



Johnson & Johnson

JNJ

EQUITY RESEARCH REPORT

October 08, 2026

JNJ — Johnson & Johnson

Report Date: 2026-10-08

Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric | Value

Recommendation | HOLD

Current Price | \$258.45 USD / €231.08 EUR

Fair Value (Base Case) | \$243.00 USD

Margin of Safety | -6.0%

Target Entry (if HOLD) | \$220.00 USD / €196.70 EUR

Return Profile | Value

Dividend Yield | 2.07%

Expected Dividend Growth | 4.0% (latest increase 3.1%)

Expected Price Appreciation | 5.4% annualized (base)

Total Expected Return (Base) | 7.5% CAGR

Bear Case Total Return | 0.5% CAGR

Bull Case Total Return | 11.3% CAGR

Probability-Weighted Return | 6.7% CAGR

Risk Assessment | Value

Wealth Preservation Score | 69 / 100

Downside Protection Score | 75 / 100

Quality Score | 75 / 100

Risk Level | MODERATE

Probability of >50% Loss | <5%

Recession Profile | RESILIENT

One-Line Thesis:

Johnson & Johnson protects capital through a 64-year dividend growth record, a wide healthcare moat, and a net-debt position of only about \$27.8 billion against \$34.9 billion of EBITDA, but the stock at \$258.45 no longer offers a margin of safety, so capital should wait for a pullback to \$220 before buying.

INVESTMENT THESIS

Johnson & Johnson is a two-engine healthcare business after the Kenvue separation. The Innovative Medicine segment produced \$60.4 billion of fiscal 2025 revenue, up 6.0%, and the MedTech segment contributed the balance with a 12.2% operating margin. The company has a Wide Moat with a Stable trend and Low Uncertainty rating from StockIntent as of August 2026. It holds number one or number two positions in 65% of its segments. Switching costs in MedTech and regulatory barriers in pharmaceuticals protect the economics. In 2025, Oncology grew 22% on Darzalex and Carvykti, and Electrophysiology grew 16%. Operational sales grew 6.4% in

Q1 2026 and 5.6% in Q2 2026. Management raised full-year guidance after both quarters.

The balance sheet is the strongest argument for preservation. Johnson & Johnson ended 2025 with \$47.9 billion of total debt and \$20.1 billion of cash, a net debt of \$27.8 billion. That is 0.80 times TTM EBITDA of \$34.87 billion. Free cash flow margin runs near 20.4% of revenue, which on \$97.93 billion of TTM revenue implies roughly \$20 billion of annual free cash flow. The dividend costs about \$12.9 billion per year, so free cash flow covers the dividend about 1.55 times. The payout ratio sits near 46% of adjusted EPS guidance of \$11.60 to \$11.75 for 2026. This is a company that can fund its dividend, research, and litigation reserves without leaning on equity markets.

The problem is valuation. The stock rose from \$144.62 in January 2026 to \$263.04 on July 2, 2026, before settling at the live price of \$258.45. The trailing P/E is 30.81, the forward P/E is 20.75, EV/EBITDA is 19.68, and price/book is 7.53. The 2021 through 2025 year-end P/E figures averaged about 24.06, and the current trailing multiple sits above that average. EV/EBITDA climbed from 10.98 on June 30, 2025 to 19.68 today. Nothing about this valuation provides a cushion. The dividend yield has compressed to 2.07%, which is thin for a wealth preservation entry.

The bear case remains acceptable, but only barely. Johnson & Johnson has maintained its dividend through every major downturn for 64 years. Talc litigation and the Bayer v. Janssen lawsuit create headline risk. Biosimilar competition has hit Stelara, generic competition for Opsumit arrives in 2026, and Xarelto loses exclusivity in 2027. Analysts note the company replaced \$913 million of lost sales with \$2.4 billion of new sales, but kept less than half of the revenue after the offset. The MedTech margin of 12.2% remains far below Innovative Medicine at 36.9%, so a mix shift toward MedTech dilutes profitability. The planned Orthopaedics separation in 18 to 24 months adds execution risk. These issues do not threaten solvency, but they do raise the chance of a disappointing year.

The recommendation is HOLD. Johnson & Johnson clears the absolute wealth preservation requirements on my numbers: bear case total return of 0.5%, base case total return of 7.5%, fortress-adequate solvency, sustainable dividend, and a probability of permanent loss below 10%. It does not clear the BUY criteria because the stock trades 6.0% above my base-case fair value of \$243 and the base-case total return of 7.5% is marginal against the 7% hurdle. Existing owners should hold the position. New capital should wait for \$220, which restores a 10% margin of safety to fair value.

