US EQUITY RESEARCH

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Johnson & Johnson

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Guidance lifted on renewed outlook, yet headwinds persist

Company Overview

Johnson & Johnson (J&J) is a diversified healthcare products company. The company is engaged in the research and development, manufacturing, and marketing of a range of products in the healthcare field. It has two segments: Pharmaceutical (c.64% of FY24 sales), MedTech (c.36%). J&J's largest market is the US (c.57% of FY24 sales) and it is globally the 2nd largest pharmaceutical company by market capitalisation as of 20 August 2025.

Investment Overview

Operational execution and pipeline momentum fuelled a compelling quarter. Adjusted EPS came in at USD2.77 in 2Q25, beating consensus by USD0.09 but fell 1.8% y/y, while reported revenue rose 5.8 % y/y to USD23.7bn, exceeding estimates by nearly USD0.9bn. Both Innovative Medicine and MedTech segments delivered strength: pharmaceutical sales were buoyed by oncology brands such as Darzalex, offsetting Stelara erosion. MedTech delivered USD8.5bn in sales, supported by electrophysiology and surgical robotics. Operating performance benefited from cost control, a reduction in expected tariff exposure of USD200mn vs. USD400mn previously, and a favourable tax and FX environment.

Guidance lift reflects robust momentum, though litigation remains a risk. Management raised its 2025 full-year guidance for adjusted earnings to USD10.80 to USD10.90, up USD0.15 at the mid-point, and sales guidance to USD93.2bn to USD93.6bn, up USD2bn vs. prior forecasts, reflecting confidence across business lines, especially oncology and MedTech. Management also flagged margin support from lower tariff headwinds and reiterated strong financial flexibility, noting the group "can do any deal we want" given free cash flow strength and an AAA credit profile, while underscoring acquisition discipline. However, risks persist: 1) unresolved talc litigation liabilities where over 66,000 talcum powder lawsuits have been filed against JNJ; 2) patent expiry challenges (notably Stelara in 2025); 3) biosimilar competition; 4) tariff or pricing pressures could re-emerge.

Blockbuster Stelara faces double jeopardy. Introduced in 2009, Stelara is a monoclonal antibody treating Crohn's disease, ulcerative colitis, plaque psoriasis and psoriatic arthritis, and it has been JnJ's top seller since 2019. Stelara is facing price pressure from two fronts: patent expiry and Medicare price negotiation. Amgen's biosimilar Wezlana has obtained interchangeable designation from FDA, meaning Stelara can be freely substituted by Wezlana by a pharmacist instead of healthcare professionals. There are 8 FDA approved Stelara biosimilars as of August 2025. More biosimilars are expected to go on market in 2025 as key patents expires. On the other hand, Stelara was included in the first round of Medicare price negotiations and will be discounted 66% from its list price for Medicare users from 2026. As a result, consensus expects Stelara sales to be USD4.0bn in FY26, down from USD10.4bn in 2024.

We have a HOLD rating on Johnson & Johnson, with a TP of US$180. Our TP is based on 15.4 25F PE, on par with its five-year average. Our HOLD rating is premised on unresolved talc litigation liabilities and the patient cliff on bestselling product Stelara yielding pessimistic outcomes.

Risks

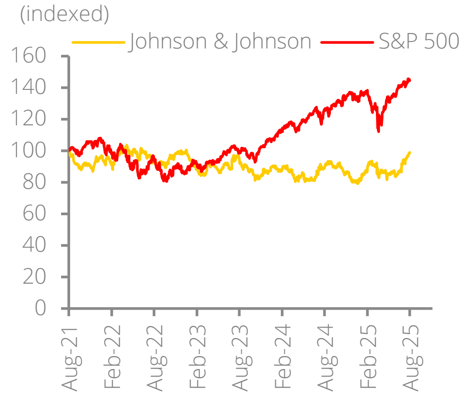
Biosimilars of J&J's bestselling product Stelara (11.7% sales FY24) is starting to be launched in the US in FY25 and its sales are expected to get slashed.

Key Financial Data

Bloomberg Ticker	JNJ US
Sector	Health Care
Share Price (USD)	177.8
DBS Rating	HOLD
12-mth Target Price (USD)	180.00
Market Cap (USDb)	428.2
Volume (m shares)	9,274.2
Free float (%)	99.8
Dividend yield (%)	2.8
Net Debt to Equity (%)	18.6
Fwd. P/E (x)	16.3
P/Book (x)	4.9
ROE (%)	34.6

Closing Price as of 19 Aug 2025
Source: Bloomberg, DBS

Indexed Share Price vs Composite Index Performance



Source: Bloomberg

Financial Summary (USD MN)

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Sales	79,990	85,156	88,821	93,443	97,923
% y/y	*1.6*	*6.5*	*4.3*	*5.3*	*4.8*
Gross Profit	59,965	63,748	66,353	68,289	71,655
% y/y	*(9.6)*	*6.3*	*4.1*	*2.9*	*4.9*
EBITDA	33,045	34,946	33,805	37,624	39,144
% y/y	*(7.0)*	*5.8*	*(3.3)*	*11.3*	*4.0*
Net Profit (Loss)	23,796	25,409	24,242	26,231	27,374
% y/y	*(6.1)*	*6.8*	*(4.6)*	*8.2*	*4.4*
FCF	17,185	18,248	19,842	25,741	26,094
% y/y	*(13.0)*	*6.2*	*8.7*	*26.3*	*3.9*
CAPEX	4,009	4,543	4,424	4,028	4,081
% y/y	*9.8*	*13.3*	*(2.6)*	*(8.2)*	*1.2*
EBITDA Margin (%)	41.3	41.0	38.1	40.3	40.1
Net Margin (%)	29.7	29.8	27.3	28.1	28.0
ROA (%)	12.9	14.3	13.9	13.9	13.5
ROE (%)	31.6	34.9	34.6	34.9	32.9
Tax Rate (%)	14.9	14.8	16.3	17.3	17.6

Source: Visible Alpha

Valuation Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
P/E	19.8	15.8	14.5	16.3	15.5
P/B	6.1	5.8	4.9	5.4	4.8
Dividend Yield	2.5	3.0	3.4	3.0	3.0
EV/EBITDA (x)	16.9	13.2	12.8	13.6	12.7
FCF Yield %	3.7	4.5	5.6	6.0	6.1

Source: Visible Alpha

Credit & Cashflow Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Debt / Equity	51.6	42.6	51.2	61.1	53.8
Net Debt / Equity	0.2	0.1	0.2	0.1	0.0
Debt / Assets	21.2	17.5	20.3	24.1	22.5
Net Debt / Assets	0.1	0.0	0.1	0.1	0.0
ST Debt / Total Debt	0.3	0.1	0.2	0.2	0.2
Debt / EBITDA	1.2	0.8	1.1	1.3	1.2
[Cash + CFO] / ST Debt	3.4	13.2	8.2	8.2	8.9
Receivables Days	73.7	63.7	61.0	63.6	64.2
Days Payable	53.4	41.3	42.4	41.0	41.0
Inventory Days	57.0	47.9	51.1	52.9	53.8

Source: Visible Alpha

Target Price & Ratings History

#	Date of Report	Closing Price	12-m Target Price	Rating
1	04 Oct'24	160.29	170.00	HOLD
2	24 Feb'25	162.30	160.00	HOLD

Source: DBS
Analyst: Nico Chen

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**Share price appreciation + dividends*

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