



## Agenda

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- Credo & Awards
- Quick Figures
- Company Breakdown
  - Consumer
  - Medical Devices & Diagnostics
  - Pharmaceuticals
- Geographic Sales Breakdown
- Risks
- Valuation

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## Quick Overview



- Hometown: New Jersey
- Divided into 3 business segments
  - Consumer Products
  - Pharmaceuticals
  - Medical Devices & Diagnostics (MD&D)
- Each arm can be examined as an individual company – Diversity within itself

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## JNJ Credo



- Stakeholders over shareholders
- 50+ year history
- No explicit mission statement
- Serves as guidance for long term actions
- Socially responsible
- Consumers come first
- Thinking long-term

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## #1 Stunna'



- Ranked 1<sup>st</sup> by *Fortune* as America's Most Admired Pharmaceutical Company
- Ranked 4<sup>th</sup> by *Businessweek* of nation's top 50 major companies
- Ranked 1<sup>st</sup> by *Chief Executive* for top 20 company leaders
- Ranked 1<sup>st</sup> in *WSJ* as having America's best corporate reputation for the 4<sup>th</sup> straight year

JNJ has been known for **quality**  
and continues to play up to its name.

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## Phat Figures



	2002	2001	2000	% Change 2001	% Change 2000
<b>Total Sales</b>	\$36,298	32,317	29,127	12.3%	10.8%
<b>Net Income</b>	6,597	5,668	4,953	16.4%	14.4%
<b>Dividends</b>	2,381	2,047	1,724	16.3%	18.7%
<b>DPS</b>	0.795	0.70	0.62	13.6%	12.9%
<b>ROA</b>	16.8%	15.4%	15.9%	9.0%	-3.1%
<b>ROE</b>	28.1%	25.4%	26.5%	10.6%	-4.1%

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## More “Phat” Figures



- Dividend increase each year for 41 consecutive years (Dividend Yield '03: \$0.82/yr)
- Sales increase each year for 70 consecutive years
- Market Cap: \$150 Billion
- '02 Earnings: \$6.597 Billion
- Killer Q3: \$10.46 Billion – 15% YoY Sales Growth
- 2002 Sales: \$36.3 Billion – 12.3% YoY Growth
- 2003 est. Sales: \$41.5 Billion - 14% Sales Growth
- Sitting on \$3 Billion Cash
- Solvency: 1.8 – Safety First!
- Near 52 Week Low: 49.00 – Ripe Time to Buy

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## Consumer Products



### Mature Product Lines

- Baby & Kids Care (#337)
- Skin/Hair Care (\$421)
- McNeil Consumables (\$498)
- Female Care Products (\$358)

**3Q Sales up 11% YoY**

**\$1.84 Billion**

### Growth Brands

- Aveeno
- Neutrogena
- Splenda
- KY Warming Liquid
- Band-Aid Adhesives


#### *International*

- O.B. tampon & Liners
- Baby Skin Care
- Splenda

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## Consumer Products



### Similar to Brand Management

- Advertising
- Distribution Channels
- Manufacturing

Rx

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## Advertising



### “Having a Baby Changes Everything”

- Various target audiences
- Age: Generations D, Y, X, Baby Boomers
- Creates BRAND EQUITY and consequently market demand for product
- Determines profit margin

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## Distribution Channels



- PROBLEM: Lower-cost retailers (e.g., Wal-Mart) push downward pressure on prices

### Johnson & Johnson's Solutions

- Strategy 1: Increase sales volume
- Strategy 2: Increase brand equity and increase margins
- Strategy 3: Sell and produce internationally in order to raise sales and lower COGS

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## Return on Assets



- The objective for JNJ's consumer arm is to maximize its RETURN ON ASSETS
- ROA = the amount of income that is generated from the company's assets
- $ROA = \text{Inventory Turnover} * \text{Profit Margin}$   
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- Objective is to maximize ROA by selling the right mixture of high turnover and high margin products