1. BUSINESS QUALITY ASSESSMENT

Johnson & Johnson operates in two reportable segments after the fiscal third quarter 2023 separation of its consumer health business, Kenvue. The FY2024 and FY2025 10-K filings state the company is organized into Innovative Medicine and MedTech. Innovative Medicine covers oncology, immunology, neuroscience, cardiovascular disease, and pulmonary hypertension. MedTech covers surgery, orthopaedics, vision, interventional solutions, electrophysiology, heart recovery, and vascular technologies. The company conducts business in virtually all countries, with United States sales of \$53.8 billion and international sales of \$40.4 billion in fiscal 2025.

The moat is durable. StockIntent rates the moat Wide with a Stable trend and Low Uncertainty as of August 2026. The rating rests on intangible assets, intellectual property, regulatory barriers, and meaningful switching costs in MedTech. The source states Johnson & Johnson holds number one or number two positions in 65% of its segments. The two-engine model across Innovative Medicine and MedTech provides revenue stability that single-franchise pharmaceutical peers do not have. Operational sales grew 6.4% in Q1 2026 and 5.6% in Q2 2026. In 2025, Oncology grew 22% on Darzalex and Carvykti, and Electrophysiology grew 16%. Morningstar's 2026 analysis attributes this to years of R&D investment, clinical data accumulation, and regulatory approvals

that competitors cannot easily replicate.

The Innovative Medicine segment is the profit engine. Fiscal 2025 Innovative Medicine sales reached \$60.4 billion, up 6.0%. The segment margin improved from 33.2% to 36.9%. MedTech margin improved from 11.7% to 12.2%, but that is roughly one-third of Innovative Medicine's margin. The worst segment, Infectious Diseases, declined 4.6% to \$3.2 billion. The company faces a clear patent cliff sequence: Stelara already faces biosimilar competition, Opsumit generic competition arrives in 2026, and Xarelto loses exclusivity in 2027. The pipeline includes approved products such as Icotyde for plaque psoriasis, Imaavy for generalized myasthenia gravis, Inlexzoh/TAR-200 for high-risk non-muscle invasive bladder cancer, and Rybrevant plus Lazcluze for first-line EGFR-mutated NSCLC. The MajesTEC-3 data for Tecvayli plus Darzalex Faspro showed a 90% reduction in disease progression risk versus standard therapy in relapsed or refractory multiple myeloma. These assets are real replacements for lost exclusivity, but MedTech still needs to prove it can grow faster than the low-single-digit pace through 2026.

The sector screen passes. Healthcare is defensive, not secularly declining. The business is understandable: it sells pharmaceuticals and medical devices to hospitals, physicians, and patients. The sector has tailwinds from oncology innovation, cardiovascular device expansion through Abiomed and the proposed Shockwave Medical deal, and electrophysiology growth. It also has headwinds from drug pricing pressure under the Inflation Reduction Act, payer cost containment, and tariffs. None of those headwinds is existential for a firm with this balance sheet and diversification.

The quality assessment is strong, but the company does not offer a clean growth acceleration story. The growth is high-single-digit at the operational level and faces offsetting patent losses. A preservation investor should value the stability, not chase the stock after a 30% year-to-date run.

2. FINANCIAL FORTRESS ANALYSIS

Johnson & Johnson's solvency profile is strong. The FY2025 10-K reports total debt of \$47.9 billion and cash and equivalents of \$20.1 billion at year-end 2025. Net debt is \$27.8 billion. TTM EBITDA from Yahoo Finance key statistics is \$34.87 billion. That gives a net debt to EBITDA ratio of 0.80 and a gross debt to EBITDA ratio of 1.37. The implied book equity can be derived from the market cap of \$640.02 billion and price/book of 7.53, giving about \$85 billion of book equity. Total debt of \$47.9 billion against that book equity produces a debt-to-equity ratio near 0.56. Cash covers 42% of total debt. None of these leverage levels threatens the dividend or operations.

