

# Johnson & Johnson

United States of America/Pharmaceuticals  
**15 February 2017**

UBS Research  
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12-month rating **Buy**  
 12-month price target **\$136.00**  
 Price **\$116.36**

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## Q1 U.S. Pharma Trends Off to a Strong Start

- U.S. pharma off to a strong start in Q1 with encouraging January trends
- January trends suggest \$419 mil ahead of our Q1 estimates
- Management update on Pharma at the Pharma Business Review on May 17
- Valuation: \$136 target, 12.5x EV/EBITDA on 2018E EBITDA of \$30.4 bil

Based on our analysis of scrip trends in January, JNJ's major U.S. pharma franchises are off to a strong start, tracking at 23% (23% ex-Olysio) vs. our 9% estimate for the quarter (9% ex-Olysio). Although weekly trends for early February (as of 2/3) show a slight slowdown in TRx growth, we would wait for a full month of February TRx data (to become available on 3/15) since the first month is typically the slowest month of any quarter, and that we often see improvements in months 2 and 3. We are maintaining our estimates for now, and reiterate our Buy rating and \$136 target on JNJ, which remains one of our two large large-cap diversified top picks for the year.

### January trends suggest \$419 mil ahead of our Q1 estimates

Our analysis summarized in Figure 1 on page 3 shows that scrips for the company's most significant U.S. Pharma franchises got off to a strong start in January. If trends in the quarter were to continue at this faster-than-expected pace, full-quarter sales are tracking \$419 mil above our estimates (\$418 mil ex-Olysio), or ~8c of theoretical upside for the quarter. Above trend growth relative to our estimates in Xarelto (+\$180 mil), Stelara (+\$68 mil), Prezista (+\$63 mil), Concerta (+\$52 mil), and Invokana (+\$50 mil) are partially offset by slower-than-expected trends in Imbruvica (-\$41 mil vs. our above-consensus estimate) and Simponi (-\$32 mil). Imbruvica gained 505 bps share in the quarter, by our estimate. For Darzalex, we look to March for the first look at Q1 sales.

### Management update on Pharma at the Pharma Business Review on May 17

On its 4Q16 call, management expects slower pharma growth in 2017 vs. 2016, where WW Pharma grew 7% CC (US +10% and OUS +4% CC), due to several products entering the more mature phase of commercialization. Despite the tempered expectations, we are encouraged by strong scrip trends in January and look forward to management's Pharmaceutical Business Review on May 17. Other catalysts include FDA approval for Darzalex for third-line multiple myeloma by the PDUFA date of June 17, approvals of line extensions for Imbruvica, Simponi and Stelara throughout 2017, and approvals for guselkumab and sirukumab in 2H17.

### Valuation: \$136 target, 12.5x EV/EBITDA on 2018E EBITDA of \$30.4 bil

Our \$136 target is based on a 12.5x target multiple on projected 2018 EBITDA, including ~\$1.3 bil of projected accretion (net of reinvestment) offset by the impact of the \$30 bil cash outlay for the deal.

### Trading data and key metrics

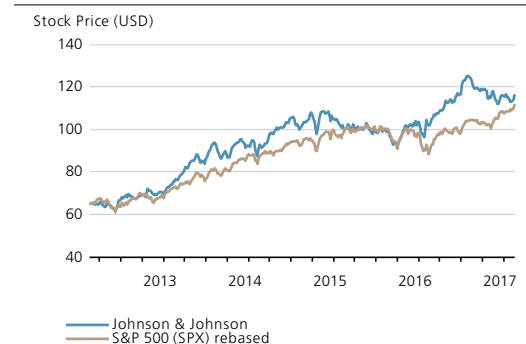
52-wk range	US\$125.40-102.32
Market cap.	US\$322bn
Shares o/s	2,765m (COM)
Free float	100%
Avg. daily volume ('000)	2,275
Avg. daily value (m)	US\$259.9
Common s/h equity (12/17E)	US\$81.7bn
P/BV (12/17E)	3.9x
Net debt / EBITDA (12/17E)	NM
RIC	JNJ.N
BBG	JNJ US

Sources: UBS, Bloomberg

### EPS (UBS, diluted) (US\$)

	12/17E	
	UBS	Cons.
Q1E	1.80	1.76
Q2E	1.88	1.81
Q3E	1.78	1.78
Q4E	1.53	1.68
12/17E	7.00	7.04
12/18E	7.49	7.38
12/19E	7.92	7.79

### Performance



Sources: Bloomberg, UBS

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at [www.ubs.com/glossary](http://www.ubs.com/glossary)

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# Johnson & Johnson

## Investment Thesis

### Investment Case

Our Buy rating is based on our expectation that potential biosimilar competition for Remicade is discounted in the stock and should be more than offset by the value of the company's pipeline. Pharma, Medical Devices and Supplies, and Consumer each represents 43%, 37%, and 20% of total revenues in 2014, growing at a CAGR of 6%, 2%, and 3% through 2019. Our thesis for JNJ is largely focused on pharma.

### Company Profile: Johnson & Johnson

Johnson & Johnson is a global manufacturer and provider of diversified health care and pharmaceutical products, medical devices and equipment.

### Statement of Risk

Our \$136 price target is based on 12.5x EV/EBITDA multiple on our projected 2018E EBITDA. Risks to our target include greater

than expected competitive impact on Remicade, major delays or drop-outs in the pipeline or an unexpected slowdown in utilization reversing recent trends.

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Highlights (US\$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenues	74,331	70,074	71,890	74,848	78,534	82,447	86,418	90,707
EBIT (UBS)	22,741	18,342	22,352	22,278	23,807	25,290	26,810	28,413
Net earnings (UBS)	18,318	17,445	18,764	19,344	20,557	21,737	22,904	24,213
EPS (UBS, diluted) (US\$)	6.39	6.20	6.73	7.00	7.49	7.92	8.35	8.82
DPS (US\$)	2.76	2.95	3.15	3.36	3.59	3.84	4.10	4.37
Net (debt) / cash	14,329	18,515	23,279	24,934	32,959	41,427	50,183	50,183
Profitability/valuation	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
EBIT margin %	30.6	26.2	31.1	29.8	30.3	30.7	31.0	31.3
ROIC (EBIT) %	38.4	33.9	42.4	40.7	42.1	45.3	48.6	51.9
EV/EBITDA (core) x	10.4	12.2	11.7	11.6	10.8	10.1	8.4	7.8
P/E (UBS, diluted) x	15.8	16.1	16.9	16.6	15.5	14.7	13.9	13.2
Equity FCF (UBS) yield %	5.2	5.7	5.5	6.0	6.9	7.3	7.7	8.1
Net dividend yield %	2.7	3.0	2.8	2.9	3.1	3.3	3.5	3.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of US\$116.36 on 14 Feb 2017 19:38 EST

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	45%	28%
Neutral	Hold/Neutral	39%	25%
Sell	Sell	15%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2016.

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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