

## Johnson & Johnson (JNJ)

**Recommendation: BUY**  
**Sector: Healthcare**

**Recent Price: \$65.12**  
**Analyst: Cory Tuck**

**Price Target: \$77.52**  
**Report Date: April 18, 2007**

### Highlights

Quick Market Info	JNJ
Market Cap	\$188.52 Billion
Recent Price	\$65.12
52 Week Price Range	\$58.06 - \$69.41
PE Ratio	18.69
Dividend Yield	2.30%
Beta	0.34

Key Statistics 5 Yr Averages JNJ and Industry	JNJ	Ind.
Gross Margin	71.6%	<b>73.4%</b>
Net Prof Margin	<b>18.8%</b>	17.2%
ROE	<b>28.4%</b>	23.3%
ROA	<b>16.9%</b>	11.8%
Sales	<b>10.5%</b>	6.9%
EPS	<b>15.2%</b>	7.4%
Cap Spending	<b>9.0%</b>	1.6%
Dividend Yield	<b>15.8%</b>	9.8%

- Strong free cash flow generation, high historical and current ROIC, and long term sustainable growth
- Less immune than the broader market to economic downturns
- Strong experience at valuing, acquiring, and integrating acquisitions, and creating economic value through the acquisition process
- Purchase of Pfizer Consumer Health Franchise brings strong products, ability to gain efficiencies, increased diversification, and economic value creation from the acquisition
- Large research and development increases in the past three years which has increased the number of products in the pipeline and extended future produce lifecycles
- Focus on cost reductions and tax efficiency across the organization and review of advertising expenditures will help to maintain margins
- Expansive sales force allows the scaling up of new drugs and equipment and ability to secure profitable contracts with buyers
- Branding and patents protect current products and allow for the development of profitable brands and products in the future
- Low and sustainable weighted average cost of capital (WACC) will keep the ROIC to WACC spread high
- Aging of the population is a major demographic trend likely to lead to increases in demand across all three business segments – pharmaceuticals, medical devices and diagnostics, and consumer health.

### Investment Summary

The BUY recommendation is based on a discounted cash flow (DCF) model of the company's strong projected future free cash flows, a high and sustainable return on invested capital (ROIC), and a low WACC. ROIC has been high in the past 5 years from 2002 – 2006 averaging 51.2%. This ROIC will continue to be strong in the future and drive value creation.

Moreover, with a low correlation of returns with the broader market, strong cash flow generation, relatively high dividend yield, and products that are largely immune to economic cycles, JNJ has been an outstanding stock to own during business cycle contractions and bear markets. During the latest economic downturn from 2001 to 2002, the S&P 500 index lost over 30% of its value. During that time JNJ gained 5%. This will lower overall portfolio expected volatility.

*BUY Recommendation based on DCF model with high sustainable ROIC above WACC*

*Low correlation to S&P 500 and outperformance during challenging economic times*

Johnson and Johnson has shown expertise in acquiring smaller firms with large potential, and profitably integrating these companies in their existing portfolio of businesses. They have shown prudence in valuing and acquiring companies, particularly companies with products that are unproven and hard to value. It is this expertise that makes them among the few acquirers who can profit from companies with products in early stage development or unproven on a mass scale. This has been shown in recent acquisitions of Depuy in 1998, ALZA in 2001, Tibotec in 2002, and Transform Pharmaceuticals in 2005.

*JNJ is expert at valuing, buying, and integrating firms creating value through acquisition*

An example of near term benefits from acquisition that will be derived is the profitable expansion of the Pfizer consumer health franchise (Listerine, Nicorette, Visine, Neosporin, Lubriderm, Sudafed, Zantac, Benadryl, and more). With their proven ability to create dominant brands and utilize their sales channels, J&J will be able to expand brand offerings and increase product mix by developing low margin consumer products to higher margin health products. For example, JNJ could use the strength of their current Vistakon product to develop new offerings for the Visine line and place higher margin products in ophthalmologists' and other doctors' offices. This boosts revenue and cash flows amid near term challenging times in the medical device and pharmaceutical areas.

*Pfizer Health will bring portfolio diversification and strong brands that will lead to growth.*

Another strong signal regarding JNJ's future is that spending on research and development has been increasing each year for the past three years (10.6%, 20.9%, and 10.3%), as the company also emphasizes organic growth as well as growth by acquisition. Based on these trends, I forecast that growth will grow steadily for Johnson and Johnson as it improves current products and identifies new ones that can be bundled into effective product mixes with older ones. This is evidenced by Johnson and Johnson being projected to file or have approved 10 -13 new drugs (from JNJ 2006 10-K) by the end of 2007. Johnson and Johnson has shown strong ability in the past to translate R&D spending into internally developed products with strong ROIC.

*R&D spending has increased greatly in the past 3 years, leading to strong growth in the near term*

The company has focused in the past few years on reducing costs to maintain margins and sustain high ROIC. SG&A costs have slowed dramatically, increasing 6.4% in 2005 and only 1.3% in 2006. This is apparent in the focus on the estimated \$3 billion per year media spending by J&J. There has been a shift from traditional high cost media to more targeted advertising. The \$3 billion spending makes them a huge player on the demand side of the media buying. They have not fully taken advantage of this buying power until 2007, a year in which they have chosen to review a large portion of their media portfolio. With the acquisition of the Pfizer Consumer health franchise, J&J can further leverage their massive media spending and create more efficient and effective marketing campaigns.

