

Date: 4/19/2014

Analyst Name: Connor McCulloh

CIF Stock Recommendation Report (Spring 2014)

Company Name and Ticker: Johnson & Johnson (JNJ)

Section (A) Investment Summary

| | | | |
|---|--|---|---|
| Recommendation Buy: Yes No | | Target Price: \$113.80 (+15%) | Stop-Loss Price: \$89.06% (-10%) |
| Sector: Healthcare | Industry: Pharmaceuticals | Market Cap (in Billions): 279,890.91 | # of Shrs. O/S (in Millions): 2,828.32 |
| Current Price: \$98.96 | 52 WK Hi: \$99.71 | 52 WK Low: \$82.12 | EBO Valuation: \$101.83 |
| Morningstar (MS) Fair Value Est.: \$99.00 | MS FV Uncertainty: Low | MS Consider Buying: \$79.20 | MS Consider Selling: \$123.75 |
| EPS (TTM): 4.81 | EPS (FY1): 5.88 | EPS (FY2): 6.33 | MS Star Rating: 3 Stars |
| Next Fiscal Yr. End: December 2014 | Last Fiscal Qtr. End: Less Than 8 WK: Y N | If Less Than 8 WK, next Earnings Ann. Date: Further than 8 weeks | Analyst Consensus Recommendation: Outperform/ Hold |
| Forward P/E: 15.47 | Mean LT Growth: 7.18% | PEG: 2.60 | Beta: 0.59 |
| % Inst. Ownership: 67.91% | Inst. Ownership- Net Buy: Y N | Short Interest Ratio: 3.60 | Short as % of Float: 1.10% |
| <u>Ratio Analysis</u> | <u>Company</u> | <u>Industry</u> | <u>Sector</u> |
| P/E (TTM) | 18.92 | 33.26 | 33.35 |
| P/S (TTM) | 3.89 | 4.73 | 5.16 |
| P/B (MRQ) | 3.69 | 6.67 | 6.48 |
| P/CF (TTM) | 15.28 | 25.49 | 24.86 |
| Dividend Yield | 2.67 | 1.67 | 1.63 |
| Total Debt/Equity (MRQ) | -- | 9.84 | 11.63 |
| Net Profit Margin (TTM) | 20.94 | 8.44 | 5.42 |
| ROA (TTM) | 11.01 | 13.67 | 8.29 |
| ROE (TTM) | 20.86 | 20.35 | 19.68 |

| | |
|---|--|
| <p><u>Investment Thesis</u></p> <p>After doing a considerable amount of research I would like to recommend that the Cougar Investment Fund BUY the Johnson & Johnson (JNJ) stock for our portfolio.</p> <p>Pros:</p> <ul style="list-style-type: none"> • High amount of revenue being brought in by new drugs and products • Very wide and diverse economic moat • Beat Revenues and Earnings Per Share in last week's earnings report. • Biggest firm in the healthcare sector. <p>Cons:</p> <ul style="list-style-type: none"> • Pending litigations and various other legal issues. • Competitive nature within the industry regarding research and development • Not favorable analyst estimates and relative valuation. | <p><u>Summary</u> Provide brief summary of your analysis in each section that follows</p> <p><u>Company Profile:</u> Johnson & Johnson is a holding company, which is engaged in the research and development, manufacture and sale of a range of products in the healthcare field within its consumer, pharmaceutical and medical devices, and diagnostics business segments.</p> <p><u>Fundamental Valuation:</u> The EOB valuation for JNJ ended up having an implied price of \$101.83 which is above the current trading price of \$98.96.</p> <p><u>Relative Valuation:</u> Johnson & Johnson has similar numbers to its competitors because of how competitive the sector. However, JNJ was still able to reach numbers that support the fact that they may be undervalued.</p> <p><u>Revenue and Earnings Estimates:</u> Johnson & Johnson have been able to beat every revenue and earnings estimate while also being able to improve the total amount that is brought in quarter to quarter.</p> <p><u>Analyst Recommendations:</u> The mean recommendation number on Reuters is 2.38. However there is an improving outlook due to the most recent earnings report that recently came out.</p> <p><u>Institutional Ownership:</u> The total institutional ownership is 67.91%, the mutual fund ownership is 31.03% and the top ten institutional ownership is 22.66%.</p> <p><u>Short Interest:</u> Johnson & Johnson's short interest ratio is 31,078,666, average daily share volume 10,166,169 and days to cover is 3.057 days with a decreasing outlook.</p> <p><u>Stock Price Chart:</u> Recently JNJ has been able to outperform the other comparables while in the five year chart it has underperformed.</p> |
|---|--|

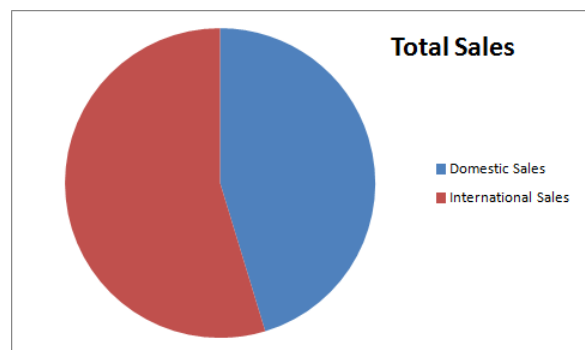
Section (B) Company Profile

(B-1) Profile

Description

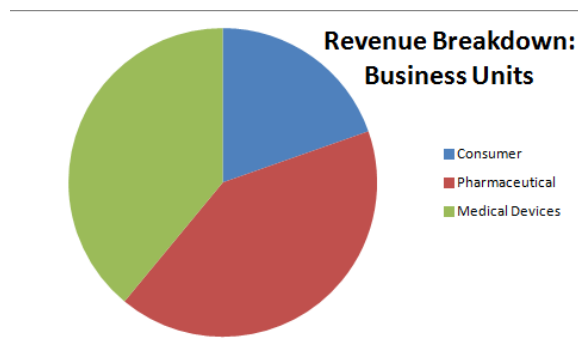
Johnson & Johnson is a holding company, which is engaged in the research and development, manufacture and sale of a range of products in the healthcare field within its consumer, pharmaceutical and medical devices, and diagnostics business segments (Morningstar). JNJ operates nearly everywhere in the world, as stated in its most recent 10-K. They currently employ 128,100 people worldwide with 275 operating companies conducting business all over the globe. Johnson & Johnson also was incorporated and currently has its headquarters in the state New Jersey.