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# Sales Mix



## Mature Product Lines (High Turnover)

- Baby & Kids Care
- Skin/Hair Care
- McNeil Consumables

## (High Margin)

- Female Care Products

## Growth Brands (High Margin)

- Aveeno
- Neutrogena
- Splenda
- KY Warming Liquid
- Band-Aid Adhesives

## International

- O.B. tampon & Liners
- Baby Skin Care
- Splenda

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# Sales Breakdown



		2002	2001	2000
<b>Consumer</b>	Domestic	\$3,605	\$3,449	\$3,403
	International	2,959	2,871	2,868
	<b>18%</b> Total	6,564	6,320	6,271
<b>Pharmaceutical</b>	Domestic	11,919	10,240	8,441
	International	5,232	4,611	4,220
	<b>47%</b> Total	17,151	14,851	12,661
<b>MD&amp;D</b>	Domestic	6,931	6,136	5,472
	International	5,652	5,010	4,768
	<b>35%</b> Total	12,583	11,146	10,240
<b>Total Sales (10-12% Growth)</b>		\$36,298	\$32,317	\$29,172

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# Manufacturing



## Decentralized Production (Pros)

- Less control by corporate overlords
  - No control by single person
- Decisions made by local managers
- Value added for unit production is determined by market forces via transfer pricing

## Decentralized Production (Cons)

- Barriers to communication
- Lack of information
- Wasted resources

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# Medical Devices & Diagnostics



- Room to grow: Devices must be constantly innovated
  - Cutler & McClellan
- Looking to cash in on the MD&D market
- Largest producer of MD&D products
  - catheters, sutures, forceps, orthopedics, medical sanitizers... virtually everything you need to stock a hospital/clinic
- 35% of current sales
- \$12.6 Billion and still looking to grow strong!

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## MD&D: Stent Wars



- Currently owns the Stent market
  - \$500MN dollar revenues
- Expected to be \$5BN dollar market in 2005
- Boston Scientific in the registration phase
- Competitors take 50% market share by '05

NOT TO WORRY: IAG ends mid '04, but more importantly, this is one micro product in the midst of a large division, which is simply one head of a three headed beast!

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## Pharmaceuticals



- Smaller than the behemoth companies but still a major player
- More focused on preventing non-lethal ailments
  - Ebola vs ADD
- 46% of Sales: \$17.15BN

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## Pharmaceutical Issues



- Risk of inventory obsolesce (i.e. Procrit)
- Can only acquire short-term debt
- R&D vital to success
- Patent protections
- Need to lube the patent pipeline

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## Lubing the Dry Pipeline



- Acquisitions
  - Orquest Inc.
  - 3-Dimensional Pharmaceutical Inc.
  - Scios Inc.
  - Link Group Inc.
  - Tibotec-Virco
  - Obtech Medical
- Lots of new small fries to fill up the dry pipeline
- International growth (i.e. Remicade)
- Lots of free cash flow for R&D

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## Risks?



### Potential Risks

- Wal-Mart price squeezing
  - Trimming fat returns
- Brand deterioration
  - BAND-AID
- Drug pipeline relatively dry
- MD&D competitors looking to steal market share
- Decrease in Procrit sales

### The Defense

- Capable of finding the right sales mix
- Consumer products consists of only 18% sales
- BAND-AID growth impressive with new products
- Small fries
- Reputation and cash flows leverage against loss of market share

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## Historical Financials



<b>Average Sales Growth</b>	11.14%
<b>Average Net Income Growth</b>	12.79%
<b>Average Profit Margin</b>	15.99%
<b>Average Sales/NWC</b>	18,258.12%
<b>Average R&amp;D Expense Growth</b>	18.80%
<b>Average R&amp;D/Sales</b>	10.79%

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## Valuation Assumptions



Risk-Free Rate	4.35%
Risk Premium	6.19%
Beta (2yr vs. S&P)	.82
Cost of Equity	9.4%

**SHORT TERM: Buy / LONG TERM: Strong Buy**

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THANK YOU