*Recent cost cutting efficiencies will continue in the near future and helping to maintain high margins and ROIC levels*

Tax efficiency gains have been shown with the development of manufacturing and research facilities in Ireland and Puerto Rico. These tax incentives have shown a great increase in tax efficiency related to incentives given for development. The nominal tax rate was 24.2% in 2006, 23.3% in 2005, 33.7% in 2004, mainly due to tax incentives offered by Puerto Rico and Ireland for manufacturing, and partly due to

*Tax incentives will continue to increase cash flows and lower marginal taxes*

repatriation of earnings due to the American Job Creation Act of 2004 in 2004.

JNJ has a low Weighted Average Cost of Capital. It is one of the few industrial companies to maintain an AAA credit rating among the three rating bureaus, and thus has a low cost of debt. With a low beta the cost of equity is low. This low WACC allows the company to make a higher economic and market value added, because the low WACC means the ROIC to WACC spread is higher.

*JNJ has sustainability in both low WACC and high ROIC*

With the aging of the baby boomers JNJ will be well positioned to keep or gain market share with its strong brands and patents as the markets for its products grow. This will be a boon to all 3 business segments.

*Aging of the baby boomers will increase demand across all business segments*

### Valuation

DCF Model	2007	2016
Intrinsic Price	\$77.52	\$215.78
Revenue Growth	5.5%	8.5%
Gross Margin	70.5%	68.0%
SG&A % of Sales	31.0%	34.5%
R&D % of Sales	13.5%	13.5%
Tax Rate	24.0%	28.0%
Dividend Growth	11.0%	3.0%
ROIC	51.0%	40.4%
Dividend Yield	1.9%	3.3%

Using a modest assumptions DCF model JNJ has an intrinsic per share value of \$77.52, which is 20.7% above the current price of \$64.22. My discounted cash flow model was based on modest 10-year forecasts of J&J's financial statements. The DCF model employed the following assumptions, which are intentionally meant to be conservative:

- Nominal sales growth increasing gradually from 5.6% in FY06 to 8.5% in FY16, with a long term nominal projection of 7%
- Gross margins diminishing from 71.8% in FY06 to 68.0% in FY16
- SG&A expenses increasing gradually as a percent of sales 32.7% in FY06 to 34.5% in FY16
- Continued strong spending in Research and Development
- High forecasted dividend growth that tapers off in later years
- 4% share repurchase program that tapers off in later years
- ROIC decreasing from 65.5% in FY06 (5 year historical average was 51.2%) to 40.4% in FY16
- WACC is forecasted at a modest 8.9% (S&P reports at 7.7%)

In Appendix A: Table there is a table that represents different multiple valuations based on projections from the DCF Model. Using a P/E ratio of 16 for 2007 projected earnings we come to a stock price of \$61.30 and \$68.85 for 2008. Notice the strengthening of multiples from 2007 to 2016. Price to free cash flow drops from 28.1 to 17.7. This means that the earnings multiple projections are strongly backed up by wealth creation through free cash flow.

### Concerns

- Expiration of patents protecting Risperdal and Topamax could hamper sales
- Product mix concerns in the Pharmaceutical and Medical Devices segments
- Subpoenas to Johnson and Johnson could be a symptom of larger problems with their companywide sales practices
- Health related concerns with Cypher stent and Procrit / Eprex

Patent expiration is a near term and long term problem that could materially affect sales. Risperdal's (\$4.2 billion 2006 sales) patent expires in December of 2007. Topamax's (\$2.0 billion 2006 sales) patent expires in September 2008. These two drugs could greatly effect the

*Risperdal's and Topamax's patent expirations could greatly affect sales and earnings*

near term sales if generic competitors develop and get approved competitive products. Risperdal was approved by the FDA for treatment of irritability associated with autism. Invega was introduced in January 2007 to replace sales that will be lost when Risperdal's patent expires, but according to estimates adoption has been slow to this point.

An additional round of subpoenas were presented to JNJ on March 13. This is part of recent trend by the US Attorneys Office to investigate sales and marketing practices in the entire pharmaceutical industry. These subpoenas relate to ongoing investigations regarding corporate supervision and oversight of Janssen (Risperdal), Ortho-McNeil (Topamax), and Scios (Natrecor). These are extensions of investigations in Risperdal November 2005; Topamax December 2003 and June 2006; Natrecor July 2005. These subpoenas could be related more to corporate level practices instead of the operating companies

*JNJ received an additional round of subpoenas regarding sales and marketing practices*

Health related concerns have hurt the sales of J&J products. Johnson and Johnson's Cypher stent has seen concerns as drug eluting stents of this kind have been linked to an increase in blood clots. Traditional non-coated stents have seen a rebound in market share because of these concerns. Procrit and other drugs of its class received a black box warning from the FDA which should hamper sales growth.

