		66	0.2%	0.3%	0.5%	2.2%	0.0%	0.7%	1.0%	1.3%	0.3%	0.0%	0.0%	0.0%	0.0%	-	0.0%	-	0.0%	-	0.0%
EBITDA:	7.5%	8,064	27.6%	29.2%	30.7%	28.2%	31.4%	29.9%	29.3%	28.1%	29.5%	31.4%	31.6%	29.7%	30.8%	23,061	32.3%	25,032	33.7%	22,035	31.4%
6% Amortization/Dep.		1,515														4,104		3,895		3,746	
"Free" Cash Flow	8.3%	6,375	21.9%	23.8%	24.9%	22.8%	26.8%	24.7%	24.3%	23.3%	24.7%	27.6%	27.7%	25.2%	26.4%	19,466	27.3%	21,318	28.7%	18,572	26.5%
5% Capital Expenditures		1,689														3,595		3,714		3,463	
Operating Income/Margin:	8.2%	6,549	22.4%	24.1%	26.1%	23.8%	27.1%	25.8%	24.7%	23.6%	25.1%	26.9%	26.8%	25.9%	26.7%	20,320	28.5%	22,250	29.9%	19,502	27.8%
Consumer			15.9%	18.7%	18.7%	18.2%	18.3%	14.1%	15.7%	16.7%	15.7%	16.1%	14.1%	11.7%		1,973	13.4%	1,941	13.4%	1,787	13.2%
Pharmaceutical			33.2%	33.7%	30.2%	34.4%	29.6%	29.6%	26.3%	31.0%	28.5%	31.6%	26.3%	24.0%		9,178	32.6%	11,696	36.2%	11,734	37.3%
Med Devices & Diag			18.0%	19.8%	22.6%	24.2%	28.4%	30.2%	22.3%	31.2%	32.6%	33.6%	20.4%	26.2%		5,261	18.5%	7,953	28.9%	6,826	27.2%
External Costs:	6.7%	2,046														4,390		4,728		3,953	
Taxes: % of EBT		1,915	29.8%	28.2%	29.0%	30.2%	33.7%	23.8%	24.2%	19.3%	25.0%	21.4%	22.3%	20.5%	21.8%	3,982	20.0%	4,262	19.6%	3,529	18.5%
Interest Expense, Net		131														408		466		424	
Earnings:	8.6%	4,503	15.4%	17.5%	18.2%	17.2%	18.0%	20.6%	20.7%	18.5%	18.7%	20.7%	20.4%	20.0%	20.3%	15,930	22.3%	17,522	23.6%	15,549	22.2%
Dividend Paid/% of FCF:	11.8%	1,725	27.1%	27.7%	26.2%	28.9%	25.8%	30.5%	32.5%	32.4%	31.6%	31.1%	33.8%	37.2%	37.5%	7,304	37.5%	7,682	36.0%	8,128	43.8%
Common Stock/% of FCF:		-108	-1.7%	#####	47.8%	0.2%	-1.3%	-1.8%	38.9%	19.4%	33.4%	4.7%	5.4%	7.6%	-23.9%	-3,445	-17.7%	3,578	16.8%	2,645	14.2%
Share buybacks: Stmt of C. F.																879		5,342		3,995	
Net Bness Acquisition:																377		-2,502		-2,510	
Purchases																835		2,129		954	
Dispositions																(458)		(4,631)		(3,464)	

Description: The non-US portion continues to accelerate, while the US continues to decline and become less than 50%.

Instructions:

Analysis:

Observations: Capex growth rates seem low relative to depreciation and top line growth because acquisitions are not included. JNJ has performed well relative to Big Pharma because of its non-Pharm aspects.

The Pharm business has been doing better overseas as emerging markets make purchases. The US market is moving more quickly to generic products. In Devices, the overseas market lacks the income to increase purchases. The US market continues to be the best one for devices, although managed healthcare is affecting margins.

Margins are declining because of the health reform fee of 2% which is not tax deductible, plus margin pressure because of pricing and austerity measures.

Sales rebate rules under Medicaid impact at about the 4% US Pharma sales and the excise tax of 2.3% is deductible and impacts medical devices.

