

Buy Proposal: Johnson & Johnson (JNJ)

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Numbers (Valentine's Day 2001):

Recent Price: 95 83/128	Market Cap: 132,956.20 million
52-Week Low: 66.125	P/E: 28.5
52-Week High: 105.938	EPS: 3.40

Company Description:

Johnson & Johnson, with approximately 98,500 employees, is the world's most comprehensive and broadly based manufacturer of health care products as well as a provider of related services, for the consumer, pharmaceutical and professional markets. Johnson & Johnson has more than 190 operating companies in 51 countries around the world, selling products in more than 175 countries.

Reasons to Buy:

-Fund Diversification: Our portfolio is tech-heavy and could use diversification from the health-care sector. J&J has a low Beta (.66) and has been a consistent performer over most of last year while the rest of the market was getting hammered.

-Future growth prospects for the industry are good: This is due to both rising health care costs and the aging of the baby boomer population. Rising health care costs help drug manufacturers like J&J because drugs are generally the cheapest way to treat illness (compared to surgery and other hospital care). Also, aging boomers will need medicine for their chronic ailments. With its arthritis drug Remicade, J&J is well positioned to capitalize on a potentially huge baby-boomer demand. Therefore, current growth estimates of 13% should increase as the population ages and health costs rise.

-Research and Development very high: J&J increased R&D spending 14% to \$3.3 Billion in 2000, making it one of the top 24 R&D companies in the world.

-Stock was recently hit: Though JNJ is not too far off of its 52-week high of 106, a sell-off at the beginning of this month has brought J&J down to 90.

-Diversified Product Line: Besides pharmaceuticals, J&J produces consumer and professional health care products ranging from contacts to hospital equipment. Additionally, J&J recently acquired Heartport, a cardiovascular surgery equipment company, to obtain part of a \$15 B market.

-Strong Pipeline: JNJ has over ten drugs in Phase III such as Aciphex, nitrol, and ortho evra, which target a large percent of the population and will soon be readily available.

Concerns:

- Long periods of stock-price stagnation possible: J&J's stock price began 1991 at around 20 and after a minor rise and subsequent fall hit the mid-year mark of 1994 at 20. As a long-term hold, J&J is very attractive, but because of the possibility of slow stock price growth or even price stagnation, J&J may not be a good hold for the fund.

- With interest rates going down, it is possible that the healthcare industry may go out of favor.

- Rich Lawrence, a pharmaceutical analyst at Parker/Hunter warned against the possible decrease in prescription drug prices, claiming that "Bush's plan... provides seniors with the option of choosing their insurance." On the other hand, Bush is also more likely to oppose price controls.

- Profitability numbers (ROE, ROS, ROA) are slightly lower than industry average.

- In the long term, its price is at a bit of a high.

Recent News Since Watch List Proposal:

2/14/01: A new system that makes daily blood glucose monitoring significantly less painful, faster and more convenient for many people with diabetes has been introduced by LifeScan, a JNJ company.

2/13/01: Immunex announced that it is not pursuing development of Enbrel, its popular rheumatoid arthritis drug, as a treatment for the gastrointestinal disorder Crohn's disease. A competing drug, JNJ's arthritis medication Remicade, is approved to treat Crohn's disease.

2/12/01: Banc of America Securities upgraded JNJ from a BUY to a STRONG BUY, and set a price target of \$130. Their brief statement was: "J&J's Next blockbuster: It's a device... It's a drug!...No it's a drug coated stent. Johnson & Johnson, because of its breadth and balance, provides a low risk investment vehicle in health care. It is our contention that the next generation drug coated stents will have a magnitude sufficient to alter the company's growth rate."

2/8/01: Cordis Corp., a unit of JNJ, said regulators broadened the approved indications of its Bx Velocity coronary artery stent. The stent, used to prop open coronary arteries, won FDA approval for the elective treatment of previously untreated lesions in coronary arteries.

2/8/01: Immunex announced that it is having serious problems meeting demand with its blockbuster drug Enbrel. The drug generated \$652 million in sales last year, making it the fastest growing biological drug in history. This is significantly boosting sales for JNJ's competing drug Remicade, which has recently been overshadowed by the drug.

2/6/01: Pfizer won FDA approval for a schizophrenia drug called ziprasidone, ending months of speculation over the fate of the medicine. This drug will offer competition to JNJ's Risperdal. Pfizer shares climbed only 85 cents (1.8%) on the news.

Financial Analysis:

- Amongst pharmaceutical sector, JNJ has the 4th largest market cap (\$126,326.66 billion) and represents nearly 10% of the sector. Pfizer has the largest pharmaceutical market cap of \$279,364.25 billion.

- For the past over the past 15 years, JNJ has shown reliable sales and earnings growth in the range of 11-14%.

- With its diversification into 3 main areas (pharmaceuticals, professional products, and consumer products), JNJ protects itself from downturns in any one product or area. Only a few products comprise more than 2% of the corporate revenue.

Division	% Of Sales	YOY % Sales Increase (2000)
Pharmaceuticals	40	8 (world) and 18 (US)
Professional	36	7 (world) and 6 (US)
Consumer	24	3 (world) and 3 (US)

- Procrit---as of April 2000---it accounts for approximately 20-30% of earnings growth and sales growth. 22% of pharmaceutical sales, and 15% of its operation profits.

Chief Competitor Analysis: Pfizer

-In 2000, Pfizer ranked second behind Glaxo SmithKline in pharmaceutical sales with nearly \$23 billion. Pfizer's sales are comprised of 76% from human pharmaceuticals, 8% from consumer products, 7% from confections, 4% from animal health, 3% from shaving, and 1% from Capsugel soft gel capsules and fish food. Its top blockbuster drugs include Lipitor, Norvasc, Zolof, Zithromax, Neurotin, Viagra, and Diflucan which collectively surpassed \$8 billion in revenues to comprise nearly 74% of all human pharmaceutical revenues. Furthermore, Pfizer has one of the largest R&D budgets of nearly \$4.4 billion. Its pipeline is in excellent condition, as it will bring in

promising drugs Zeldox, valdecoxib, pregabalin, Vfend, and inhaled insulin for diabetes in the next two years.

-Compared to Johnson & Johnson, Pfizer shows lower EPS, EPS growth, and PEG Ratio, while JNJ shows lower ROA, ROE, debt/equity, and market cap. In addition, as we look at the potential of pharmaceutical companies turning out of favor, JNJ is much more diversified than Pfizer in consumer goods, which would help to ease the shifting of goods.

	JNJ	PFE
current price	\$95 83/128	\$45.20
EPS (2000)	\$3.40	\$.59
P/E	28.5	76.3
PEG ratio	1.9	1.5
1 yr EPS growth	15.7%	14.0%
3 yr EPS growth	14%	.7%
1 yr revenue growth	6.1%	82.5%
3 yr revenue growth	9.5%	31.8%
market cap (mil)	\$132,956.28	\$285,168.58
ROA	14.3%	15.5%
ROE	25.7%	35.8%
total debt/equity	.26	.62
shares outstanding	1,390,029	6,309,039

Johnson & Johnson Inc
as of 31-Jan-2001