*Concerns with safety of Cypher stent, and Procrit*

	2006 Rev (in bil)	% of 2006 Sales	Increase from 2005
<b>Pharmaceuticals</b>	23.5	44.0%	4%
Risperdal	4.2	7.9%	18%
Procrit/Eprex	3.2	6.0%	-4%
Remicade	3.0	5.6%	19%
Topamax	2.0	3.8%	21%
Floxin/Levaquin	1.5	2.8%	3%
Duragesic	1.3	2.4%	18%
Aciphex/Pariet	1.2	2.3%	6%
Hormonal Contraceptives	1.0	1.9%	11%
Other	6.1	11.4%	
<b>Medical Devices</b>	20.3	38.0%	6%
Cordis Sales	4.1	7.7%	3%
DePuy			
Orthopaedics	4.1	7.7%	7%
Ethicon Endo- Surgery	3.4	6.4%	9%
Vision Care	0.5	0.9%	12%
Other	8.2	15.3%	
<b>Consumer Products</b>	9.6	18.0%	6.40%
Skin Care			
Franchise	2.6	4.9%	9%
Baby & Kids Care	1.7	3.2%	10%
McNeil OTC & Nutrition	2.7	5.1%	2%
Women's Health	1.7	3.2%	5%
Other	0.9	1.7%	
<b>Total</b>	53.3		5.60%

#### Business Description

The pharmaceutical sales accounted for 44% of 2006 sales, which grew 4% over 2005 (operationally). Current products operate in these categories antifungal, anti-infective, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, central nervous system, and urology. The pharmaceutical division has eight products with over \$1 billion in sales. The pharmaceuticals industry has strong competition especially in product research, development, and improvement. This industry has high barriers to entry exemplified by the high capital requirements needed to spend on research and development that will not come to fruition over many years requires companies to have substantial cash flow or initial investment.

The medical devices division accounted for 38% of 2006 sales, which grew 6% over 2005 (operationally). Current products include Ethicon's wound care, surgical sports medicine, women's health care products, ortho-clinical professional diagnostic products, Depuy's orthopedic joint reconstruction and spinal products, and Vistakon's disposable contact lenses. We are seeing product mix problems and pricing pressures in medical devices.

The consumer products division accounted for 18% of 2006 sales, which grew 6.4% over 2005 (operationally). The main divisions are nonprescription drugs, adult skin and hair care products, baby care products, oral care products, first aid products, women's health products, and nutritional products. Brands include major brand include Band-Aid Brand Adhesive Bandages, Immodium A-

D Antidiarrheal, Johnson' Baby line of products, Neutrogena skin and hair care products, and Tylenol pain reliever.

International sales accounted for 44% of 2006 sales.

**Recent Drug and Medical Device Development**

**Ionsys** (2006) has been developed for the treatment of cancer pain. **Prezista** (2006) is a protease inhibitor developed for the treatment of HIV/AIDS. **Jurnista** (2006) was developed for the treatment of severe pain. **Remicade** (2006) has been approved for new uses: ulcerative colitis, psoriasis, pediatric, and Crohn's, and psoriatic arthritis

**Recent Acquisitions**

JNJ purchased the **Pfizer Consumer Health** division of \$16.6 billion. This acquisition will increase sales by \$4.0 billion. In April 2007 JNJ acquired Chinese cosmetic firm **Dabao** for around \$300 billion. JNJ bought **Conor Medsystems** in Feb. 2007 for \$1.4 billion. This should increase sales \$200 million. Conor has an innovative controlled drug delivery technology that is being incorporated on its CoStar cobalt chromium coronary stent.

**Management**

Johnson and Johnson's top management has a lot of experience in each of 3 main operating segments. JNJ has focused on developing and acquiring strong leadership and promoting and rewarding them. Many have at least one decade of experience with Johnson and Johnson. William Weldon the current CEO has 36 years with company. The experience and dedication of the management team will contribute to future success. As a side note company insiders including management were net buyers of JNJ in the fourth quarter of 2006.

<b>Johnson &amp; Johnson Management</b>	
<b>William Weldon</b>	<b>Nicholas Valeriani</b>
Chief Executive Officer 2002	Worldwide Chair, Medical Devices and Diagnostics 2007
Chairman of the Board 2002	Worldwide Chair, Cardiovascular Devices & Diagnostics 2005
Worldwide Chair, Pharmaceutical Group 1998	President of Ethicon Endo-Surgery 1997
Joined Johnson & Johnson 1971	Joined Johnson & Johnson 1978
<b>Christine Poon</b>	<b>Joseph Scodari</b>
Elected Board of Directors 2005	Worldwide Chairman, Pharmaceuticals 2005
Worldwide Chair, Pharmaceutical Group 2001	Company Group Chair, Biopharmaceuticals 2003
Joined JNJ 2000	Company Group Chair of N. American Pharmaceuticals 2001
15 years in management at Bristol-Myers	Chief Operating Officer Centocor 1997
<b>Dominic Caruso, CPA</b>	<b>Russell Deyo</b>
Chief Financial Officer 2007	VP, General Counsel, and Chief Compliance Officer 2004
Vice President, Group Finance 2005	Vice President, Administration 1996
Vice President, Finance (Centocor) 1999	Associate General Counsel 1991
Joined Centocor (acquired by JNJ) in 1985	Joined Johnson & Johnson 1985
<b>Colleen Goggins</b>	
Worldwide Chair, Consumer and Personal	

Care 2001  
 President of JNJ Consumer Products 1995  
 President Personal Products 1994  
 Joined JNJ 1981

## **Recommendation**

With a target price of \$77.52, I have rated Johnson & Johnson a BUY. This is based on gradually increasing sales growth, sustainable ROIC above an excellent WACC, value creating acquisitions, and a business model that promotes growth and sustainable competitive advantage.