Balance Sheet (in millions):

		2000	2009	2010	2011	2012	2013	2014	2015
Assets:	9.5%	34,245	94,682	102,908	113,644	121,347	132,683	131,119	133,411
Cash		4,278	15,810	19,355	24,542	14,911	20,927	14,523	13,732
Marketable securities		2,479	3,615	8,303	7,719	6,178	8,279	18,566	24,644
Accts rec. less allow.		4,601	9,646	9,774	10,581	11,309	11,713	10,985	10,734
Inventories		2,905	5,180	5,378	6,285	7,495	7,878	8,184	8,053
Other current assets inc.def.taxes		1,174	2,793	2,224	2,556	3,139	3,607	3,567	0
Prepaid expenses and other receivables		1,254	2,497	2,273	2,633	3,084	4,003	3,486	3,047
Investments		657							
Prop. Plant & Equipt., Net		7,409	14,759	14,553	14,739	16,097	16,710	16,126	15,905
Intangible assets		7,535	31,185	32,010	34,276	51,176	50,745	49,054	47,393
Deferred taxes on income		240	5,507	5,096	6,540	4,541	3,872	3,396	5,490
Other assets		1,713	3,690	3,942	3,773	3,417	4,949	3,232	4,413
Liabilities:	10.5%	13,850	44,094	46,359	56,564	56,521	58,630	61,367	62,261
Loans and notes payable		1,489	6,318	7,617	6,658	4,676	4,852	3,638	7,004
Accounts payable		2,122	5,541	5,623	5,725	5,831	6,266	7,633	6,668
Accrued liabilities		2,793	5,796	4,100	4,608	7,299	7,685	6,553	5,411
Accrued rebates, returns and promotions			2,028	2,512	2,637	2,969	3,308	4,010	5,440
Income taxes payable		322	442	578	854	1,064	770	500	750
Accrued salaries, wages and commissic		529	1,606	2,642	2,329	2,423	2,794	2,751	2,474
Long-term debt		3,163	8,223	9,156	12,969	11,489	13,328	15,122	12,857
Deferred tax liability		255	1,424	1,477	1,800	3,136	3,989	3,154	2,562
Employee related obligations		1,804	6,769	6,087	8,353	9,082	7,784	9,972	8,854
Other noncurrent liabilities		1,373	5,947	6,567	10,631	8,552	7,854	8,034	10,241
Shareholder's Equity:	8.7%	20,395	50,588	56,579	57,080	64,826	74,053	69,752	71,150
Common Stock		3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120
Note receivable from employee stock ov		-35	0	0	0	0	0	0	0
Accumulated other comprehensive inco		-461	-3,058	-3,531	-5,632	-5,810	-2,860	-10,722	-13,165
Retained earnings		18,113	70,306	77,773	81,251	85,992	89,493	97,245	103,879
Less treasury stock, at cost		-342	-19,780	-20,783	-21,659	-18,476	-15,700	-19,891	-22,684

Description:

Instructions:

Analysis: JNJ continues to build financial flexibility in order to make timely acquisitions.
But seems like a reverse bank: invest short and borrow long

Observations:

Industry Overview

The pharmaceutical industry is huge globally and is the only one directly positioned to help people live longer, feel better and look better. In recognition of the vulnerability of susceptible consumers, the U.S. and EU developed the best asset and greatest liability of the pharmaceutical industry: the regulatory bodies. The burdensome requirements for drug testing prior to widespread use are criticized for slowing down critical application, but must be recognized for putting the pharmaceutical companies on a credible basis. Drugs are a wonderful business, with pricing power, high margins and consistent demand. Further the economy does not directly affect it. However, there are significant risks in the profitability area because of pharmacy benefit manager pricing pressure. Further, there are internet threat issues. Finally, as always, there are issues with product liability and litigation.

Industry Comparisons

Operating Statistics:

Company	Yrs.Paybk	Sales	ROC	Operating Margin
ABT	1.80	20,405	11.85%	27.00%
GSK	2.88	37,000	14.00%	24.00%
JNJ	-1.19	72,100	16.88%	34.00%
LLY	2.20	20,000	16.00%	26.00%
MRK	2.30	39,700	15.00%	33.50%
PFE	3.00	46,500	10.00%	48.00%
TEVA	2.00	19,400	13.00%	37.50%

Market Statistics:

Company	P/B	P/E	Divd. Yld.	EV/Sales
ABT	2.84	18.8	2.12%	3.29
GSK	13.84	19.3	6.45%	3.46
JNJ	4.19	18.8	2.86%	4.24
LLY	6.10	25.2	2.47%	5.00
MRK	3.86	15.7	3.37%	4.41
PFE	3.50	24.1	3.20%	4.73
TEVA	2.00	12.0	2.87%	3.09

Qualitative Characteristics

Positives:

Negatives:

Product/Service:

Pricing Power:	Patented drugs have enormous pricing power.
Durability:	Limited
Brand Appeal:	
Unique:	
Role Of Media:	Not important
Toll Bridge:	Perfect toll bridge, especially for seniors.
Global Opportunity	Yes
Competition	
Economic Risk:	Economy does not directly affect profitability.
Government Role	
Role Of Technology:	
Supply/Demand:	Aging populations in wealthy regions

Yes, due to third party pmts and lawyers
Generics become rapid takeover after patent expires.
Not compelling for cheaper deal
None
Risk of int'l pricing and generics.
Government can severely affect pricing.
Internet presence could circumvent FDA.
Pension plans in old companies.
Adverse health effects could cause major lawsuits.
Required to move forward
Domestic
Highly compensated and stacked for mgmt.

