

# Research on the Development of Johnson & Johnson

Wenhe Chen \*

Vanke Meisha Academy, Shenzhen, 518000, China

\* Corresponding author: chenwenhe@stu.vma.edu.cn

**Abstract.** Johnson & Johnson is a globally renowned healthcare company that, with its rich product line and strong brand strength, has become one of the leading companies in the global healthcare industry. This paper seeks to analyze the investment plans for the Johnson & Johnson pharmaceutical company and to make a recommendation on whether investing in it is profitable. Going through reports from online sources and the company's website, some of the key factors that are analyzed here include the company's performance over the past several years, the leadership and governance, competition, financial track record, risks involved and the company's profitability. The recommendation is to invest in the company, as the chances of making a profit are higher than the risk involved.

**Keywords:** Johnson & Johnson, Investment, Dividends, Price-to-earnings Ratio.

## 1. Introduction

Johnson & Johnson was founded in 1886 and headquartered in New Brunswick, New Jersey. It is a multinational company that develops, manufactures, and markets various products in the healthcare industry. It has three main departments: consumer goods, pharmaceuticals, and medical devices. The consumer goods department provides baby care products, oral care products, beauty products, and women's health products. The medical device department provides orthopedic products, general surgery, biosurgery, intrauterine devices, and energy related products. On the other hand, electronic based provides physiological products, sterilization products, diabetes care products and vision care products for the treatment of cardiovascular diseases, such as disposable contact lenses and ophthalmic products. Johnson & Johnson is named among the most successful pharmaceutical companies, not only in the United States (US) but also globally. This success has been attributed to factors such as their exemplary top leadership, product, and customer diversification, and their global mentality.

Johnson & Johnson has been known to have stable top leadership. The trajectory of Johnson & Johnson's rapid growth has been closely linked to Joaquin Duato, the company's eighth CEO. He was named chairman of Johnson & Johnson USA in 2009. In 2011, he was appointed Vice President of the Executive committee and head of Johnson & Johnson's global pharmaceuticals business. He is now the eighth CEO of the company [1], who has led Johnson & Johnson to greater success and innovation, with 2022 being the highlight of it all. Johnson & Johnson has grown to establish itself as the "standard" in the pharmaceutical industry [2].

In terms of customer distribution, Johnson & Johnson adopts a decentralized business model to sell products to customers around the world. This includes individual clients, medical institutions, and other pharmaceutical companies. According to its global customer base, the company's largest customer is the domestic market in the United States, which accounts for more than half of its sales. Europe, Asia Pacific, South America, and Africa are also important product supply regions for the company [3]. Individual customers can purchase online and offline in self-service mode. The company has established long-term stable relationships with institutional clients, and the sales team is directly connected to the clients. This helps ensure that the company continuously generates transactions and revenue.

## 2. Investment

Based on the review, JNJ has a buy rating and a target price of 183.00 [3]. The main reasons are as follows:

Since February 2023, Johnson & Johnson is difficult to maintain a strong upward momentum in the severe foam stock market environment. As a leader in the medical industry, it still maintains a leading position even in difficult times. Therefore, investing in the company will result in higher dividend returns at a lower P/E ratio. Johnson & Johnson's higher profits and globally decentralized business model can offset the undervalued dollar value.

Johnson & Johnson offers a wide variety of products. Although there are ongoing points of contention over the company's equity, the company has been profitable. The average after-tax income earned by the company's employees in 2019 was \$113,000, a level of income in the top 2% of all industries in the U.S. The level of profitability is due to the diversity of the company's products and its globalization mindset.

Due to the need to offset the losses that arose from the devaluation of the dollar. Dollar debt and excessive printing of money by the central bank are some of the factors contributing to the decreasing value of the dollar. However, since about 49% of Johnson & Johnson's sales revenue comes from overseas, it can evade some of the effects of the devalued dollar. This will be the company's strength in the future if free trade policies remain intact.

## 3. Operating Environment Analysis

### 3.1. Industry Analysis

**Industry policy:** Johnson & Johnson's product monographs contain every piece of additional information that may be needed for optimal, safe and effective use of the products.