## **Appendix A**

### **Projected Multiple Valuations**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
High PE	20	20	20	20	20	20	20	20	20	20
Low PE	12	12	12	12	12	12	12	12	12	12
Mid-Range	16	16	16	16	16	16	16	16	16	16
Price High	\$76.62	\$86.06	\$96.27	\$107.46	\$116.44	\$126.06	\$133.47	\$137.63	\$140.47	\$143.35
Price Low	\$45.97	\$51.63	\$57.76	\$ 64.48	\$ 69.87	\$ 75.63	\$ 80.08	\$ 82.58	\$ 84.28	\$ 86.01
Mid-Range Price	\$61.30	\$68.85	\$77.02	\$ 85.97	\$ 93.16	\$100.85	\$106.78	\$110.11	\$112.38	\$114.68
Price Increase	-2.8%	12.3%	11.9%	11.6%	8.4%	8.3%	5.9%	3.1%	2.1%	2.0%
Price / NOPaT	15.7	16.0	16.1	16.1	16.0	15.8	15.6	15.3	14.9	14.4
Price / FCF	28.1	18.0	18.3	18.5	18.6	17.7	17.5	17.7	17.5	17.7
Price / Sales	3.1	3.2	3.2	3.2	3.1	3.0	2.8	2.5	2.3	2.1
Price / Book	4.6	4.4	4.3	4.3	4.2	4.3	4.2	4.1	4.0	4.0