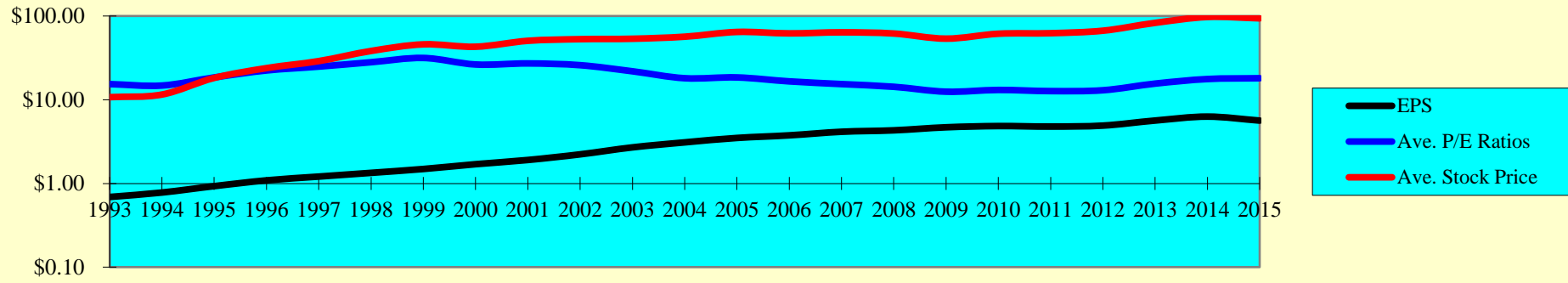
Financial:

Business Model:	Narrowly focused.
High Capital Reinv.:	
Effective As Public:	Yes
Ownership:	
Growth:	High
Concentration:	

Management:

Proxy Information:	Highly experienced.
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Average Stock Price vs. Average P/E vs. EPS



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EPS	\$0.69	\$0.78	\$0.93	\$1.09	\$1.21	\$1.34	\$1.49	\$1.70	\$1.91	\$2.23	\$2.70	\$3.10	\$3.50	\$3.76	\$4.15	\$4.32	\$4.69	\$4.86	\$4.79	\$4.92	\$5.65	\$6.30	\$5.64
Ave. P/E Ratio	15.40	14.80	18.50	22.40	24.90	28.10	31.60	26.40	27.20	25.90	21.90	18.10	18.50	16.60	15.40	14.30	12.50	13.10	12.70	13.00	15.60	17.70	18.10
Ave. Stock Price	10.75	11.55	18.25	23.90	29.00	38.30	45.95	43.05	50.65	53.00	53.60	56.70	64.60	62.15	63.95	61.90	53.75	61.55	62.45	66.85	83.00	97.50	94.00

Price/Earnings Ratio: used - \$6.01
 Twenty-two year average low 16.1
 Twenty-two year average high 21.7

If we set the purchase at the ave. Twenty-two year low P/E,
 the price implied is: **\$96.65**

If we set the sell at the ave. Twenty-two year high P/E,
 the price implied is: **\$130.45**

Price/Book Ratio: used - \$26.99
 Twenty-two year average low 4.2
 Twenty-two year average high 5.6

If we set the purchase at the ave. Twenty-two year low P/B,
 the price implied is: **\$112.27**

If we set the sell at the ave. Twenty-two year high P/B,
 the price implied is: **\$151.83**

Price/Sales Ratio: used - \$26.65
 Twenty-two year average low 2.91
 Twenty-two year average high 3.87

If we set the purchase at the ave. Twenty-two year low P/S,
 the price implied is: **\$77.45**

If we set the sell at the ave. Twenty-two year high P/S,
 the price implied is: #####

Price/Cash Flow Ratio: used - \$7.34
 Twenty-two year average low 12.8
 Twenty-two year average high 17.1

If we set the purchase at the ave. Twenty-two year low P/CF,
 the price implied is: **\$94.05**

If we set the sell at the ave. Twenty-two year high P/CF,
 the price implied is: **\$125.77**

Initial Rate of Investment	
Current Price	\$113.00
Current EPS	\$6.01
Initial ROI	5.32%