As you can see in the chart to the right Johnson & Johnson does a lot of their business internationally. In this most recent quarter that ended April 15, 2014, the company sold a total \$9,911 million internationally and \$8,204 million domestically. Johnson & Johnson has 144 operating manufacturing facilities which equivocate to 21.7 million square feet worldwide.



Business Units

Johnson & Johnson is broken up into three separate business units; they are consumer, pharmaceutical and medical devices and diagnostics. The Consumer segment includes a broad range of products used in the baby care, skin care, oral care, wound care and women's health fields, as well as nutritionals, over-the-counter pharmaceutical products and wellness and



prevention platforms (10-K). The Pharmaceutical segment includes products in the following areas: anti-infective, antipsychotic, cardiovascular, contraceptive, gastrointestinal, hematology, immunology, infectious diseases, metabolic, neurology, oncology, pain management and vaccines (10-K). These products are sold directly to retailer, wholesalers and health care

professionals that use these products for prescriptions. The Medical Devices and Diagnostics segment includes a broad range of products distributed to wholesalers, hospitals and retailers, used principally in the professional fields by physicians, nurses, hospitals, and clinics (10-K).

Those three business units are shown in the chart to the left which shows how much revenue each unit is responsible for. The pharmaceutical division is the biggest contributor to bringing in revenue by bringing in 41.39% of it with a total amount of \$7,498 million. A close second in bringing in revenue was the medical devices and diagnostics unit. This unit was responsible for 38.97% of the revenue brought in which totaled \$7,060 million. The unit that had the smallest share of bringing in revenue was the consumer unit. This unit contributed \$3,557 million which equivocated to 19.64% of all of the total revenue.

Business Model and Competition

The business model for Johnson & Johnson is that they are a holding company that has a primary focus that is related to human health and well-being. Currently JNJ states that they compete in roughly one third of the world's total healthcare industry (JNJ Website). As a holding company this means JNJ is frequently bringing in other companies to operate as a part of JNJ which is why there are 275 operating companies under the JNJ name. The company is managed and looking for long term growth and to continue to build shareholder value as time goes on. As a result of this belief, JNJ mentions that 70% of their total sales come from products that are number one and two in market share (JNJ Website). Even though the company makes frequent acquisitions they still believe in and do most of the growing organically which is why they invested \$8,183 million in research and development in 2013 (10-K). Approximately two thirds of JNJ's growth over the last ten years can be attributed to organic growth tied to innovation with the other third coming from licensing, partnerships and acquisitions (JNJ Website). As for the competition Johnson & Johnson faces there is not a lot of it because of the sheer size of the company. As mentioned earlier JNJ has 70% of their total sales come from products that are number one and two in market share. The company mentions that the strongest competition comes from the research and development aspect as well as continuing to improve current products (10-K). Morningstar also believes JNJ has a very large economic moat because of the amount of unique drugs it has in its pipeline. The Morningstar analyst goes on to state that, "The company maintains a diverse revenue base, a robust pipeline and exceptional cash flow that together generate a wide economic moat" and that "Johnson & Johnson stands alone as the leader in the across the major healthcare industries" (Morningstar).

Sensitivity and Macro Environment

The sensitivity to the business cycle and the macro environment is not too significant because of the fact that they operate in the healthcare sector. This is because JNJ has products that help heal people when they are sick, which continues to be an essential product for most people even in a down economy. Johnson & Johnson also has a very wide range of products so even in a struggling economy they still have a diverse revenue base. The company also mentions that

their worldwide sales don't reflect any significant degree of seasonality, however they do note that spending is usually higher in fourth quarter of every year than any other quarters.

Acquisitions and Mergers

The most recent merger for Johnson & Johnson was announced back on April 27, 2011 when the company decided to merge with a company called Synthes. Synthes specializes in the production of orthopaedic devices and with this addition Synthes became one of the largest companies in the medical devices unit of JNJ. This merger complimented a firm JNJ had also already had DePuy "DePuy and Synthes together will create the most innovative and comprehensive orthopaedics business in the world and enable us to better serve clinicians and patients worldwide," said Bill Weldon, the now retired Chairman and CEO of JNJ.

"Orthopaedics is a large and growing \$37 billion global market and represents an important growth driver for Johnson & Johnson. Synthes is widely respected for its innovative high-quality products, world-class R&D capabilities, its commitment to education, the highest standards of service, and extensive global footprint" (JNJ Website). The merger cost Johnson & Johnson a total of \$21.3 billion which was equal to CHF 159.0 per share.

Other than the merger with Synthes there have not been any other acquisitions and mergers since. There have been some notable transactions that have occurred recently where Johnson & Johnson has been selling off some of its assets. For example, on January 16th of this year JNJ sold its Ortho-Clinical diagnostics unit to the Carlyle Group for \$4.15 billion. "This transaction is a result of our disciplined approach to portfolio management in order to achieve the greatest value for Johnson & Johnson," JNJ CEO Alex Gorsky says (Seeking Alpha). Another move made by JNJ was the recent sale of the K-Y brand to Reckitt Banckise, the brand reportedly brought in \$100 million of sales in 2013.

Pending Litigations

Johnson & Johnson have had a little bit of a history of bad quality control of its drugs that it produces which has gotten them into multiple litigations. One of the most notable cases came from what happened with one of their drugs called Risperdal which was used to treat people with conditions including schizophrenia, bipolar disorder, and irritability in people with autism (Reuters). The main problem with the drug was that it increased the breast tissue in both male and female patients and weren't warned about the side effect. This would then lead to 420 lawsuits in 45 states and JNJ is still feeling the effects of all of these cases. For example, the Arkansas Supreme Court ruled on March 20th that JNJ did not have to pay \$1.2 billion judgment that the company had already received. This was the third largest settlement in the healthcare industry's history, and JNJ still had to pay the states lawyer fees of \$181 million (Reuters). JNJ also had another problem with quality control and actually ended up being sued by the

investors. This was because the FDA inspectors found multiple problems at the company's Fort Washington, Pennsylvania plant. The problems included bacterial contamination and reportedly filthy equipment; this plant would be later shutdown. Some of the products that were recalled included children's Tylenol in what the FDA called the largest recall of children's medicine ever (Reuters). Investors filed a lawsuit because they believed that the company had cut back on quality control measures and then tried to conceal information from investors and the public. It ended in \$22.9 million settlement July 13, 2013. This was not be the first time JNJ was accused of trying to conceal information from the public and investors. JNJ had some serious issues with the children Motrin product and eventually had to recall millions of bottles. Before JNJ did this it is believed that they were using a third party to secretly take the products out of the stores. JNJ is still dealing with many of the lawsuits that these side effects caused, and most recently paid \$63 million to a Massachusetts teen who suffered from serious skin loss and blindness. Johnson & Johnson was also involved in a nearly \$2.5 billion to compensate the nearly 8,000 patients who had to get the surgery redone to fix the issues with the equipment from the company (New York Times). All of these settlements and lawsuits are coming from instances that happened a number of years ago when Bill Weldon was still the CEO. In April 2012 he stepped down from CEO mainly because of all the recalls that happened while he was in charge. Many blamed him because he was really focused on cutting the costs of the company while overlooking quality controls (CNN Money). As a SEC official stated, "J&J chose profit margins over compliance with the law". The man who replaced Weldon is Alex Grosky and so far for Johnson & Johnson everything is running very smoothly. Patent protection for JNJ is strong as noted by Morningstar because the company is losing relatively few patents over the next five years, which is extremely crucial for healthcare companies (Morningstar).