<b>Johnson &amp; Johnson</b>	<b>JNJ</b>
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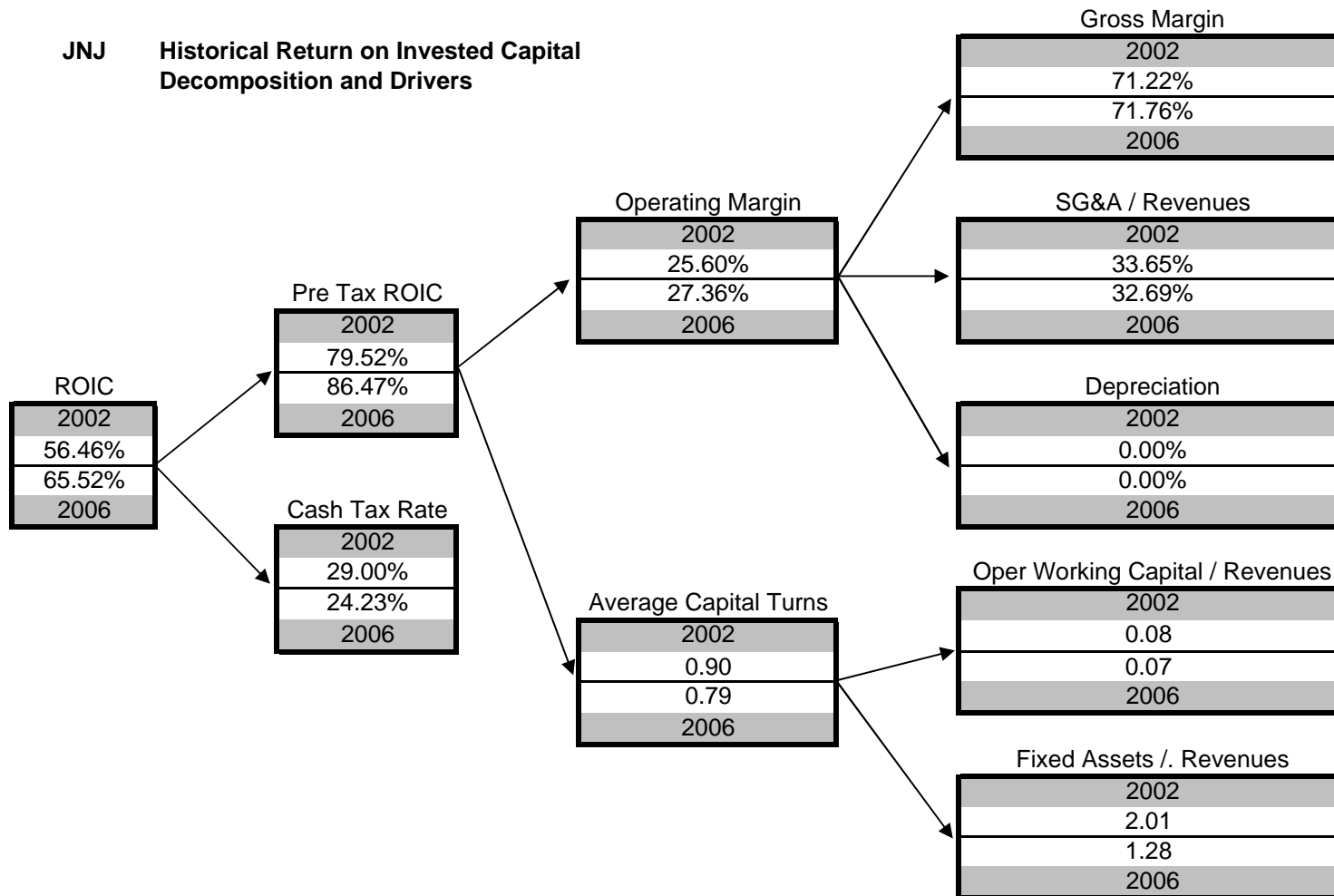
Year-by-Year revenue Growth	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%	8.00%	8.50%	8.50%	8.50%
Forecasted Income Statements - 10 Years										
Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Total Revenue</b>	\$ 56,257	\$ 59,632	\$ 63,508	\$ 67,954	\$ 73,050	\$ 78,894	\$ 85,206	\$ 92,449	\$ 100,307	\$ 108,833
Cost of good sold	\$ 16,596	\$ 17,592	\$ 18,735	\$ 20,046	\$ 21,915	\$ 24,063	\$ 25,988	\$ 28,659	\$ 31,597	\$ 34,826
<b>Gross Profit</b>	\$ 39,661	\$ 42,041	\$ 44,773	\$ 47,908	\$ 51,135	\$ 54,832	\$ 59,218	\$ 63,790	\$ 68,710	\$ 74,006
SG&A Expense	\$ 17,440	\$ 18,486	\$ 19,688	\$ 21,066	\$ 22,646	\$ 24,457	\$ 27,266	\$ 30,508	\$ 34,104	\$ 37,547
Research and Development	\$ 7,595	\$ 8,050	\$ 8,574	\$ 9,174	\$ 9,862	\$ 10,651	\$ 11,503	\$ 12,481	\$ 13,541	\$ 14,692
Depreciation / Amortization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Expense (income), operating	\$ (282)	\$ (299)	\$ (318)	\$ (340)	\$ (366)	\$ (395)	\$ (427)	\$ (463)	\$ (502)	\$ (545)
Non-recurring expenses	\$ 508	\$ 539	\$ 574	\$ 614	\$ 660	\$ 713	\$ 770	\$ 835	\$ 906	\$ 983
Other operating expenses	\$ (198)	\$ (210)	\$ (224)	\$ (239)	\$ (257)	\$ (278)	\$ (300)	\$ (325)	\$ (353)	\$ (383)
<b>Operating Income</b>	\$ 14,598	\$ 15,474	\$ 16,480	\$ 17,634	\$ 18,591	\$ 19,684	\$ 20,406	\$ 20,754	\$ 21,014	\$ 21,711
Interest income (expense), non-operating	\$ (270)	\$ (24)	\$ 112	\$ 147	\$ 27	\$ (206)	\$ (475)	\$ (890)	\$ (1,418)	\$ (2,115)
Gain (loss) on sal of assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income, net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Income before tax</b>	\$ 14,329	\$ 15,450	\$ 16,592	\$ 17,780	\$ 18,618	\$ 19,478	\$ 19,932	\$ 19,864	\$ 19,595	\$ 19,597
Income Tax	\$ 3,439	\$ 3,708	\$ 3,982	\$ 4,267	\$ 4,561	\$ 4,869	\$ 5,083	\$ 5,165	\$ 5,193	\$ 5,487
<b>Income after tax</b>	\$ 10,890	\$ 11,742	\$ 12,610	\$ 13,513	\$ 14,057	\$ 14,608	\$ 14,849	\$ 14,699	\$ 14,403	\$ 14,110
Minority Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity in affiliates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. GAAP adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net income before extraordinary items</b>	\$ 10,890	\$ 11,742	\$ 12,610	\$ 13,513	\$ 14,057	\$ 14,608	\$ 14,849	\$ 14,699	\$ 14,403	\$ 14,110
Extraordinary items expense (inc), total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net income</b>	\$ 10,890	\$ 11,742	\$ 12,610	\$ 13,513	\$ 14,057	\$ 14,608	\$ 14,849	\$ 14,699	\$ 14,403	\$ 14,110
Total adjustments to net income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Basic weighted average shares	\$ 2,819	\$ 2,706	\$ 2,598	\$ 2,494	\$ 2,394	\$ 2,298	\$ 2,206	\$ 2,118	\$ 2,033	\$ 1,952
Basic EPS excluding extraordinary items	\$ 3.86	\$ 4.34	\$ 4.85	\$ 5.42	\$ 5.87	\$ 6.36	\$ 6.73	\$ 6.94	\$ 7.08	\$ 7.23
Basic EPS including extraordinary items	\$ 3.86	\$ 4.34	\$ 4.85	\$ 5.42	\$ 5.87	\$ 6.36	\$ 6.73	\$ 6.94	\$ 7.08	\$ 7.23
Diluted weighted average shares	\$ 2,843	\$ 2,729	\$ 2,620	\$ 2,515	\$ 2,414	\$ 2,318	\$ 2,225	\$ 2,136	\$ 2,051	\$ 1,969
Diluted EPS excluding extraordinary items	\$ 3.83	\$ 4.30	\$ 4.81	\$ 5.37	\$ 5.82	\$ 6.30	\$ 6.67	\$ 6.88	\$ 7.02	\$ 7.17
Diluted EPS including extraordinary items	\$ 3.83	\$ 4.30	\$ 4.81	\$ 5.37	\$ 5.82	\$ 6.30	\$ 6.67	\$ 6.88	\$ 7.02	\$ 7.17
Dividends per share -- common stock	\$ 1.65	\$ 2.06	\$ 2.69	\$ 3.64	\$ 4.44	\$ 5.41	\$ 5.80	\$ 6.22	\$ 6.68	\$ 7.16
Gross dividends -- common stock	\$ 4,694	\$ 5,632	\$ 7,041	\$ 9,153	\$ 10,709	\$ 12,529	\$ 12,905	\$ 13,292	\$ 13,691	\$ 14,102
<b>Retained earnings</b>	\$ 6,196	\$ 6,109	\$ 5,569	\$ 4,360	\$ 3,348	\$ 2,079	\$ 1,944	\$ 1,407	\$ 712	\$ 8



