

# Stocks Valuation of Johnson & Johnson (J&J): Analysis of Ongoing Risks of Pharmaceuticals Corporations in Post-Pandemic Era

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**Abstract.** The global COVID-19 pandemic increased public awareness of healthcare and provided development chances for pharmaceutical corporations. This paper focuses on investigating and presenting SWOT-Analysis to evaluate the competitiveness of Johnson & Johnson in the pharmaceutical industry. Moreover, the strengths, weaknesses, opportunities, and threats will be analyzed as well. It is found that risks will compound with the challenges of the pharmaceutical industry. However, it also means that the pharmaceutical industry is at a time of opportunities due to the public increasing awareness and demand for healthcare and medicine. Through this analysis, it will provide insight to the pharmaceutical industry's business threats in the post-pandemic era. Moreover, a guidance and proposes possible solutions to businesses that are at risk during the post-pandemic era.

**Keywords:** Johnson & Johnson; Business Development; COVID-19; Pharmaceutical Industry's Business Threats; Stock Valuation.

## 1. Introduction

### 1.1 Description of Johnson & Johnson

Johnson & Johnson is a leading healthcare and pharmaceutical company which researches and develops personal healthcare products and advanced medicines worldwide. The Company has three current business segments: consumer health, pharmaceutical, and medical Devices. This paper will only involve its consumer health and pharmaceutical departments. Johnson & Johnson is a holding company. The Company is categorized under the Standard Industrial Classification (SIC) Code of 2834 and the North American Industry Classification System (NAICS) Code of 325412. It is organized under the laws of New Jersey and is located at 1 Johnson and Johnson Plaza, New Brunswick, New Jersey, 08933.

### 1.2 Johnson & Johnson Business and Stocks Performances

Since the alleviation of COVID-19, the stock of Johnson & Johnson received great attention from its investors and markets. Through innovation in advanced medicines and collaboration with other pharmaceutical enterprises, Johnson & Johnson significantly improved its business and stocks performances. The company holds significant intangible properties from its exclusive patents and copyrights for manufacturing and selling specialty drugs for complicated diseases. Johnson & Johnson's drug combinations are attentive on the market. The immunological drug STELARA®, the company's largest product, increased sales to 2.3 billion dollars in the first quarter of 2022. Tremfya®, exclusive specialty drug for curing adult patients with moderate to severe plaque psoriasis, increased sales by 41.3% to over \$590 million. Johnson & Johnson continues to invest in its innovation, reinforcing its safe prospect regarding individual investments.

### 1.3 Johnson & Johnson Revenues

In 2022, Johnson & Johnson expects full-year revenue of \$93.3 to \$94.3 billion, down or maintain same revenue as 2021. Johnson & Johnson maintains performance due to market fluctuations, inflation, and macroeconomic uncertainties, as well as supply chain shortages imposed by COVID-

19 and energy deficiency. Given its market cap of \$434.83 billion, the Company's existing business remains strong while continually developing new and innovative products and drugs.

#### **1.4 Research Question**

The purpose of this paper is to investigate and present SWOT-Analysis to evaluate the competitiveness of Johnson & Johnson in the pharmaceutical industry, including its strengths, weaknesses, opportunities, and threats. An inspired estimation of the pharmaceutical industry follows the SWOT-Analysis. It briefly elaborates on the pharmaceutical industry's business threats in the post-pandemic era, and proposes possible solutions to such risks.

## **2. SWOT Analysis**

### **2.1 Strength of Johnson & Johnson**

The main strength of Johnson & Johnson is its patent of medicines and healthcare products. Johnson & Johnson placed high priority in research and investment development. According to its statement of earnings for the third quarter of 2020, Johnson & Johnson spent 20.13% of its gross profits on research and development. The high budget on research and development lays a foundation for successful innovation of medicines. Therefore, Johnson & Johnson's corporate financial emphasis on innovation substantiates its strong competitiveness and business capabilities.