Risk Factors

Obviously the amount of litigations that the company has gone through or is still going through is a major risk for the company. This was mentioned in the Morningstar analyst report where he stated, "Product recalls in the consumer business could dent JNJ's strong brand name in a segment where brand recognition is important in maintaining market power" (Morningstar). This is because of some of the ongoing litigations that are still stemming from previous recalls. The company lists that mainly the biggest concerns for risk come from the competitive nature of research and development in this industry and the quality and safety concerns that come with experimenting with new drugs (10-K). Government regulation is something that basically affects everything that JNJ is involved in and currently the Affordable Care Act is one of the things that are having a bigger impact. JNJ states that there has been an increased paced in the regulatory issuances from US government agencies that are designed to carry out the extensive requirements of the Affordable Care Act. The company states that this is having both positive

and negative impacts on the industry and that there is still uncertainty with how the rest of the Affordable Care Act will be carried out (10-K).

(B-2) Revenue and Earnings History

| Fiscal Quarter | 2013 (Fiscal Year) | 2012 (Fiscal Year) | 2011 (Fiscal Year) |
|-----------------------|-----------------------|-----------------------|-----------------------|
| March | | | |
| Revenue | \$17,505(m) | \$16,139(m) | \$16,173(m) |
| EPS | 1.22 (3/31/2013) | 1.41 (4/1/2012) | 1.25 (4/3/2011) |
| Dividends | 0.61 | 0.57 | 0.54 |
| June | | | |
| Revenue | \$17,877(m) | \$16,475(m) | \$16,597(m) |
| EPS | 1.33 (6/30/2013) | 0.5 (7/1/2012) | 1 (7/3/2011) |
| Dividends | 0.66 | 0.61 | 0.57 |
| September | | | |
| Revenue | \$17,575(m) | \$17,052(m) | \$16,005(m) |
| EPS | 1.03 (9/29/2013) | 1.05 (9/30/2012) | 1.15 (10/2/2011) |
| Dividends | 0.66 | 0.61 | 0.57 |
| December (FYE) | | | |
| Revenue | \$18,355(m) | \$17,558(m) | \$16,255(m) |
| EPS | 1.23 (12/31/2013) | 0.9 (12/31/2012) | 0.09 (1/1/2012) |
| Dividends | 0.66 | 0.61 | 0.57 |
| Totals | | | |
| Revenue | \$71,312(m) | \$67,224(m) | \$65,030(m) |
| EPS | 4.81 | 3.86 | 3.49 |
| Dividends | 2.59 | 2.4 | 2.25 |

1) What are your observations on revenue? Was there a notable up- or down-trend, year-over-year? Was there seasonable pattern?

The observations on Johnson & Johnson's revenue are that there is generally a positive trend that is a notably up. For example, JNJ has increased their revenue moving from year to year in each of the quarters listed. It also appears that the company makes the most revenue in the quarter ending in December.

2) Likewise, what are your observations on earnings?

The observations for Johnson & Johnson's earnings per share are very similar to the company's revenue. This is because earnings per share are also increasing moving from year to year in each of the quarters. The trend here appears to be that earnings per share are increasing as the year goes on.

(B-3) Most Recent Quarterly Earnings Release

1) When was the company's most recent earning release?

April 15, 2014

2) In that earnings report, was reported revenue a (1) beat, (2) match, or (3) miss from consensus estimate?

In the earnings report that was released earlier this week Johnson & Johnson was able to beat analyst estimates on both revenue and earnings per share. As for revenue it increased to \$18.1 billion which beat out the analyst estimate of \$18 billion. However this is a decrease from the

amount that was brought in by the quarter that ended in December, but this quarter historically performs the best.

3) Likewise, was reported earnings a (1) beat, (2) match, or (3) miss from consensus estimate?

Again Johnson & Johnson was able to beat out the analysts estimates for earnings per share. JNJ reported earnings per share at \$1.54 which beat out the analysts estimates of \$1.48. This amount is a significant improvement over the last quarter's amount for EPS.

4) What did the management attribute the beat/miss to?

Management's decision to continue to invest heavily in research and development is what attributed to the fact that the company beat estimates. JNJ's newer drugs have really benefited the company and are doing a lot better than expected. For example, Olysio one of their new drugs brought in \$354 million in revenue which significantly beat out one analysts' estimate of \$23 million (CNBC).

5) Did the management provide guidance about their current quarter and their outlook for the year? What were the key points of the guidance?

Management was able to provide some insights into the future dealing with their outlook regarding the company's earnings per share. JNJ now expects their end of the year earnings to be between \$5.80 and \$5.90 as opposed to the original estimates that were expected to be between \$5.75 to \$5.85 (CNBC).

6) How did the stock react to that earnings release?

On the day that Johnson & Johnson released its earnings report they opened the day at \$98.45 and ended up closing the day at \$99.20 or increase of about 0.7%. After the report was released JNJ stock has been moving up and down but hanging around that price still and currently is at \$98.96.

Section (C) Fundamental Valuation (EBO)

[illegible]

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2): \$5.88 & \$6.33

Long-term growth rate: 7.18%

Book value /share (along with book value and number of shares outstanding):

Book value: 74,053.00

of shares outstanding: 2820.63 million

Book value / share: 26.254

Dividend payout ratio: 54.00%

Next fiscal year end: 2014

Current fiscal month: 4

Target ROE: 20.18%

Discount rate 7.03%

Input for discount rate:

| | |
|-----------------------------|--------------|
| Risk-free rate: | <u>3.48%</u> |
| Beta: | <u>0.59</u> |
| Market risk premium: | <u>9.50%</u> |

Output

Above normal growth period chosen: 5

***** Justify at the bottom of this panel your choice of abnormal growth period *****

EBO valuation (Implied price from the spreadsheet): \$101.83

1) Comment on the fundamental value obtained in relation to the stock's current price and its 52-week price range.