Relative Value to Investment In T-Bonds	
Current EPS	\$6.01
T-Bond Rate	4.00%
Relative Value	\$150.18

Capital "charge" approach

22,035	ebitda
0.12	required return
0.07	growth rate (not on EPS basis) (due to volume growth in emerging mkts)
0.7	% not required (stated in 2015 ar)
0.071	denominator
310,352	ev
-18,515	debt
328,867	equity value
2705	shares
121.58	share value
72.95	buy at 60%
145.89	sell at 120%

Valuation as an Equity Bond:	
Current BV	\$26.99
Current ROE	22.26%
Retained %	37.37%
Net BV Growth	8.32%
BV in Year 10	\$60.01
EPS in Year 10	\$13.36
Valueat20,P/E	\$267.17
Total Dividends	\$50.77
Total F.Value	\$317.94
Purchaseat14%	\$85.76

Valuation on Earnings Growth:	
Current EPS	\$6.01
EPS in Year 10	\$12.97
Ave. P/E Ratio	19.25
Valueat20,P/E	\$310.16
Price Return	8.66%
Dividend Return	2.86%
Total Return	11.53%
Purchaseat14%	\$83.66
Sellat6%	\$173.19

Sum Of The Parts Valuation:	EBIT	Shares	EBIT/Share	Multiple	Value
Consumer	1,787	2755.162	0.65	18	11.67
Pharmaceutical	11,734	2755.162	4.26	16	68.14
Med Devices & Diag	6,826	2755.162	2.48	16	39.64
Cash	38,376	2755.162	13.93	1	13.93
Total					133.39
Less Debt	29,001	2755.162	10.53		(10.53)
Basic Value					122.86
60% of basic value					73.72

History of Buys/Sells

by	Johnson & J	5/29/2002	30	1,844	61.46	1.50%
by	Johnson & J	7/19/2002	50	2,203	44.05	1.00%
by	Johnson & J	9/2/2003	30	1,487	49.56	3.00%
by	Johnson & J	9/8/2003	100	5,127	51.27	3.00%
by	Johnson & J	1/27/2004	125	6,706	53.65	4.50%
sl	Johnson & J	10/11/2004	-30	1,653	55.08	3.00%
sl	Johnson & J	10/11/2004	-50	2,754	55.08	3.00%
sl	Johnson & J	10/11/2004	-30	1,653	55.08	3.00%
sl	Johnson & J	10/11/2004	-15	826	55.08	3.00%
by	Johnson & J	3/1/2007	20	1,247	62.36	3.00%
by	nson & John	3/2/2009	70.00	3,437	49.11	5.00%
by	nson & John	10/11/2010	60.00	3,794	63.24	4.50%
sl	nson & John	1/10/2014	-71.00	6,698	94.34	2.50%
sl	nson & John	1/10/2014	-20.00	1,887	94.34	2.50%
sl	nson & John	1/10/2014	-60.00	5,661	94.34	2.50%
			209.00			

Discussion of Buys/Sells

What: The return of the first purchase of JNJ (bought 5/29/2002 to 10/11/2004) was -16% and SP 4% for an underperformance of 20% (over 2.5 years).
The return of the second purchase of JNJ (bought 7/19/2002 to 10/11/2004) was 37% and SP 29% for an outperformance of 8% (nearly 2 years).
The return of the third purchase of JNJ (bought 9/2/2003 to 10/11/2004) was 14% and SP 13% for an outperformance of 1%.
The return of the fourth purchase of JNJ (bought 9/8/2003 to 10/11/2004 and 1/10/2014) was 14% and SP 12% for an outperformance of 2%.
The return of the fifth purchase of JNJ (bought 1/27/2004 to 1/10/2014 and to current) was 73% and SP 61% for an outperformance of 12% (nearly 10 yrs) and 88% vs 82% for an outperformance of 6% (nearly 11.5 yrs).
The return of the sixth purchase of JNJ (bought 3/1/2007 to 1/10/2014) was 53% and SP 26% for an outperformance of 27% (nearly 7 yrs)
The return of the seventh purchase of JNJ (bought 3/2/2009 to current) was 110% and SP 204% for an underperformance of 94% (nearly 6.5 yrs)
The return of the eighth purchase of JNJ (bought 10/11/2010 to current) was 60% and SP 79% for an underperformance of 19% (nearly 5 yrs)
The return of JNJ since 5/30/2002 until current was 65% and SP 90% for an underperformance of 25% (over nearly 13 years).
JNJ's long run returns are somewhat correlated with, but higher than, SP, with periods of underperformance following periods of outperformance
Since our sale of JNJ on 1/10/2014, JNJ has been up 19% and SP up 11%.

