

JOHNSON & JOHNSON

Rating Analysis - 10/15/15

Debt: \$19.38, Cash+: \$34.0B

Est. Share Value: \$94.54 Price: \$95.45

EJR Sen Rating(Curr/Prj) AA+/ AA

EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

EJR 3 yr. Recov. Rate: 95.0%

Johnson & Johnson's (JNJ) is in the pharmaceuticals sector and its revs were \$17.1 B for the quarter ending September 2015 vs \$18.478 for the prior year. Net Income for the September 2015 quarter was \$3.368, a 29% decrease over the prior year's \$4.758 income.

On 9/25/15, JNJ completed the divestiture of the SPLEND® brand to Heartland Food Products Group (terms of txn undisclosed). On 10/4/15, JNJ completed the divestiture of its Cordis biz to Cardinal Health for \$2B, subject to adjustments. Also, JNJ's BoD has approved the repurchase of up to \$108 of the company's common stock. For Sept 15 qtr, JNJ's revs fell by 7.4% YoY (-4.0% seq). By sgmt, Consumer, Pharmaceutical and Medical Devices all went down by 8%, 7% & 7%, resp (\$3.38, \$7.78 & \$6.18). Geographically, U.S. and International rev both fell by 0.6% & 13.7%, resp. Oper Inc declined by 16.1% to \$4.68 (w/ OPM of 27.15% -281 bps) due to lower Gross Profit -8.9% to \$11.98 (w/ GPM of 69.45% -112bps). Mkt Cap is \$264.48. Waiting for 3Q BS. Watch for activist investors. Affirming.

CREDIT POSITION	Annual Ratios		Ratios for 4 Rolling Quarters				
	Dec-14	PDec16*	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Pretax Int Coverage (x)	45.3	38.3	45.6	44.7	44.0	42.8	38.9
Funds fr Oper/Debt (%)	132.3	131.7	164.2	132.4	128.9	121.3	116.4
Free Oper Cashflow/Debt(%)	68.4	96.3	178.2	63.6	67.4	71.3	67.5
Return on Equity(%)	23.4	25.3	22.6	23.4	23.4	22.6	20.7
T Debt/Cap(w Debt)(%)	21.2	20.9	16.6	21.2	21.9	21.3	21.3
(Debt+1 OxRent)/(Cap+1 OxRent)%	21.2	20.9	16.6	21.2	21.9	21.3	21.3
Implied Sen. Rating	AA+	AA+	AA+	AA+	AA+	AA+	AA+

INDUSTRY RATIOS

	M		BBB	-12	B	CCC
Pretax Int Coverage (x)	13.5	10.0	6.3	2.1	-0.7	-1.5
Funds fr Oper/Debt (%)	84.7	60.1	20.0	10.0	-4.9	-10.0
Free Oper Cashflow/Debt(%)	51.2	33.6	13.2	-1.7	-7.5	-12.5
Return on Equity(%)	35.0	25.1	8.1	0.0	-11.4	-20.0
T Debt/Cap(w Debt)(%)	30.0	37.5	45.0	55.0	72.0	78.5
(Debt+1 OxRent)/(Cap+1 OxRent)%	26.0	37.0	50.0	60.0	72.5	83.5

PEER RATIOS	Other		Funds		ROE(%)	T Debt/ Cap(%)	Ratio- Implied Rating*
	NRSRO	Pretax Int	from Oper	F.O.C./ Debt(%)			
	Sen.	Cov(x)	Debt(%)	Debt(%)			
Johnson & Johnson	AAA	45.3	132.3	68.4	23.4	21.2	AA+
Teva Pharmaceutical Industries Limited	A-	10.3	53.5	40.0	12.0	30.6	A
Hospira, Inc.	BBB-	7.7	48.0	25.7	10.0	34.5	A-
Mylan N.V.	BBB-	3.9	23.0	-13.1	28.4	72.3	BB+
Valeant Pharmaceuticals International, Inc.	BB-	2.8	25.7	13.4	16.8	73.7	BB+

Note, Annual Implied Sen. Ratings are smoothed

Rating Change Anticipator (1 is best, 100 worst): 65.0 Last EJ Sen.: AA+ Other NRSROs: AAA

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REVENUE & PROFITABILITY

The Company's revenues were more or less flat over the last five years while operating margin rose to 28.16% for the fiscal year ending December 2014, above the 26.50% average over the prior five years. Return on Assets rose to 12.45%, above the 9.68% average for the prior years.

	Jan11	Jan12	Dec12	Dec13	Dec14	PDec15	PDec16
Revenue (mill \$)	61,639	65,039	67,282	71,263	74,334	77,307	80,400
Growth Rate (%)		5.52	3.45	5.92	4.31	4.00	4.00
Cost of Revenue(%)	30.00	31.07	32.04	31.45	30.87	31.00	31.00
Gross Margin(%)	70.00	68.93	67.96	68.55	69.13	69.00	69.00
Selling, General & Admin Expense (%)	42.71	43.81	42.44	42.14	40.97	40.97	40.97
Depreciation	4.77	4.86	5.45	5.76	5.24	5.02	4.82
Oper Profit Margin %	27.29	25.12	25.52	26.41	28.16	28.03	28.03
Return on Rev. (%)	21.63			19.41	21.96	23.92	23.94
Return on Equity %	23.57	16.94	16.74	18.68	23.40	25.52	25.32
Return on Assets (%)	12.96	8.51	8.94	10.42	12.45	13.68	13.83

LEVERAGE & ACTIVITY

Coverage has become stronger recently, rising to 45.3:1 for the FYE December 2014, and leverage has increased.

	Jan11	Jan12	Dec12	Dec13	Dec14	PDec15	PDec16
Pretax Int Coverage(x)	35.8	30.7	35.7	41.7	45.3	40.2	38.3
Debt/Equity (x)	0.3	0.3	0.2	0.2	0.3	0.3	0.3
Inv. Turnover(x)	3.4	3.2	2.9	2.8	2.8	2.8	2.8
Avg Coll Period (days)	57.9	59.4	61.4	60.0	53.9	53.9	53.9
F. Asset Turns(x)	4.2	4.4	4.2	4.3	4.6	4.5	4.4
T. Asset Turns(x)	0.6	0.6	0.6	0.5	0.6	0.6	0.6

LIQUIDITY & OTHER

The Current Ratio is a reasonably strong 2.4:1 while cash and marketable securities to indebtedness has slipped to 77.4%.

	Jan11	Jan12	Dec12	Dec13	Dec14	PDec15	PDec16
Current Ratio(x)	2.1	2.4	1.9	2.2	2.4	2.6	2.7
Quick Ratio(x)	1.8	2.1	1.6	1.9	2.0	2.2	2.4
Work Cap Inv(% revs)		1.7	(3.0)	4.3	11.7	4.1	2.6
Cap Expend(% revs)		0.0	0.0	0.0	0.0	1.4	1.4
Cash & Mkt Sec./Debt(%)		125.0	92.2		77.4	74.0	77.7
EBITD/ Net Int (x)		37.1	24.4	48.6	47.9	42.6	40.6
(EBITD-Cap Exp)/ Net Int		30.7	18.5	38.6	41.5	34.3	32.9
EBITD+RenUNet Int+Rent		55.5	36.7	77.9	79.4	69.7	65.6
Oper Funds/(Cap Ex+Divs) (x)		2.1	1.8	1.9	2.2	2.0	2.1
Oper CashFlow/ Curr LTD (x)		2.3	3.8	3.1	3.5	4.8	5.3