The earnings quality checks are mostly favorable. Cash conversion is 92% of net income according to MCH Advisory Research. FCF conversion is 73.5% of net income. Stock-based compensation equals about 1% of revenue, which is low. Capex intensity runs about 5.0% of revenue, split 60% maintenance and 40% growth. Research and development is expensed, not capitalized. The FY2025 10-K shows net income of \$26.8 billion, up 90.6%, on revenue of \$94.2 billion, up 6.0%. This earnings jump is not explained by the provided sources. The risk assessment shows operating margin of 34.6% in 2025 versus 18.8% in 2024, while gross margin fell 1.2 points to 67.9%. A preservation analyst should treat the \$26.8 billion net income as a reported figure, but not as a clean run-rate until the 10-K MD&A explains the spike.

The TTM picture is more modest than the reported fiscal 2025 jump. Yahoo Finance shows TTM revenue of \$97.93 billion, gross profit of \$66.73 billion, EBITDA of \$34.87 billion, net income available to common of \$21.04 billion, diluted EPS of \$8.63, and operating margin of 29.19%. Profit margin is 21.48%. Return on equity is 25.74%, and return on assets is 8.60%. The TTM net income of \$21.04 billion is the more relevant baseline for valuation.

Free cash flow is the key preservation metric. The FCF margin of 20.4% on TTM revenue of \$97.93 billion implies about \$19.98 billion of free cash flow. FCF less stock-based compensation is \$18.3 billion. The dividend requires about \$12.9 billion annually, using the \$5.36 annual payout and roughly 2.41 billion shares implied by revenue per share of \$40.67. FCF covers the dividend about 1.55 times. This is a comfortable cushion.

A stress test helps. If revenue dropped 30% for two years, TTM revenue would fall from \$97.93 billion to about \$68.5 billion. At a 68% gross margin, gross profit would be about \$46.6 billion. Operating margins would compress, but the company would likely still generate positive operating income. Interest coverage is not explicitly provided, but net debt of \$27.8 billion against EBITDA of \$34.87 billion implies interest expense is manageable. Johnson & Johnson has never cut its dividend in 64 years, including during the 2008 and 2020 downturns. The probability that a 30% revenue decline forces an equity raise is low. I classify the solvency as FORTRESS on the leverage metrics, with an ADEQUATE note that the package does not provide current ratio or interest coverage for a stricter liquidity certification.

3. DIVIDEND ANALYSIS

Johnson & Johnson pays \$1.34 per share quarterly, or \$5.36 annually. At the live price of \$258.45, the dividend yield is 2.07%. The company raised the quarterly dividend 3.1% to \$1.34, marking 64 consecutive years of increases, according to Simply Wall St. That record is the longest continuous dividend growth streak among large-cap healthcare companies in the provided data.

Payout ratios are safe. On the 2026 adjusted EPS guidance of \$11.60 to \$11.75, the payout ratio is approximately 46%. On TTM GAAP diluted EPS of \$8.63, the payout ratio is 62.1%. The adjusted figure is the better measure of recurring dividend capacity. The FCF payout ratio is about 64.6%, using \$19.98 billion of implied FCF and \$12.9 billion of dividends. FCF coverage is 1.55 times. All of these ratios sit below the 70% to 85% red-line thresholds in the framework.

The dividend growth rate is more modest than the headline history. The latest increase was 3.1%, which is below my preferred 5% CAGR for income compounding. The company is not a high-yield stock at 2.07%, and it is not a high-growth dividend stock at 3.1% annual increases. The dividend is a stability feature, not a return engine at this price. If the stock fell to \$220, the yield would rise to 2.44%, and the dividend plus expected growth would provide a more compelling 6% to 7% total income component.

The recession record supports the dividend. Johnson & Johnson maintained its payout through every recession covered by the 64-year streak. The earnings quality supports it: cash conversion is 92%, FCF conversion is 73.5%, and stock-based compensation is 1% of revenue. I rate dividend sustainability as ROCK SOLID. The only caveat is that if litigation costs or MedTech margin pressure exceed current expectations, the company would still likely maintain the dividend, but might slow the growth rate to 2% or less. That would not break the thesis, but it would reduce the income return.

4. VALUATION ANALYSIS

Johnson & Johnson is expensive relative to its own history. Current valuation metrics from Yahoo Finance show trailing P/E of 30.81, forward P/E of 20.75, PEG of 2.78, price/sales of 6.62, price/book of 7.53, EV/revenue of 6.82, and EV/EBITDA of 19.68. The TTM figures include revenue of \$97.93 billion, gross profit of \$66.73 billion, EBITDA of \$34.87 billion, net income available to common of \$21.04 billion, and diluted EPS of \$8.63.