First, it should be noted that the normal growth period was chosen to be five years because of how the situation with patents is. Johnson & Johnson has the majority of its products under patent protection for at least five more years, which means they can continue to producing them while investing in research and development of other new products. In general the fundamental valuations started below the current price but have a steady rate of increasing, with every valuation increasing moving from year to year which appears to be promising. This EBO valuation for five years is above JNJ's current 52 week high by a significant margin because the current 52 week high is \$99.71. I don't believe that there are any soft spots for this valuation's inputs because none of them seem to be extremely out of the ordinary.

Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):

\$105.82 if changing above normal growth period to 6 periods

\$108.18 if changing growth rate from mean (consensus) to the highest estimate 9.00%

\$97.88 if changing growth rate from mean (consensus) to the lowest estimate 6.00%

\$87.88 if changing discount rate to 8%

\$101.83 if changing target ROE to 19.36% (Reuters Sector Average)

After doing the sensitivity analysis for Johnson & Johnson it became apparent that the valuation for five years from now would fluctuate but stay within the range for the 52 week high and low or slightly exceed it. The range for the 52 week high and low is from \$82.12 up to \$99.71 and the highest EBO valuation was up to \$108.18 when using the high estimate rate for long term growth. Overall the fundamental valuations were generally able to continue to increase all while staying clearly above the 52 week low.

Copy/paste your completed relative valuation spreadsheet here

Pfizer Inc. is an American multinational pharmaceutical corporation and is one of the largest in the world by revenues. They produce and develop medicines and vaccines for a wide variety of uses but are known mostly for drugs like Lipitor.

Medtronic Inc is currently the fourth largest medical device company that is headquartered in Minneapolis. Some of their major business units include their Cardiac & Vascular, Restorative Therapies and Diabetes groups.

1) Discuss various valuation multiples of your stock and its peers. Comment if any of these stocks have multiples far off from the others and explain whether it makes sense.

The PEG ratio which is used heavily to judge performance in the healthcare sector had a little more variation between companies. The lowest out of these companies was the Stryker

Corporation with PEG ratio of 1.73. The highest was Merck & Co with a PEG ratio of 13.10. JNJ was closer to the lower end of the spectrum, indicating that the stock is undervalued.

The P/B ratios are similar to P/E ratios because of close to each other all of the company's numbers ended up being. The lowest was Medtronic Inc and the highest was again JNJ, but only about 0.64 separated the two. The numbers again appear to be incredibly similar again for P/S ratios with only 0.51 separating the lowest and highest. The lowest P/S ratio was Stryker Corp and Johnson & Johnson was the highest by a small margin.

The P/CF between all of the competing companies ranged from 13.37 up to 19.64 with JNJ right in the middle of the group at 15.28. This is a good sign for Johnson & Johnson because if this number is too high it usually means that the company is being overvalued.

2) Discuss the various implied prices of your stock derived from peers' ("Comparables") multiples. Compare these implied prices to current price and 52-week high and low. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain whether it makes sense.

The various implied prices do not really appear to fluctuate all that much with the exception of the PEG ratio and some of the P/CF ratios. Currently the 52 week high and lows range for Johnson & Johnson is \$82.12 to \$99.71. The majority of these comparables are within this range with the exception of just a few. The implied PEG ratio has a range that will include the same numbers from the 52 week high and low range. However this is because the range for the implied PEG ratio is from \$64.72 to \$490.14 while the mean average is \$176.42, which is an outlier. The other two outliers are the value ratio which has a mean of \$104.03 and the P/CF ratio which has a mean of \$107.44. All of the other comparables have a mean rate that fits in with Johnson & Johnson 52 week high and low range.

3) Compare your findings with comments from analysts from *Morningstar Direct* and other online resources.

In the Morningstar analyst report he talks a lot about how competitive the healthcare industry is and the fact that Johnson & Johnson still has a wide economic moat. Because of some of these factors Morningstar has increased their fair value estimate from \$97 to \$99. The analyst states that Morningstar views JNJ as having an increased outlook going into the future because of all the new drugs that they have recently been announcing.

Section (E) Revenue and Earnings Estimates

(E-1) Copy/Paste “Historical Surprises” Table from <http://www.reuters.com/>, “Analysts” tab (include both revenue and earnings; make note that revenues might be in “millions”)

HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

| Estimates vs Actual | Estimate | Actual | Difference | Surprise % |
|-----------------------------|-----------|-----------|------------|------------|
| SALES (in millions) | | | | |
| Quarter Ending Mar-14 | 18,004.20 | 18,115.00 | 110.82 | 0.62 |
| Quarter Ending Dec-13 | 17,954.30 | 18,355.00 | 400.72 | 2.23 |
| Quarter Ending Sep-13 | 17,448.90 | 17,575.00 | 126.13 | 0.72 |
| Quarter Ending Jun-13 | 17,713.20 | 17,877.00 | 163.79 | 0.92 |
| Quarter Ending Mar-13 | 17,421.40 | 17,505.00 | 83.63 | 0.48 |
| Earnings (per share) | | | | |
| Quarter Ending Mar-14 | 1.48 | 1.54 | 0.06 | 4.29 |
| Quarter Ending Dec-13 | 1.20 | 1.24 | 0.04 | 3.26 |
| Quarter Ending Sep-13 | 1.32 | 1.36 | 0.04 | 2.78 |
| Quarter Ending Jun-13 | 1.39 | 1.48 | 0.09 | 6.60 |
| Quarter Ending Mar-13 | 1.40 | 1.44 | 0.04 | 2.86 |

In all of the quarters shown in the above chart, Johnson & Johnson has been able to analysts' estimates in all of them. Looking at the numbers for sales it appears that JNJ regularly beats expectations by about 100. The only exception really comes from the quarter ending in December 2013 when JNJ beat estimates by just over 400 or 2.23%. The numbers for earnings also appear to have a trend of consistently beating analysts' estimates. For example, the lowest percentage that JNJ beat estimates by was 2.78 which occurred in the quarter ending in September 2013. The largest earnings surprise came in the quarter ending in June 2013, when JNJ beat estimates by 0.09 or 6.60%. As mentioned earlier, JNJ recently just released its first quarter's earnings report of this year. The company was able to beat analyst estimates for both earnings per share at \$1.54 and revenue at \$18.1 billion.