A product monograph consists of three parts:

Part I: Information for health professionals.

Part II: Scientific information

Part III: Patient information on medication use

**Profitability/ revenue record of the company:** For the 12 months ending September 30, 2022, Johnson & Johnson's revenues were \$96.041 billion, an increase of 5.02% from the previous year. Johnson & Johnson's annual revenue for 2021 was \$93,775 million, an increase of 13.55% from 2020. Johnson & Johnson's annual revenue for 2020 is \$82,584 million, an increase of 0.64% from 2019. Also, they recorded a 6% increase in their operational sales by the end of 2022 [1]. Also, the portfolio strategy from Regarded Solutions shows that Johnson & Johnson is one of their long-term holdings because the company has been paying a steady 2.85% dividend for 60 years. In media reports, Johnson & Johnson has promised to produce the new crown vaccine in the future, and the company has already started to conduct human trials by July 2023. The company has also pledged to invest \$1 billion in vaccine production in the future. In their 2022 annual report, they reported an increase in their dividends for the 60<sup>th</sup> year consecutively.

### 3.2. Competitor Analysis

**Competitors:** Johnson & Johnson is a traditional pharmaceutical manufacturer, as shown in the figure below. Some of its competitors in the U.S. market are Pfizer and Merck. Globally, Johnson & Johnson competes with the likes of Novartis from Switzerland, AstraZeneca from the United Kingdom, Sanofi from France, Novo Nordisk from Denmark, Grifols from Spain and Horizon Therapeutics from Ireland. The competition in the pharmaceutical industry is fierce. In addition, comparing Johnson & Johnson's cash flow as a percentage of total asset performance with other companies in the industry over the past five years indicates that the company's group product diversification strategy enables it to become a highly profitable consumer goods company, diagnostic drugs, and medical device manufacturer.

### 3.3. Porter's Five Forces

**Threats of New Entrants:** New entrants in drug manufacturing bring innovation, and new ways of doing things and put pressure on Johnson & Johnson through lower pricing strategy, reducing costs, and providing new value propositions to the customers. Johnson & Johnson has to manage all these challenges and build effective barriers to safeguard its competitive edge (product and market diversity) [1,4].

**Bargaining Power of Suppliers:** Almost all the companies in the Drug manufacturing industry buy their raw materials from similar suppliers. Suppliers in dominant positions are capable of decreasing the margins Johnson & Johnson can earn in the market [5]. Powerful suppliers in the healthcare sector use their negotiating power to extract higher prices from the firms in the Drug Manufacturing field. The overall impact of higher supplier bargaining power is that it lowers the overall profitability of Drug Manufacturers.

**Bargaining Power of Buyers:** Buyers often demand a lot. They prefer to buy the best offers available by paying the minimum prices possible. This puts pressure on Johnson & Johnson's profitability in the long run [6]. The smaller and more powerful Johnson & Johnson's customer base is, the higher the bargaining power of the customers and the higher their ability to seek increasing discounts and offers.

**Threats of Substitute Products or Services:** When a new product or service meets a similar customer need in different better ways, industry profitability suffers. For example, services like Dropbox and Google Drive are substitutes for storage hardware drives. The threat of a substitute product or service is high if it offers a value proposition that is uniquely different from the present offerings of the industry [7].

**Rivalry among the Existing Competitors:** If the rivalry among the existing players in an industry is intense then it will drive down prices and decrease the overall profitability of the industry. Johnson & Johnson operates in a very competitive Drug Manufacturing industry [7]. This competition has vast effects on the overall long-term profitability of the organization as it has to keep figuring out ways of staying ahead of the competition.

## 4. Investment Risks

**Potential Risks:** Research from Regarded Solutions shows that while the company is worth investing in, from a trading perspective, Johnson & Johnson is trading at \$133, which is below its current trading price of \$147.55. If it were to buy, it would have to wait for a new round of price pullbacks. In addition to this, nearly 70% of the company's equity is controlled by institutions, with only 25%-30% of the shares held by retail investors. Thus, the company is subject to a double choice constraint: on one hand, the continuation of 57 consecutive years of continuous dividend payments, and on the other hand, the possibility of becoming a potential capital hot money, which would create the risk of sacrificing dividend payments and increasing the possibility of investment.