The historical trend shows re-rating. On June 30, 2025, the forward P/E was 14.43, EV/EBITDA was 10.98, and price/book was 4.71. By the current date, the forward P/E has risen to 20.75, EV/EBITDA to 19.68, and price/book to 7.53. The trailing P/E moved from 16.99 on June 30, 2025 to 30.81. This is a substantial multiple expansion driven by the stock's rise from \$144.62 in January 2026 to \$263.04 on July 2, 2026. Public.com

historical year-end P/E figures are 21.90 for 2021, 24.59 for 2022, 29.92 for 2023, 23.91 for 2024, and 19.97 for 2025. The simple five-year year-end average is about 24.06. The current trailing P/E of 30.81 sits above that average. Fullratio reports a healthcare sector average P/E of 23.23, and Johnson & Johnson's P/E of 29.18 is about 26% higher than that sector average.

The stock at \$258.45 is not at a discount. It trades 6.7% below the consensus analyst price target of \$275.87 from MarketBeat, which itself implies 7.79% upside from the target-based price. Simply Wall St shows analysts raised fair value from \$305 to \$320 on September 3, 2026, citing higher revenue and earnings expectations, stronger margins, and pipeline confidence. That \$320 fair value is above the current price. My framework, however, uses a conservative normalized forward EPS of \$12.45, which is the current price divided by the forward P/E of 20.75. A 19.5 multiple on that \$12.45 forward EPS gives a base-case fair value of \$243. This is not a DCF, but a multiple-based fair value that assumes some multiple reversion from 20.75 to 19.5. At \$258.45, the stock trades 6.0% above that fair value, so the margin of safety is negative.

The valuation gate says FULL, approaching EXPENSIVE. On my scoring table, valuation ranks at 0 points out of 15 because the stock trades above the 75th percentile of its five-year valuation range. The dividend yield of 2.07% provides only a thin income cushion. A preservation investor should not pay up for quality after a 30% run. The target entry of \$220 would restore a 10% margin of safety to the \$243 fair value.

5. SCENARIO ANALYSIS

I use a 10-year horizon with three scenarios. The normalized forward EPS base is \$12.45, derived from the current price of \$258.45 and the forward P/E of 20.75. The current annual dividend is \$5.36.

Bear case, 25% weight: A recession arrives in 2027, the Stelara, Opsumit, and Xarelto patent losses hit simultaneously, MedTech margin stalls, and litigation headlines intensify. Revenue grows at only 1% annually, so EPS grows from \$12.45 to about \$14.45 over ten years. The forward P/E contracts to 15.0, which is below every year-end multiple from 2021 through 2025. The terminal price is \$217. Collected dividends total about \$53.60, assuming the dividend is maintained but not increased. The total terminal value is about \$270, producing a total return CAGR of 0.5%. The price decline from current is 16.1%. This is the worst reasonable case, and it is approximately break-even on total return because the dividend cushions the multiple contraction.

Base case, 50% weight: The economy grows at trend. Johnson & Johnson grows revenue around 6% to 7%, and EPS compounds at 7.0% annually. Stelara losses are replaced by Darzalex, Carvykti, Tremfya, Icotyde, Rybrevant, and Inlexzo. The forward P/E mean reverts modestly to 19.0 from 20.75. Terminal EPS is \$24.49, and the terminal price is \$465. Dividends grow at 4%, accumulating \$66.90 over ten years. Total terminal value is \$532, producing a total return CAGR of 7.5%. This meets the 7% hurdle, but not by much.

Bull case, 25% weight: The MedTech segment accelerates as OTTAVA launches, Shockwave's IVL catheter grows, and Abiomed expands. Electrophysiology maintains high-teens growth, and the oncology portfolio exceeds expectations. EPS compounds at 9.5% annually to \$30.85. The forward P/E holds at 22.0, which is above current. Terminal price is \$679, and growing dividends accumulate \$75. Dividends total terminal value is \$754, producing a total return CAGR of 11.3%.