(E-2) Copy/paste “Consensus Estimates Analysis” Table from <http://www.reuters.com/>, “Analysts” tab (include both revenue and earnings)

| | # of Estimates | Mean | High | Low | 1 Year Ago | % Difference of High & Mean | % of Difference of Low & Mean |
|----------------------------|----------------|-----------|-----------|-----------|------------|--------------------------------|----------------------------------|
| SALES (in Millions) | | | | | | | |
| Quarter Ending Jun-14 | 13 | 18,557.40 | 18,847.00 | 18,296.00 | 18,494.90 | 1.561% | -1.409% |
| Quarter Ending Sep-14 | 13 | 18,397.10 | 18,766.00 | 18,189.20 | 18,398.60 | 2.005% | -1.130% |
| Year Ending Dec-14 | 21 | 74,320.90 | 75,182.00 | 73,743.10 | 74,025.30 | 1.159% | -0.777% |
| Year Ending Dec-15 | 19 | 77,741.30 | 80,194.00 | 76,448.00 | 76,870.90 | 3.155% | -1.664% |
| Earnings(Per Share) | | | | | | | |
| Quarter Ending Jun-14 | 16 | 1.50 | 1.56 | 1.46 | 1.51 | 4.000% | -2.667% |
| Quarter Ending Sep-14 | 15 | 1.47 | 1.52 | 1.42 | 1.43 | 3.401% | -3.401% |
| Year Ending Dec-14 | 23 | 5.83 | 6.02 | 5.78 | 5.76 | 3.259% | -0.858% |
| Year Ending Dec-15 | 21 | 6.29 | 6.49 | 6.20 | 6.15 | 3.180% | -1.431% |
| LT Growth Rate (%) | 6 | 6.36 | 7.10 | 5.60 | 6.60 | 11.635% | -11.950% |

All of the differences that are either between the high and mean or the low and mean do not really have anything that stands out as divergent. This is because the highest difference percentage for sales is between the high and the mean for the year ending in 2015, while all of the other percentages for sales are just about under 2%. The percentages for earnings are slightly higher, however the highest number comes from the quarter ending in June 2014 for the percentage difference between high and mean which is at 4.000%. It should also be noted that the percentage differences between the low and the mean for both sales and earnings are basically pretty low. The highest percentage comes in the quarter ending in September 2014 for earnings at 3.401%, while all the rest are significantly around 3%. The long term growth rate for JNJ is at a mean of 6.36% with six analysts’ contributing their estimates. Johnson & Johnson has a high estimate of 7.10% and a low estimate 5.60%.

(E-3) Copy/paste “Consensus Estimates Trend” Table from <http://www.reuters.com/>, “Analysts” tab (include both revenue and earnings)

CONSENSUS ESTIMATES TREND

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

| | Current | 1 Week Ago | 1 Month Ago | 2 Month Ago | 1 Year Ago |
|-----------------------------|-----------|---------------|----------------|----------------|---------------|
| SALES (in millions) | | | | | |
| Quarter Ending Jun-14 | 18,557.40 | 18,491.60 | 18,490.60 | 18,487.00 | 18,494.90 |
| Quarter Ending Sep-14 | 18,397.10 | 18,332.70 | 18,334.40 | 18,328.10 | 18,398.60 |
| Year Ending Dec-14 | 74,320.90 | 74,188.80 | 74,197.80 | 74,196.60 | 74,025.30 |
| Year Ending Dec-15 | 77,741.30 | 77,585.60 | 77,530.50 | 77,538.60 | 76,870.90 |
| Earnings (per share) | | | | | |
| Quarter Ending Jun-14 | 1.50 | 1.51 | 1.51 | 1.51 | 1.51 |
| Quarter Ending Sep-14 | 1.47 | 1.46 | 1.46 | 1.46 | 1.43 |
| Quarter Ending Dec-14 | 5.83 | 5.83 | 5.83 | 5.83 | 5.76 |
| Quarter Ending Dec-15 | 6.29 | 6.28 | 6.28 | 6.28 | 6.15 |

Over the last couple of months Johnson & Johnson's sales numbers have been increasing slightly heading up to the current month. That being said comparing the numbers between the current estimates and the estimates a year ago you can see that some of the numbers are just now catching back up to where estimates were originally for sales. Earnings for the most part have been increasing with the exception of the quarter ending in June 2014. Overall JNJ has been able to continue increasing their sales and earnings.

(E-4) Copy/paste the “Estimates Revisions Summary” Table from [http://www.reuters.com/](http://www.reuters.com/Analysts), “Analysts” tab (include both revenue and earnings)

ESTIMATES REVISIONS SUMMARY

| Number Of Revisions: | Last Week | | Last 4 Weeks | |
|-----------------------|-----------|------|--------------|------|
| | Up | Down | Up | Down |
| Revenue | | | | |
| Quarter Ending Jun-14 | 4 | 1 | 5 | 1 |
| Quarter Ending Sep-14 | 5 | 0 | 5 | 1 |
| Year Ending Dec-14 | 8 | 1 | 8 | 3 |
| Year Ending Dec-15 | 6 | 2 | 7 | 2 |
| Earnings | | | | |
| Quarter Ending Jun-14 | 1 | 3 | 1 | 3 |
| Quarter Ending Sep-14 | 2 | 0 | 2 | 0 |
| Year Ending Dec-14 | 6 | 2 | 6 | 3 |
| Year Ending Dec-15 | 6 | 1 | 6 | 1 |

Looking at the above chart for the most part the revisions that have been made are an up revision. In the last four weeks column Johnson & Johnson received multiple down revisions but none of those were able to overcome the up revisions, except for earnings in the quarter ending in June 2014. Now looking at the revisions made for last week you can notice some slight changes, which is interesting because their earnings statement was released just recently. The most noticeable changes occurred in the down column but that is because there is now less down revisions than previously. However there were not very many additions to the up revisions for that time period.

(E-5) "Consensus Earnings Revisions" from CNBC

| Date | Revision Type | Revision Up/Down | Current | Previous | Change | Analysts Reporting |
|------|---------------|------------------|---------|----------|--------|--------------------|
| 4/16 | UP | 13/3 | \$1.53 | \$1.50 | 2.00 | 16 |

As mentioned earlier the company's last earnings reporting date was April 15th 2014 so this revision was directly after earnings were released that's why there a. The next earnings reporting date is currently set for some time in between July 14th and 18th of this year. The maximum change in the revision is 2.00 meaning that there is a 10% and above revision. Since this is all so close to when the earnings report was released the stock price was still on the rise.