So what: It appears that we ended up purchasing an "equity bond" which we had researched for shortly before purchase.
On our purchase, we bought a group of pharmaceutical companies as a "mutual fund" because the pipelines were difficult to assess but the group seemed safe as a Tier II.
On our first purchase, we paid nearly 30X current earnings with a 3X as large position bc of med device, pharma and consumer.
Shortly after our first "unpriced" purchase, JNJ dropped and we purchased more at 20X earnings.
As our pricing increased, we purchased more in 2003 and early 2004 with 10 year earnings estimates of \$8.50 which came in at \$5.6.
In 2004, we updated the report to account for slowing earnings, dropping the 10 yr est to \$7 which came in at nearly \$6 and we trimmed our position.
On our next purchase in 2007, we priced JNJ individually but without regard to a group allocation. We set it as a Tier II.
On this purchase, we paid about 12X prior yr earnings at a time JNJ price had stagnated for years.
The following two purchases in 2009 and 2010 were made during significant uncertainty where JNJ had held value as it was a "safe haven."

Now what: Our discipline works very well with "equity bonds" that have consistent earnings.
We made our first purchase at a "non-priced" level and paid for it with underperformance.
When JNJ dropped, we did follow our discipline and purchase and that worked well for outperformance.
Relative performance was driven by purchasing relative to SP returns. When JNJ had been underperforming, results were good and vice versa.
JNJ did have a shift in performance when Gorsky took over in april 2012 and Weldon resigned.
JNJ has spent significant sums on acquisitions and R&D, but has been able to grow revenues at the levels with 50% retention.
It is unclear why JNJ was so much more successful in its R&D and thus, maintaining revenues and profits, versus GSK.

Takeaway: our pricing discipline works very well on downturns
Takeaway: do not purchase JNJ at periods of outperformance, like in 2009 and 2010 when JNJ had outperformed as a "safe haven"
Takeaway: buy JNJ (and companies like it) when it has had periods of underperformance because it is "boring."

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<i>Sales (mln)</i>	\$36,298.00	\$41,862.00	\$46,210.00	\$50,514.00	\$51,567.50	\$52,642.97	\$53,740.87	\$54,861.66	\$56,005.83	\$57,173.87	\$58,366.26	\$59,583.52	\$60,826.17	\$62,094.74
<i>SPS</i>	\$12.23	\$14.10	\$15.55	\$16.98	\$17.26	\$17.54	\$17.82	\$18.11	\$18.41	\$18.71	\$19.01	\$19.32	\$19.63	\$19.95
<i>Earnings (mln)</i>	\$6,810.80	\$7,197.00	\$9,311.40	\$10,545.00	\$11,810.40	\$13,227.65	\$14,814.97	\$16,592.76	\$18,583.89	\$20,813.96	\$23,311.64	\$26,109.03	\$29,242.12	\$32,751.17
<i>EPS</i>	\$2.29	\$2.42	\$3.13	\$3.55	\$3.95	\$4.41	\$4.91	\$5.48	\$6.11	\$6.81	\$7.59	\$8.46	\$9.44	\$10.52
<i>Operating EPS</i>	\$2.29	\$2.42	\$3.13	\$3.55	\$3.95	\$4.41	\$4.91	\$5.48	\$6.11	\$6.81	\$7.59	\$8.46	\$9.44	\$10.52
<i>Shares Outstdg.</i>	2968.30	2968.00	2971.00	2974.50	2988.02	3001.60	3015.25	3028.95	3042.72	3056.55	3070.44	3084.40	3098.42	3112.50
<i>Buyback \$ (mln)</i>	(\$681.08)	(\$719.70)	(\$931.14)	(\$1,054.50)	(\$1,181.04)	(\$1,322.76)	(\$1,481.50)	(\$1,659.28)	(\$1,858.39)	(\$2,081.40)	(\$2,331.16)	(\$2,610.90)	(\$2,924.21)	(\$3,275.12)
<i>#ShresBuyback</i>	(13,492,273)	(13,490,909)	(13,504,545)	(13,520,455)	(13,581,911)	(13,643,647)	(13,705,664)	(13,767,962)	(13,830,544)	(13,893,410)	(13,956,562)	(14,020,001)	(14,083,728)	(14,147,745)
<i>Ave. P/E Ratio</i>	22.00													

0.18763568 0.17192203 0.20150184 0.20875401 0.22902798 0.25127094 0.27567411 0.3024473 0.33182066 0.36404674 0.39940258 0.43819215 0.48074891 0.52743875