Scenario	EPS CAGR	Terminal P/E	10Y Price	Total CAGR	Weight	Contribution
Bear	1.5%	15.0	\$217	0.5%	25%	0.1%
Base	7.0%	19.0	\$465	7.5%	50%	3.8%
Bull	9.5%	22.0	\$679	11.3%	25%	2.8%
Expected	6.7%					

The probability-weighted return is 6.7%, slightly below the 7% target. That is the central reason for the HOLD recommendation. The downside protection is acceptable at 0.5% total return in the bear case, and the probability of a permanent capital loss above 50% is below 5% by my assessment. The problem is not safety. The problem is that the expected return after the stock's run does not clear the hurdle with enough margin.

6. RISK ASSESSMENT

The risk assessment has two dimensions: permanent-loss risk and valuation risk.

Permanent-loss risk is low. Johnson & Johnson has a diversified two-segment model, a net debt to EBITDA ratio of 0.80, 64 years of dividend increases, and a \$20 billion free cash flow stream. Talc litigation is the most cited headline risk. TradingKey notes the Mar 5 decline of 3.29% tied to the Bayer v. Janssen lawsuit and talc concerns. The 10-K includes a dedicated section on product liability, litigation, and regulatory activity. The company has reserves for these matters, and the legal processes move slowly, but adverse rulings can still pressure the stock. The Bayer suit alleges prostate cancer drug marketing claims against the Janssen unit and introduces new uncertainty. A large talc settlement or a negative jury award would reduce earnings and possibly slow dividend growth, but it would not push the company into insolvency.

Patent cliff risk is real but manageable. Stelara already faces biosimilar competition. Opsumit generic competition arrives in 2026. Xarelto loses exclusivity in 2027. The company replaced \$913 million of lost sales with \$2.4 billion of new sales in a recent period, but kept less than half after offsets, according to Seeking Alpha and Simply Wall St. The pipeline has credible assets: Icotyde, Imaavy, Inlexzoh, Rybrevant plus Lazcluze, and Tecvayli plus Darzalex. The MedTech margin of 12.2% is about one-third of Innovative Medicine's 36.9%, so mix shift toward MedTech dilutes returns unless MedTech margin expands.

Structural and regulatory risks include tariffs, health care cost containment, payer behavior, tax law changes, and privacy law compliance. The FY2025 10-K flags cybersecurity risk and compliance with privacy laws as the top board-level risk. The company reduced manufacturing facilities from 64 to 63 between FY2024 and FY2025. The manufacturing risk language is carried over verbatim across filings, so there is no new escalation signal.

Valuation risk is the main concern. The trailing P/E of 30.81 and EV/EBITDA of 19.68 leave little room for error. If the market re-rates the stock back to its five-year average trailing P/E near 24, the price would fall meaningfully from current levels. My bear case assumes a forward P/E of 15, which is below all recent year-end multiples, and still produces only a 0.5% total return. The stock needs continued operational beats to justify \$258.45.

The recession profile is RESILIENT. Johnson & Johnson maintained its dividend through 2008 and 2020 and through every downturn in its 64-year streak. Revenue is diversified across pharmaceuticals, surgery, orthopaedics, vision, and cardiovascular devices. A recession would slow procedure volumes and elective care, but hospital demand for oncology and immunology drugs does not disappear.

7. MANAGEMENT & GOVERNANCE

Joaquin Duato has led Johnson & Johnson as CEO since January 2022. Under his leadership, the company completed the Kenvue separation in the fiscal third quarter of 2023, acquired Abiomed in 2022, Shockwave Medical in 2024, Intra-Cellular Therapies and Halda Therapeutics in 2025, and announced the Sail Biomedicines collaboration in August 2026. The Sail deal involves \$785 million of initial payments, including a \$465 million equity investment, up to \$140 million in milestone payments, and an exclusive option to acquire Sail for \$2.58 billion. The company expects the transaction to dilute adjusted operational EPS by \$0.18 in 2026 and \$1.28 in 2027.

Management has raised full-year guidance after Q1 2026 and Q2 2026. Q1 2026 revenue was \$24.06 billion, up 9.9% year over year. Q2 2026 sales were \$25.3 billion and EPS was \$2.90, both ahead of consensus. Guidance

now calls for \$100.8 to \$101.4 billion of reported sales and \$11.60 to \$11.75 of adjusted reported EPS for 2026. This execution is solid.

Insider transactions are mixed. Timothy Schmid, EVP and Worldwide Chair of MedTech, sold 33,597 shares on September 2, 2026 at a reported price of \$274.74, for about \$9.23 million. The shares came from option exercises with strike prices of \$131.94 and \$151.41. Joaquin Duato exercised 123,291 employee stock options on August 13, 2026 at an exercise price of \$115.67 per share. The disposition side of Duato's filing is truncated in the research package. The Schmid sale is a routine option exercise sale, not a red flag. The Duato option exercise shows equity alignment through long-dated awards.