#### ***Substantial Revenue***

The substantial revenue of Johnson & Johnson reinforces its strength. Due to the mitigation of COVID-19 and normalization of business and financial operations, Johnson & Johnson's annual revenue for 2021 was \$93.88 billion, a 13.55% increase from 2020. In comparison to revenues of other pharmaceutical corporations, such as \$81.28 billion for Pfizer, Johnson & Johnson's high revenue demonstrates its strong market performance and high development potential.

#### ***Diverse Product Lines***

Johnson & Johnson's strength comes from diverse product lines and far-reaching strategy for common majority. Although on November 12, 2021, its consumer health department is acclaimed to be separated as a new, publicly-traded company after 18-24 months of the initial announcement, J&J holds ownership of popular personal health products. Sample products include Aveeno® for skin care, OGX® for hair care, and Listerine® for oral care.

#### ***Distribution Centers and Factories***

Other strengths of Johnson & Johnson include its mature global reach with robust distribution centers and factories adapting to high-potential emerging markets. It also demonstrates its social responsibility by cooperation with the U.S. government during Covid-19, efforts to reduce gender-related discrimination in employment, eco-friendly, and resolve diversity issues.

### **2.2 Weakness of Johnson & Johnson**

Johnson & Johnson's uneven revenue distribution jeopardized its financial performance. 50.7% of the revenue originates from its pharmaceutical department.

#### ***Lack of Diversification***

This lack of diversification is dangerous due to the reputational and regulation risk brought by lawsuits of its unsafe or unethical pharmaceutical development. Johnson & Johnson benefitted primarily from its exclusive patents. While it aims to bring profit through innovation, it also causes the potential danger of polluting the environment and violating related FDA laws in the United States. Its global distribution and manufacture further escalate its threat of regulation risk, as its manufacturers may violate international laws based on its country. Since the company is popularly recognized, lawsuits against its ethnicity significantly jeopardize its brand. One example of the harm caused by reputational risk is the Johnson's® Baby Powder. In 2018, the jury verdict out of state court in St. Louis ultimately determined J&J to pay \$2.5 billion to 20 women who targeted the Johnson's®

Baby Powder for their ovarian cancer. This lawsuit provokes consumers' distrust of Johnson & Johnson's products and declines the stock price.

#### ***Heavy Reliance on Pharmaceuticals***

Therefore, the negative cycle from Johnson & Johnson's heavy reliance on pharmaceuticals casts risks in this business operation. With lawsuits against its product's safety or ethics, Johnson & Johnson's brand figure may be jeopardized, decreasing its stock values and declining revenue.

### **2.3 Opportunities of Johnson & Johnson**

To maintain the current growth rate of its market value, Johnson & Johnson should continue to invest in innovation in its pharmaceutical department. For instance, the one-dose Johnson & Johnson vaccine outpaces the two-dosed vaccines of Pfizer and Moderna, thus earning J&J advantage of collaborating with the governments. Therefore, Johnson & Johnson holds lucrative opportunities for innovating its vaccines or other specialty drugs to fit the demands of society. In order to rebalance its business portfolio, Johnson & Johnson should focus on increasing profits by the consumer health department. After the official establishment of its consumer health as a separate company, Johnson & Johnson should increase its operation efficiency and balance its profit segment in overall portfolio. To increase the sales of consumer health department, Johnson & Johnson can offer discount or other marketing strategy to introduce its existed products to lower-income groups. It can also launch cheaper products to appeal such group. Acquisitions allow companies to broaden their portfolio without investing in developing capabilities. In virtue of its substantial financial assets, Johnson & Johnson can build its business by acquiring other corporations. The corporate acquisition also enhances the diversification of its portfolio.