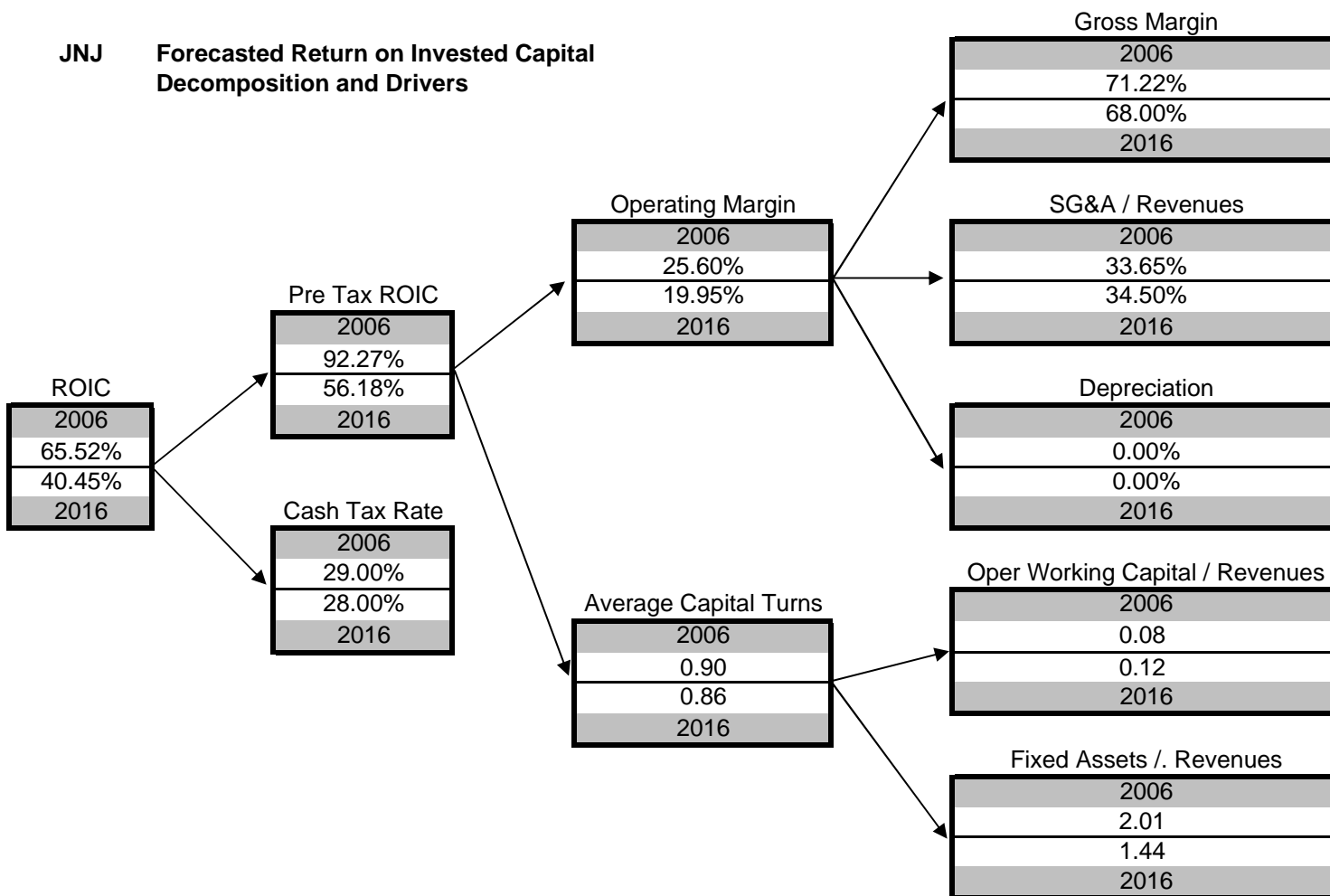
Forecasted Balance Sheets - 10 Years										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Assets</b>										
Cash & equivalents	\$ 9,282	\$ 9,839	\$ 10,479	\$ 11,212	\$ 12,053	\$ 12,300	\$ 12,500	\$ 13,000	\$ 13,500	\$ 14,500
Short term investments	\$ 563	\$ 596	\$ 635	\$ 680	\$ 731	\$ 789	\$ 852	\$ 924	\$ 1,003	\$ 1,088
Receivables, total	\$ 8,463	\$ 8,971	\$ 9,554	\$ 10,223	\$ 10,990	\$ 11,869	\$ 12,818	\$ 13,908	\$ 15,090	\$ 16,373
Inventory, total	\$ 4,791	\$ 5,079	\$ 5,409	\$ 5,788	\$ 6,222	\$ 6,719	\$ 7,257	\$ 7,874	\$ 8,543	\$ 9,269
Prepaid expenses	\$ 2,720	\$ 2,883	\$ 3,071	\$ 3,286	\$ 3,532	\$ 3,815	\$ 4,120	\$ 4,470	\$ 4,850	\$ 5,262
Other current assets, total	\$ 2,135	\$ 2,263	\$ 2,410	\$ 2,579	\$ 2,772	\$ 2,994	\$ 3,233	\$ 3,508	\$ 3,806	\$ 4,130
<b>Total Current Assets</b>	\$ 27,954	\$ 29,632	\$ 31,558	\$ 33,767	\$ 36,299	\$ 38,486	\$ 40,780	\$ 43,684	\$ 46,793	\$ 50,622
Property, plant, and equipment (net)	\$ 13,220	\$ 14,014	\$ 14,924	\$ 15,969	\$ 17,167	\$ 18,540	\$ 20,023	\$ 21,725	\$ 23,572	\$ 25,576
Goodwill	\$ 11,251	\$ 11,926	\$ 12,702	\$ 13,591	\$ 14,610	\$ 15,779	\$ 17,041	\$ 18,490	\$ 20,061	\$ 21,767
Intangibles	\$ 11,251	\$ 11,926	\$ 12,702	\$ 13,591	\$ 14,610	\$ 15,779	\$ 17,041	\$ 18,490	\$ 20,061	\$ 21,767
Long term investments	\$ 79	\$ 84	\$ 89	\$ 95	\$ 102	\$ 111	\$ 119	\$ 130	\$ 141	\$ 153
Notes receivable -- long term	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other long term assets, total	\$ 3,375	\$ 3,578	\$ 3,810	\$ 4,077	\$ 4,383	\$ 4,734	\$ 5,112	\$ 5,547	\$ 6,018	\$ 6,530
Other assets, total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Assets</b>	\$ 67,132	\$ 71,160	\$ 75,785	\$ 81,090	\$ 87,172	\$ 93,428	\$ 100,118	\$ 108,066	\$ 116,646	\$ 126,414
<b>Liabilities and Shareholder's Equity</b>										
Accounts Payable	\$ 5,861	\$ 6,213	\$ 6,617	\$ 7,080	\$ 7,611	\$ 8,220	\$ 8,877	\$ 9,632	\$ 10,451	\$ 11,339
Payable / accrued	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued expenses	\$ 8,131	\$ 8,619	\$ 9,179	\$ 9,822	\$ 10,559	\$ 11,403	\$ 12,316	\$ 13,362	\$ 14,498	\$ 15,731
Notes payable / short term debt	\$ 2,144	\$ 2,272	\$ 2,420	\$ 2,590	\$ 2,784	\$ 3,007	\$ 3,247	\$ 3,523	\$ 3,822	\$ 4,147
Current portion of LT debt / Capial Leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other current liabilities	\$ 1,194	\$ 1,265	\$ 1,348	\$ 1,442	\$ 1,550	\$ 1,674	\$ 1,808	\$ 1,962	\$ 2,129	\$ 2,310
<b>Total Current Liabilities</b>	\$ 17,330	\$ 18,370	\$ 19,564	\$ 20,933	\$ 22,503	\$ 24,304	\$ 26,248	\$ 28,479	\$ 30,900	\$ 33,526