Governance is stable. Shareholders elected all 12 director nominees at the April 23, 2026 annual meeting, approved the executive compensation program on an advisory basis, and ratified PricewaterhouseCoopers LLP as the independent auditor for fiscal 2026. A shareholder proposal to adopt a policy requiring an independent board chair did not pass. Johnson & Johnson is widely held with no controlling shareholder.

Capital allocation is acceptable but aggressive on the M&A side. The company funded acquisitions with senior notes, according to the 10-K. Total debt reached \$47.9 billion against \$20.1 billion of cash. The company invested more than \$32 billion in R&D and M&A in 2025. The acquisitions target growth areas: Abiomed for heart pumps, Shockwave for intravascular lithotripsy, Intra-Cellular for neuroscience, and Firefly Bio for KRAS-targeting cancer technology. The risk is that debt-funded M&A at peak valuations compounds future returns. I rate management quality GOOD and capital allocation ACCEPTABLE. The dividend record and guidance execution are positive; the pace of debt-funded deals and the MedTech margin gap are the offsets.

8. PEER COMPARISON

The research package does not provide individual peer financials for direct comparison. I can only compare Johnson & Johnson to the healthcare sector average and to its own quality markers. Fullratio reports a healthcare sector average P/E of 23.23, and Johnson & Johnson's P/E of 29.18 is about 26% higher. The following table uses the available data and marks unavailable peer cells as not provided.

Dimension | JNJ | Sector/Peer Data | Assessment

Debt/Equity | 0.56 implied | Not provided | Lowest risk vs typical sector

Net Debt/EBITDA | 0.80 | Not provided | Strong

Dividend Yield | 2.07% | Not provided | Low

Payout Ratio (adjusted) | ~46% | Not provided | Sustainable

FCF Margin | 20.4% | Not provided | High

ROE (TTM) | 25.74% | Not provided | High

Trailing P/E | 30.81 | 23.23 sector avg | Expensive

Forward P/E | 20.75 | Not provided | Full

EV/EBITDA | 19.68 | Not provided | Expensive

5Y Dilution | SBC ~1% of revenue | Not provided | Low

StockIntent's moat assessment places Johnson & Johnson as a Wide Moat with Low Uncertainty. It ranks number one or number two in 65% of its segments. That is a stronger competitive statement than most healthcare peers. The two-engine structure across pharmaceuticals and medical devices reduces reliance on any single franchise. Against Abbott, Medtronic, Pfizer, Merck, and AbbVie, Johnson & Johnson likely has stronger balance sheet metrics and longer dividend history, but the provided research does not include those

peer financials. I will not fabricate them.

The peer comparison conclusion is that Johnson & Johnson is a top-quality name in the healthcare sector. The current issue is not quality relative to peers. It is that the stock re-rated sharply and trades above the sector average P/E and above its own five-year trailing average. A preservation investor pays for that quality at \$258.45 and gets a 2.07% yield and a marginal expected return. The framework says premium businesses at fair prices beat discount businesses at cheap prices, but this price is slightly above fair.

9. KEY METRICS SUMMARY

Stage 1 Sector Verdict | CONTINUE (defensive healthcare, understandable, no secular decline)

Stage 2 Solvency | FORTRESS/ADEQUATE

Earnings Quality | HIGH (OCF/NI 92%, FCF/NI 73.5%, SBC 1%)

Dilution | ACCEPTABLE (SBC low; share count trend not provided)

Dividend Sustainability | ROCK SOLID

ROIC/ROE | ROIC not provided; ROE 25.74% TTM

Valuation | FULL/EXPENSIVE (trailing P/E 30.81; forward 20.75)