Section (F) Analysts' Recommendations

ANALYST RECOMMENDATIONS AND REVISIONS

| 1-5 Linear Scale | Current | 1 Month Ago | 2 Month Ago | 3 Month Ago |
|------------------|---------|-------------|-------------|-------------|
| (1) BUY | 5 | 6 | 6 | 6 |
| (2) OUTPERFORM | 4 | 4 | 4 | 5 |
| (3) HOLD | 11 | 10 | 10 | 9 |
| (4) UNDERPERFORM | 1 | 1 | 1 | 1 |
| (5) SELL | 0 | 0 | 0 | 0 |
| No Opinion | 0 | 0 | 0 | 0 |
| Mean Rating | 2.38 | 2.29 | 2.29 | 2.24 |

Over the last three months there really have not been any huge changes in analyst recommendations moving from month to month. In the three months ago column there was a six recommendations for buy, five for outperform, nine for hold and one for underperform resulting in the lowest mean rating out of all the options at 2.24. Next is the two months ago column which was exactly the same as the three months ago numbers except that one recommendation moved from outperform to a hold increasing the mean rating to 2.29. The one month ago column was exactly the same as the two months ago numbers. The current recommendation numbers are a five for buy, four for outperform, eleven for hold and one for

underperform giving this column this highest mean rating at 2.38. An increasing mean rating of analysts opinions for this stock show that they clearly are becoming more and more bearish on JNJ. The trend does appear to be that analyst recommendation is agreeing that this stock should be given more of a hold rating rather than anything else.

The analyst from Morningstar seemed to be a little bit more bullish on Johnson & Johnson after reading through his report. As mentioned earlier, Morningstar just recently increased their fair value estimate for JNJ because of multiple factors that they foresee in the future. For example, they see JNJ as a firm with one of the widest economic moats in the healthcare sector. They also believe that their research and development has been able to produce next generation drugs and should be able to continue doing so. This has been done by their release of new drugs like Invokana, Xarleto and Endurant. Morningstar believes that because of these new drugs that Johnson & Johnson should be able to increase its sales about 3% this upcoming year.

(F-2) Most Recent One Month Analysts Upgrades/Downgrades from CNBC

Johnson & Johnson's last reported its earnings on April 15, 2014 and has its next earnings reporting date set for in between July 14th to 18th. However there have been no upgrades or downgrades over the last month despite the releasing of its latest earnings report. As noted previously JNJ received a consensus up revision by CNBC, in this revision 13 analysts gave JNJ an up rating as opposed to only three down revisions.

Section (G) Institutional Ownership

| JNJ | | | | |
|---|--------------|----------------|---------------|----------|
| | | | | |
| Ownership Activity | # of Holders | % Beg. Holders | Shares | % Shares |
| Shares Outstanding | | | 2,828,186,375 | 100.00% |
| # of Holders/Total Shares Held/% Shares | 2,461 | 100.04% | 1,882,440,851 | 66.56% |
| | | | | |
| # New Positions | 10 | 0.41% | | |
| # Closed Positions | 9 | 0.37% | | |
| # Increased Positions | 146 | 5.93% | | |
| # Decreased Positions | 145 | 5.89% | | |
| Beg. Total Inst. Positions | 2,460 | 100.00% | 1,881,952,603 | 66.54% |
| | | | | |
| # Net Buyers/3 Mo. Net Chg | 1 | 50.17% | 488,248 | 0.02% |

| Ownership Information | % Outstanding | | |
|---------------------------------|---------------|--|--|
| % Institutional Ownership | 67.91 | | |
| Top 10 Institutions % Ownership | 22.66% | | |
| Mutual Fund % Ownership | 31.03% | | |
| 5%/Insider Ownership | 0.08% | | |
| Float % | 100.00% | | |
| | | | |

| > 5% Ownership | | | |
|-------------------------|----------|---------------|-------------|
| Holder Name | % Change | % Outstanding | Report Date |
| State Street Corp | 1.50% | 5.66% | 12/31/2013 |
| Vanguard Group, Inc. | 1.80% | 4.94% | 12/31/2013 |
| BlackRock Fund Advisors | -0.20% | 3.09% | 12/31/13 |

Combine information provided in all three sections to discuss:

1) Whether institutions, on net basis, have been increasing or decreasing ownership and whether the change can be considered as substantial

In the chart above the numbers look to be lower than JNJ would like them to be with a good amount of shares still outstanding. Johnson & Johnson only has 66.56% of their shares currently being held. Mutual fund ownership is 31.03% which is a little low but nothing that is too worrisome. Some of the institutions that have JNJ in their mutual fund include multiple Vanguard funds and a SPDR fund. However these funds don't hold a significant amount there still is a positive net basis. Looking at the three institutions that hold the highest amount of JNJ on a net basis they are increasing the amount of shares purchased. This is because on a whole all three of the top institutional holders add up to equal positive 3.1%. The other institutional holders that hold less than the top three appear to be also positive on a net basis. This is because the institutional holders with the highest percentage of change are J.P. Morgan Investment Management Inc and Fidelity Management and Research Company. These institutions have recently added 11.33% and 15.74% more shares respectively. However with all of these firms being considered it looks like there is a slight positive increase in ownership.

Section (H) Short Interest

Johnson & Johnson

| Settlement Date | Short Interest | Avg Daily Share Volume | Days To Cover |
|-----------------|----------------|------------------------|---------------|
| 3/31/2014 | 31,078,888 | 10,166,169 | 3.057068 |
| 3/14/2014 | 28,349,984 | 8,953,327 | 4.077183 |
| 2/28/2014 | 25,347,509 | 7,553,797 | 3.355598 |
| 2/14/2014 | 25,664,021 | 9,444,418 | 2.717375 |
| 1/31/2014 | 25,066,698 | 10,425,663 | 2.404327 |
| 1/15/2014 | 21,719,029 | 7,845,253 | 2.768429 |
| 12/31/2013 | 20,769,182 | 6,351,930 | 3.269744 |
| 12/13/2013 | 22,519,140 | 8,123,097 | 2.772236 |
| 11/29/2013 | 21,804,772 | 6,435,033 | 3.388448 |
| 11/15/2013 | 26,052,414 | 6,650,105 | 3.917594 |
| 10/31/2013 | 23,861,565 | 7,238,928 | 3.296284 |
| 10/15/2013 | 23,282,284 | 7,837,453 | 2.970644 |
| 9/30/2013 | 24,339,719 | 7,994,371 | 3.044807 |
| 9/13/2013 | 23,928,576 | 7,889,844 | 3.032833 |
| 8/30/2013 | 24,226,839 | 8,448,271 | 2.867668 |
| 8/15/2013 | 25,838,989 | 10,122,335 | 2.552671 |
| 7/31/2013 | 36,321,561 | 9,542,114 | 3.808448 |
| 7/15/2013 | 62,614,347 | 8,584,116 | 7.294210 |
| 6/28/2013 | 49,352,033 | 11,861,915 | 4.160545 |
| 6/14/2013 | 50,629,576 | 9,195,016 | 5.506198 |
| 5/31/2013 | 55,911,481 | 10,749,264 | 5.201424 |
| 5/15/2013 | 73,750,475 | 9,318,446 | 7.914461 |
| 4/30/2013 | 82,862,565 | 9,827,375 | 8.431811 |
| 4/15/2013 | 89,452,709 | 10,059,275 | 8.892560 |