## 5. Management & Governance

Since 1886, Johnson & Johnson has been privileged to play a role in helping millions of people around the world live better, healthier lives. The company's credo is the moral compass that guides its responsibilities as a citizen of the world.

In addition to the Principles of Corporate Governance, Johnson & Johnson ensures compliance through numerous policies, guidelines and standards, such as our Code of Business Conduct, which all of its operating companies and employees are expected to follow [8]. They recognize the relationship between good governance and sound financial performance. The economic value generated through a well-managed and governed enterprise not only benefits stock owners, it also benefits local communities through the jobs created and through the contributions made to the social infrastructure needed to sustain community health [9].

Institutional investors hold a majority ownership of Johnson & Johnson through the 70.99% of the outstanding shares that they control. This interest is also higher than at almost any other company in the pharmaceutical industry [10].

## 6. Conclusion

Johnson & Johnson has been in existence for many decades, with a good steady top leadership. They are known to increase their dividends each year, and as they stated in the 2022 annual report, they increased it again. The company has a profit-making track record, tracing back to the days of the pandemic when other companies went into a period of losses and closure. Despite the stiff competition, Johnson & Johnson has managed to stay at the top of the industry. Their financial documents are full of evidence that they have been profitable. Moreover, the company is among the top best paying companies in the world: their employees are compensated fairly and without any form of bias. Therefore, investing in the company would be a wise decision. It should be highly recommend buying the company.

## References

- [1] The Strategy Story. "Johnson & Johnson (J&J) SWOT Analysis." Accessed August 22, 2023. URL: [https://thestrategystory.com/blog/johnson-johnson-jj-swot-analysis/#google\\_vignette](https://thestrategystory.com/blog/johnson-johnson-jj-swot-analysis/#google_vignette).
- [2] CNBC. "Johnson & Johnson CEO Joaquin Duato to Take Additional Role of Chairman." Accessed August 22, 2023. URL: <https://www.cnbc.com/2022/12/01/johnson-johnson-ceo-joaquin-duato-to-take-additional-role-of-chairman.html>.
- [3] Johnson & Johnson. "Our Beginning." Accessed August 22, 2023. URL: <https://ourstory.jnj.com/our-beginning#experience-our-beginning-ch-3-1>.
- [4] Johnson & Johnson. "Johnson & Johnson Global Community." Accessed August 22, 2023. URL: <https://ourstory.jnj.com/global-community>.
- [5] Market Screener. "Morgan Stanley Boosts Price Target on Johnson & Johnson to \$187 From \$183, Maintains Equal weight Rating." Accessed August 22, 2023. URL: <https://www.marketscreener.com/quote/stock/JOHNSON-JOHNSON-4832/news/Morgan-Stanley-Boosts-Price-Target-on-Johnson-Johnson-to-187-From-183-Maintains-Equal-weight-Rat-44309311/>.
- [6] Johnson & Johnson. "2022 Annual Report." Investor Relations - Johnson & Johnson, <https://www.investor.jnj.com/asm/2022-annual-report>.
- [7] Bruijl, H. Th. Gerard. The relevance of Porter's five forces in today's innovative and changing business environment. Available at SSRN 3192207 (2018). URL: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3192207](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3192207).
- [8] Johnson & Johnson. "Code of Business Conduct." Accessed August 22, 2023. URL: <https://www.jnj.com/code-of-business-conduct>.
- [9] Goetzel, RZ, Ozminkowski, RJ, Bruno, & JA, et al. (2002). The long-term impact of johnson & johnson's health & wellness program on employee health risks. *Journal of occupational and environmental medicine*.
- [10] Bly, J. L. (1986). Impact of worksite health promotion on health care costs and utilization: evaluation of johnson & johnson's live for life program. *Jama*, 256 (23), 3235.