“Show me the money?!!

• Gambling vs. Speculating
  • Active vs. Passive
  • Safe vs. Risky

All based on estimation!!

“If you invest your money with brokers, why do you end up broke?”
“The pharmaceutical industry is the best defense mechanism. It is one of the few sectors where the demand of the product can be safely assumed to be a growing constant”

- Jerry Michaels, Merrill Lynch

Total Sales….$310b  
Growth Rate…14.4%  
Market cap…..$1.5tr

Agenda

1) Industry Info
2) Company Info
3) Outlook
4) Financials… or lack thereof
5) Bottom line
The Industry

The Playas*

Abbott Laboratories  
Bristol-Myers Squibb Company  
Aventis  
MERCK  
NOVARTIS

Research and Development

- U.S. research pharmaceutical companies invest a higher percentage of sales in research & development (R&D) than any other industry, including electronics and aerospace.

- The U.S. pharmaceutical industry leads the world in drug discoveries, with 45 percent of the prescription medicines marketed worldwide in the 1990s developed in the United States. Compare that to countries where price controls are imposed, such as the United Kingdom, which developed only 14 percent of the world's medicines, and France, which developed less than 5 percent.

- U.S. research-based pharmaceutical companies invested more than $26 billion in 2000 to discover and develop new medicines - a 10.1 percent increase over 1999.
The Industry

Patents

• Patent protection for new medicines is essential in order for companies to recover the costs associated with discovering and developing new medicines. Unlike many other technological advances, copies of new medicines are relatively easy to make once the hard work of discovery and development is completed.
• Patents have a life of 17 years
The Company

- Sales of $29.1b
- 190 operating companies in 51 countries
- Leaders in ethical and OTC pharmaceuticals and medical supplies
- Broadly based in human healthcare
- Leadership in superior innovation
- Signature of Quality
- Aggressive Investment in R&D

Segments

Pharmaceutical
Consumer
Medical
The Company

Segment - Pharmaceutical

• Top 10 pharmaceutical company
• Sales of $12b
• 60% of operating profit
• Major drugs with long patent lives (Doxil, Levaquin)
• Growth rate of 11.8%

Segment - Consumer

• Sales of $16.9b worldwide
• Products in personal care and Hygiene
• Growth rate of 6%
The Company

Segment - Medical

• Largest medical device company in the world
  • Sales of $10.3b
  • Growth of 3.7%

The Company

Outlook

• Strong demand for health care products
• Medical devices key to reduce ballooning medical costs
  • Relatively stable sector of economy
The Financials

Why?

Study purchase decisions!

The Financials

How?

- Financial Statements..............The wise way
- Current events/Market method......The risky way
- Trend Analysis....................The stupid way
- Sentiment..........................The insider way

But we have them all!
The Financials

The Basics

JNJ:NYSE

- Opening Price: $58.870
- Intraday High: $59.180
- Intraday Low: $58.560
- Previous Close: $58.870
- 52 Week High: $59.660
- 52 Week Low: $40 1/4
- 12 Month EPS: $1.63
- PE Ratio: 36.1
- Last Trade: 100
- Time: 15:47 (EST)

- Volume: 3,620,300
- Average Volume: 8,381,127
- Number of Trades: 1,611
- Dividend: $0.72
- Yield: 1.20%
- Market Cap: $183.9 bil
- Shares Outstanding: 3,119.8 mil

Hovering near its yearly high.
"One hundred thousand lemmings cannot be wrong"
The Financials

Valuations

Current Price: $58.99

Investor Sentiment: $70.00  $11.01  18.7%
Analysts’ Target: $78.36  $19.37  32.8%
StockSelector Value: $65.62  $6.63  11.2%
Intrinsic Value: $30.50  ($28.49)  (48.3%)
Industry Value: $51.70  ($7.29)  (12.4%)
PEG Value: $28.34  ($30.65)  (52.0%)
Present Value: $19.96  ($39.03)  (66.2%)
Dividend Value: $55.38  ($3.61)  (6.1%)

G=10%|K=8%|b=40|

The Financials

Ratios

<table>
<thead>
<tr>
<th>Metric</th>
<th>Company</th>
<th>Industry Avg.</th>
<th>Diff</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEG Ratio:</td>
<td>2.3</td>
<td>2.3</td>
<td>.5%</td>
</tr>
<tr>
<td>Price to Book Value:</td>
<td>N/A</td>
<td>13.6</td>
<td>N/A</td>
</tr>
<tr>
<td>Dividend Yield:</td>
<td>140.0%</td>
<td>1.2%</td>
<td>11,134.1%</td>
</tr>
<tr>
<td>Return on Equity:</td>
<td>22.6%</td>
<td>32.6%</td>
<td>(30.7%)</td>
</tr>
<tr>
<td>Return on Assets:</td>
<td>14.2%</td>
<td>13.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Debt-to-Equity:</td>
<td>.1</td>
<td>.4</td>
<td>(73.1%)</td>
</tr>
<tr>
<td>Profit Margin:</td>
<td>15.9%</td>
<td>15.4%</td>
<td>9.8%</td>
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<tr>
<td>Beta:</td>
<td>.3</td>
<td>.3</td>
<td>13.8%</td>
</tr>
<tr>
<td>One Year Return:</td>
<td>14.2%</td>
<td>(9.3%)</td>
<td>N/A</td>
</tr>
<tr>
<td>Five Year Return:</td>
<td>117.1%</td>
<td>112.8%</td>
<td>3.8%</td>
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<tr>
<td>Market Cap:</td>
<td>165,164 M</td>
<td>105,227 M</td>
<td>157.0%</td>
</tr>
</tbody>
</table>

Whoa!

GPM @ 68%
• Superior financial strength
• Mother of diversification
• Decentralized management structure
• Superior leadership abilities.

**Bottom Line**

The stock’s **high**, but you still **buy**.