Long term debt, total	\$ 4,652	\$ 2,253	\$ 918	\$ 580	\$ 1,747	\$ 4,026	\$ 6,657	\$ 10,721	\$ 15,886	\$ 22,698
Deferred income tax	\$ 830	\$ 880	\$ 937	\$ 1,003	\$ 1,078	\$ 1,164	\$ 1,257	\$ 1,364	\$ 1,480	\$ 1,606
Minority interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other liabilities, total	\$ 6,411	\$ 6,796	\$ 7,238	\$ 7,744	\$ 8,325	\$ 8,991	\$ 9,711	\$ 10,536	\$ 11,432	\$ 12,403
<b>Total Liabilities</b>	\$ 29,224	\$ 28,299	\$ 28,656	\$ 30,261	\$ 33,654	\$ 38,485	\$ 43,873	\$ 51,100	\$ 59,697	\$ 70,234
Preferred stock (redeemable)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Preferred stock (unredeemable)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Common stock	\$ 3,120	\$ 3,120	\$ 3,120	\$ 3,120	\$ 3,120	\$ 3,120	\$ 3,120	\$ 3,120	\$ 3,120	\$ 3,120
Additional paid-in capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Retained earnings (accumulated deficit)	\$ 55,486	\$ 61,595	\$ 67,165	\$ 71,525	\$ 74,873	\$ 76,952	\$ 78,896	\$ 80,304	\$ 81,015	\$ 81,023
Treasury stock -- common	\$ (10,974)	\$ (10,974)	\$ (10,974)	\$ (10,974)	\$ (10,974)	\$ (10,974)	\$ (10,974)	\$ (10,974)	\$ (10,974)	\$ (10,974)
ESOP Debt Guarantee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other equity, total	\$ (2,118)	\$ (2,118)	\$ (2,118)	\$ (2,118)	\$ (2,118)	\$ (2,118)	\$ (2,118)	\$ (2,118)	\$ (2,118)	\$ (2,118)
<b>Total Shareholders Equity with AFN Adjust</b>	\$ 37,908	\$ 42,861	\$ 47,129	\$ 50,829	\$ 53,518	\$ 54,942	\$ 56,245	\$ 56,965	\$ 56,949	\$ 56,180
<b>Total Liab and SH Equity</b>	\$ 67,132	\$ 71,160	\$ 75,785	\$ 81,090	\$ 87,172	\$ 93,428	\$ 100,118	\$ 108,066	\$ 116,646	\$ 126,414
Diluted weighted average shares	\$ 2,843	\$ 2,729	\$ 2,620	\$ 2,515	\$ 2,414	\$ 2,318	\$ 2,225	\$ 2,136	\$ 2,051	\$ 1,969
Total preferred shares outstanding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>AFN</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Adjustment to LT Debt	\$ 2,638	\$ (2,400)	\$ (1,335)	\$ (338)	\$ 1,167	\$ 2,279	\$ 2,631	\$ 4,064	\$ 5,164	\$ 6,813
Issue Common Stock	\$ (7,606)	\$ (8,762)	\$ (10,064)	\$ (10,724)	\$ (11,383)	\$ (12,038)	\$ (12,679)	\$ (13,366)	\$ (14,094)	\$ (14,871)
Set Balance Sheet Cash Lower to Fund AFN	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,300	\$ 12,500	\$ 13,000	\$ 13,500	\$ 14,500
Long Term Debt as percent of Sales	8.3%	3.8%	1.4%	0.9%	2.4%	5.1%	7.8%	11.6%	15.8%	20.9%
FCF as a percent of LTD	133.3%	464.1%	1201.3%	2013.7%	690.5%	328.3%	204.3%	123.6%	83.1%	56.1%