Merck & Co.

| Settlement Date | Short Interest | Avg Daily Share Volume | Days To Cover |
|-----------------|----------------|------------------------|---------------|
| 3/31/2014 | 28,708,787 | 12,315,810 | 2.331051 |
| 3/14/2014 | 29,707,978 | 10,111,208 | 2.938124 |
| 2/28/2014 | 27,648,327 | 10,434,388 | 2.649732 |
| 2/14/2014 | 27,873,042 | 14,360,953 | 1.940891 |
| 1/31/2014 | 24,056,647 | 16,321,284 | 1.473945 |
| 1/15/2014 | 24,468,143 | 13,444,150 | 1.819984 |
| 12/31/2013 | 25,542,004 | 9,180,881 | 2.782086 |
| 12/13/2013 | 30,427,156 | 11,009,991 | 2.763595 |
| 11/29/2013 | 31,333,008 | 12,336,509 | 2.539860 |
| 11/15/2013 | 25,686,856 | 13,443,530 | 1.910723 |
| 10/31/2013 | 29,241,082 | 15,420,146 | 1.896291 |
| 10/15/2013 | 32,936,819 | 15,610,460 | 2.109920 |
| 9/30/2013 | 34,192,700 | 12,976,828 | 2.634904 |
| 9/13/2013 | 34,057,956 | 16,711,128 | 2.038041 |
| 8/30/2013 | 38,602,518 | 10,199,820 | 3.784627 |
| 8/15/2013 | 50,571,950 | 9,332,298 | 5.419024 |
| 7/31/2013 | 59,596,393 | 12,906,879 | 4.617413 |
| 7/15/2013 | 76,200,607 | 9,846,351 | 7.738969 |
| 6/28/2013 | 74,077,186 | 15,397,275 | 4.811058 |
| 6/14/2013 | 82,261,024 | 31,822,874 | 2.584965 |
| 5/31/2013 | 93,101,555 | 22,648,251 | 4.110781 |
| 5/15/2013 | 23,089,458 | 16,252,591 | 1.420663 |
| 4/30/2013 | 26,572,073 | 13,738,227 | 1.934170 |
| 4/15/2013 | 28,504,016 | 14,325,420 | 1.989751 |



Pfizer Co

| Settlement Date | Short Interest | Avg Daily Share Volume | Days To Cover |
|-----------------|----------------|------------------------|---------------|
| 3/31/2014 | 53,502,892 | 28,686,898 | 1.865064 |
| 3/14/2014 | 54,350,627 | 25,640,047 | 2.119755 |
| 2/28/2014 | 53,572,386 | 25,515,932 | 2.099566 |
| 2/14/2014 | 56,629,420 | 30,370,336 | 1.864629 |
| 1/31/2014 | 49,844,205 | 28,895,100 | 1.725005 |
| 1/15/2014 | 49,346,605 | 22,970,580 | 2.148252 |
| 12/31/2013 | 50,078,654 | 24,975,174 | 2.005137 |
| 12/13/2013 | 60,645,681 | 25,343,712 | 2.392928 |
| 11/29/2013 | 58,096,695 | 22,232,901 | 2.613096 |
| 11/15/2013 | 58,866,998 | 23,833,836 | 2.469692 |
| 10/31/2013 | 57,380,142 | 29,080,746 | 1.973132 |
| 10/15/2013 | 57,690,895 | 24,865,870 | 2.320084 |
| 9/30/2013 | 58,612,539 | 27,278,240 | 2.148692 |
| 9/13/2013 | 56,880,962 | 23,159,829 | 2.456018 |
| 8/30/2013 | 62,216,985 | 24,152,750 | 2.575979 |
| 8/15/2013 | 62,050,925 | 22,468,673 | 2.761664 |
| 7/31/2013 | 74,957,308 | 33,041,159 | 2.268604 |
| 7/15/2013 | 169,346,563 | 36,945,587 | 4.583675 |
| 6/28/2013 | 335,509,268 | 145,468,512 | 2.306405 |
| 6/14/2013 | 218,266,083 | 75,698,033 | 2.883379 |
| 5/31/2013 | 85,357,440 | 48,320,124 | 1.766499 |
| 5/15/2013 | 55,236,727 | 33,847,092 | 1.631949 |
| 4/30/2013 | 62,966,668 | 36,635,838 | 1.718718 |
| 4/15/2013 | 63,424,230 | 34,031,702 | 1.863681 |



(H-2) Short Interest Data From <http://finance.yahoo.com/>

Johnson & Johnson

| Avg Vol (3 month) | Avg Vol (10 day) | Shares Outstanding | Float |
|--|---|--|---|
| 9,075,680 | 10,279,400 | 2.83B | 2.83B |
| Shares Short (Most recent date) | Short Ratio (Most recent date) | Short % of Float (Most recent date) | Shares Short (2 weeks prior) |
| 31.08M | 3.60 | 1.10% | 28.35M |

Merck & Co

| Avg Vol (3 month) | Avg Vol (10 day) | Shares Outstanding | Float |
|--|---|--|---|
| 12,569,400 | 12,531,200 | 2.94B | 2.94B |
| Shares Short (Most recent date) | Short Ratio (Most recent date) | Short % of Float (Most recent date) | Shares Short (2 weeks prior) |
| 28.71M | 2.50 | 1.00% | 29.71M |

Pfizer Inc

| Avg Vol (3 month) | Avg Vol (10 day) | Shares Outstanding | Float |
|--|---|--|---|
| 28,686,300 | 34,895,700 | 6.38B | 6.37B |
| Shares Short (Most recent date) | Short Ratio (Most recent date) | Short % of Float (Most recent date) | Shares Short (2 weeks prior) |
| 53.50M | 2.00 | 0.80% | 54.35M |

The company's last earnings report date was on April 15, 2014 so very recently. Johnson & Johnson was able to beat its earnings estimates by five cents a share. JNJ was also able to increase its revenue up to \$7.5 billion in sales which was 11% above what Wall Street had projected them to do (CNBC).