### **2.4 Threats of Johnson & Johnson**

The stiff competition with other healthcare corporations is at the top of the threats to Johnson & Johnson. If exclusive medicines are firstly invented and launched by other competitive corporations, including Pfizer and Bristol Myers Squibb, Johnson & Johnson can lose a substantial portion of its market share, given its intensive investment in medicines innovation.

#### ***Government Regulations***

Government's rigorous regulations are another threat to Johnson & Johnson. The multinational business operation of Johnson & Johnson escalates the danger of regulatory risk as related policy varies in different countries. Lawsuit against Johnson & Johnson's business practice, either its products safety (such as the baby powder), or its business ethnics in manufacture or corporation culture, can provoke great doubt to the consumers. The sales of J&J products can thus be greatly declined, further threatening its stock performances.

#### ***Expiration of Product***

The expire of patent of the company's largest products also cause a great reduction of its sales and profits. STELARA®, the largest product which accounted approximately 9.7% of the Company's total revenues for fiscal 2021, will have its matter patent expire in 2023 for the United States composition. The expiration of a product patent or loss of market exclusivity can affect its stock performance due to a reduction in sales.

## **3. Post-pandemic Era: Opportunities and Threats for Pharmaceutical Industry**

The pharmaceutical industry is crucial in inventing and launching medications or vaccines to treat diseases and enhance the quality of life for society. The industry's main driver is technological innovations through advanced and collaborative research to meet the healthcare demands of society. While the COVID-19 outbreak reinforces the importance of healthcare and medical support to the public, the pharmaceutical industry faces rising threats in its business development. This section will briefly argue that the threats originate from governmental regulation and growing competition from generic pharma.

### 3.1 Challenges for Pharmaceutical Corporations

Though many pharmaceutical corporations collaborate with the government to design the COVID-19 vaccine, government regulation remains a significant concern. According to PWC's report "Pharma 2020: from vision to decision," the rapid technological innovation urges the government regulators to take caution about approving "truly innovative" medicine. This casts severe challenges for pharmaceutical companies which rely on the medical invention for profits.

COVID-19 also enhances the societal emphasis on the treatment of rare diseases. Patient advocacy groups, for example, present the needs of patients with rare diseases to governments and lobby for changes to enhance inequalities in medical treatment. However, due to the complexity of the disease, such invention is usually lengthy, unprofitable in the early phase, or has significant potential to fail. As a result, pharmaceuticals undertake substantial risks in developing medicine for rare diseases.

### 3.2 Risk for Major Manufacturers

The patent cliff is expected to continue in 2022. The upcoming patent loss will imperil some major pharmaceutical manufacturers' market share. For instance, the generic entry of Revlimid®, initially invented by Bristol Myers Squibb to treat multiple myeloma, occurred in March 2022. In 2021, Bristol Myers Squibb gained \$8.7 billion from its sale in the United States. Hence, the patent cliff will be a significant risk for major manufacturers.

## 4. Inspiration

After the post-pandemic era, people's awareness of overall health seemed to increase. As stated in this research paper, pharmaceutical companies would encounter various challenges in improving their services and medications. However, it is because of these pharmaceutical companies that overcame these challenges, there are more advancements within this industry. Technological innovations and the enhanced medical treatments are great examples of the advancements. The analysis of this research paper demonstrates an example of the various benefits towards the pharmaceutical industry. It is hope to inspire other companies within the pharmaceutical industry to also advance and improve as well. Not only would it benefit the companies itself, people are also able to experience more benefits and improve health faster as well. Overall, the rapid pace of inventing new technology and medications would inspire more to discover the endless possibilities in the healthcare field.

## 5. Conclusion

In conclusion, in the post-pandemic era, these risks will compound with the challenges of the pharmaceutical industry. However, it also means that the pharmaceutical industry is at a time of opportunities due to the public increasing awareness and demand for healthcare and medicine. To enhance their business development, pharmaceutical corporations should continue collaborating and innovating to meet society's needs. Continuing to embrace and follow their business ethics and comply with governmental regulations is also significant for their business development.

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