**JNJ Historical Return on Invested Capital Decomposition and Drivers**



**JNJ Forecasted Return on Invested Capital  
Decomposition and Drivers**



<b>Johnson &amp; Johnson</b>	<b>JNJ</b>
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	2000	2001	2002	2003	2004	2005	2006
High PE	31.2	43.6	45.8	33.7	x	x	18.5
Low PE	20.3	21.3	19.2	17.4	x	x	13.0
Mid-Range	25.7	32.5	32.5	25.6	x	x	15.8
Price High	\$ 52.97	\$ 60.97	\$ 65.89	\$ 59.08	\$ 64.25	\$ 69.99	\$ 69.41
Price Low	\$ 33.06	\$ 40.25	\$ 41.40	\$ 48.05	\$ 49.25	\$ 59.76	\$ 56.65
Mid-Range Price	\$ 43.02	\$ 50.61	\$ 53.65	\$ 53.57	\$ 56.75	\$ 64.88	\$ 63.03
Price Increase		17.7%	6.0%	-0.1%	5.9%	14.3%	-2.8%
Price / NOPaT			24.8	22.4	20.8	19.4	16.9
Price / FCF				33.1	41.2	149.2	8.9
Price / Sales			3.6	3.6	3.4	3.2	3.2
Price / Book			7.2	6.0	5.3	5.0	4.7

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
High PE	20	20	20	20	20	20	20	20	20	20
Low PE	12	12	12	12	12	12	12	12	12	12
Mid-Range	16	16	16	16	16	16	16	16	16	16
Price High	\$ 76.62	\$ 86.06	\$ 96.27	\$ 107.46	\$ 116.44	\$ 126.06	\$ 133.47	\$ 137.63	\$ 140.47	\$ 143.35
Price Low	\$ 45.97	\$ 51.63	\$ 57.76	\$ 64.48	\$ 69.87	\$ 75.63	\$ 80.08	\$ 82.58	\$ 84.28	\$ 86.01
Mid-Range Price	\$ 61.30	\$ 68.85	\$ 77.02	\$ 85.97	\$ 93.16	\$ 100.85	\$ 106.78	\$ 110.11	\$ 112.38	\$ 114.68
Price Increase	-2.8%	12.3%	11.9%	11.6%	8.4%	8.3%	5.9%	3.1%	2.1%	2.0%
Price / NOPaT	15.7	16.0	16.1	16.1	16.0	15.8	15.6	15.3	14.9	14.4
Price / FCF	28.1	18.0	18.3	18.5	18.6	17.7	17.5	17.7	17.5	17.7
Price / Sales	3.1	3.2	3.2	3.2	3.1	3.0	2.8	2.5	2.3	2.1
Price / Book	4.6	4.4	4.3	4.3	4.2	4.3	4.2	4.1	4.0	4.0