Looking at the various charts and graphs for the short interest data comparisons between Johnson & Johnson and its competitors there has been a lot of moving up and down. This is seen in all three of their short interest graphs because they all start high resulting in a bearish sentiment. However as the time continued to go on all three of these comparisons were able to start decreasing significantly. For example, Johnson & Johnson moved from about nine days to cover down to about two and a half days to cover which indicates a very bullish sentiment. This was very similar to the other two competitors also. However JNJ and its competitors are starting to show increasing short interest rates indicating a bearish sentiment in the market. JNJ and MRK have increased the short interest up to either three or four, while PFE is still just around 2.2.

As mentioned previously Johnson & Johnson just recently had their earnings report come out on April 15th but that is too recent to be able to use the bi-weekly reports for short interest. So the most recent date after that earnings report was from their 2013 4th quarter which was recorded on 1/21/2014. Around this time Johnson & Johnson's short interest was increasing and continued to increase after their positive earnings report came out, however days to cover continued to decrease which indicates a bullish sentiment. For example, JNJ short interest before the earnings report was 21,719,029 and the days to cover was 2.768 and after the earnings report was released the short interest was 25,066,698 and the days to cover was 2.404.

Section (I) Stock Charts

(I-1) A three months price chart



(I-2) A one year price chart



(I-3) A five year price chart



In the first price chart for the majority of the time Johnson & Johnson was underperforming the rest of the comparisons. That is up until late March when all of the comparisons including both the S&P and the healthcare sector ETF. Currently at the end of this time period JNJ eventually finished ahead of all of the other comparisons. This is because of the effect of the current sentiment of the biotech industry being bearish and bringing a lot of healthcare firms down. Also there is a bill in the House of Representatives that is expected to have a serious impact on how generic drug companies can change their labeling system.

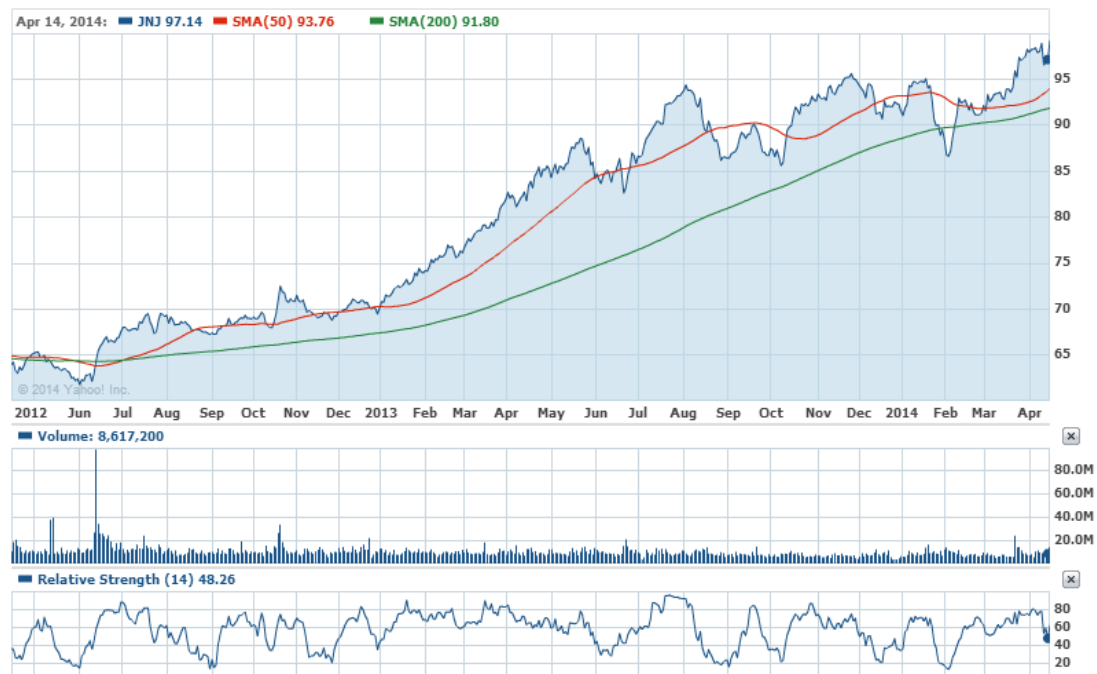
In the next price chart which is the chart for one year you can see that all of the comparisons finish very similarly to the three month price chart. Except in the one year chart Pfizer is below everyone else for the entire duration of the period. For the majority of the last year Johnson & Johnson performed very similarly to both the S&P and the healthcare sector ETF until around early to mid December.

In the last price chart which is over the last five years, JNJ spent the majority of this time underperforming the rest of its competitors. Pfizer finished on top while the S&P and the healthcare sector ETF finished below in that order. Johnson & Johnson basically moved very similarly to the healthcare sector even though it did indeed underperform the S&P.

(I-4) Technical Indicators (“Moving Average” and “Relative Strength Index” from <http://finance.yahoo.com/>)



2 Year 50 and 200 day Moving Average Chart



In the 50 day and 10 day moving average chart there is a lot of movement that could be showing that amount of volatility that JNJ has. There is a death cross that occurs in late December, but that didn't last very long. There was a golden cross in the middle January but

that also did not last very long because there was a significant drop in the price that resulted in a death cross. Then between the time periods from late March to early April there is a quick golden cross then a death cross, but after all of that it ended in a golden cross. The period ended in a golden cross by a significant margin which appears to be a very bullish sentiment currently.

In the 50 day & 200 day moving average chart there is a lot less that is going on but still appears to be promising. It appears that there are back and forth golden and death crosses from the beginning of this five year period until around July. Around that time there is a golden cross that occurs. This golden cross stays for the rest of the duration of this time period with some minor fluctuations here and there. This shows that there is a bullish sentiment for JNJ because of the golden cross and how long it has been since it originally crossed. At the end of this period the gap between the two moving averages has begun to start moving closer and closer to each other. However it currently appears that the two are starting to pull apart from each other and thus supporting a bullish sentiment moving into the future.

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