Moat | Wide, Stable, Low Uncertainty

Management | GOOD

Recession Profile | RESILIENT

Stage 6 WP Score | 69 / 100

Stage 7 Recommendation | HOLD

Solvency Metrics | Value

Total Debt | \$47.9B

Cash & Equivalents | \$20.1B

Net Debt | \$27.8B

Debt/Equity (implied) | ~0.56

Net Debt/EBITDA | 0.80

Cash/Total Debt | 42%

EBITDA TTM | \$34.87B

FCF Margin | 20.4%

FCF Implied TTM | ~\$19.98B

FCF/SBC | \$18.3B

Interest Coverage | Not provided in data

Current Ratio | Not provided in data

Dividend Metrics | Value

Quarterly Dividend | \$1.34

Annual Dividend | \$5.36

Yield at \$258.45 | 2.07%

Payout (adjusted EPS) | ~46%

Payout (TTM GAAP EPS) | 62.1%

FCF Payout | ~64.6%

FCF/Dividend | 1.55x

Consecutive Increases | 64 years

Latest Increase | 3.1%

Valuation Metrics | Value

Trailing P/E | 30.81

Forward P/E | 20.75

PEG | 2.78

Price/Sales | 6.62

Price/Book | 7.53

EV/EBITDA | 19.68

Div Yield | 2.07%

5Y Avg Year-End P/E | ~24.06

Sector Avg P/E | 23.23

10. MONITORING CHECKLIST

Metric	Threshold	Current	Status
Debt/Equity	<1.0x	~0.56	PASS
Net Debt/EBITDA	<2.0x	0.80	PASS
FCF Positive	4 of 5 years	Positive	PASS
FCF/Dividend	>1.3x	1.55x	PASS
Payout Ratio	<75%	46% adj	PASS
Dividend Growth	>3%	3.1%	PASS
Trailing P/E vs 5Y	<1.2x avg	30.81 vs 24.06	FAIL
Forward P/E	<18 for new entry	20.75	FAIL
Bear Case Return	>=0%	0.5%	PASS
Base Case Return	>=7%	7.5%	PASS
Probability >50% Loss	<10%	<5%	PASS

11. MARKET EXPECTATIONS & CONSENSUS

What the current stock price implies about growth:

The forward P/E of 20.75 on a normalized forward EPS of \$12.45 implies the market expects high-single-digit EPS growth and successful navigation of the Stelara, Opsumit, and Xarelto patent cliffs. Consensus models 2026 EPS growth of 7.23% and revenue growth of 7.02%. Management's long-term aspiration is double-digit top-line growth. The current price is not embedding hyper-growth, but it is embedding a premium ending valuation and a smooth MedTech improvement.

Consensus Bull Case:

public.com and Simply Wall St describe a diversified high-quality growth engine in Innovative Medicine. Recent launches such as Icotyde, Inlexzo, Tecvayli, and Talvey build on blockbusters like Tremfya, Darzalex, and Carvykti. Q2 2026 sales of \$25.3 billion and EPS of \$2.90 beat consensus. Guidance was raised to \$100.8 to \$101.4 billion of sales and \$11.60 to \$11.75 of adjusted EPS. Analysts raised fair value from \$305 to \$320 on September 3, 2026. The bull thesis: the deep pharma pipeline and new medicines support expectations through 2026 and beyond.

Consensus Bear Case:

The Seeking Alpha and Simply Wall St narrative is a HOLD with balanced risk. The drug portfolio offsets Stelara losses, but MedTech remains a weak growth engine and the valuation sits above historical levels. The company replaced \$913 million of lost sales with \$2.4 billion of new sales but kept less than half. Near-term headwinds include Xarelto's loss of exclusivity in 2027, newer-product ramp-up, and MedTech. The Earnings ESP of negative 0.80% from Zacks signals lower Most Accurate Estimates and raises the risk of a negative surprise in the next reported quarter.

Short Interest: ChartMill data from January 31, 2025 shows 18,762,304 shares short, a 0.78% short float, and 2.12 days to cover. The most recent data in the package is stale, but the series shows short float consistently below 1% and days to cover below 3.4. This is very low short interest. No short squeeze or short-side catalyst is present.

Analyst Consensus: MarketBeat shows 25 analysts: 1 Strong Buy, 18 Buy, 6 Hold, 0 Sell. The consensus rating is Moderate Buy. The consensus price target is \$275.87, with forecasted upside of 7.79% from the target-implied price. Against the live price of \$258.45, the upside is 6.7%. This is a limited return relative to the downside risk.

Forward Valuation (from provided data, not fabricated):

Metric | Value | vs Sector Avg | Assessment

Fwd P/E | 20.75 | Not provided | Full

PEG | 2.78 | Not provided | Expensive for growth

EV/EBITDA | 19.68 | Not provided | Above history

Beta | Not provided | | Not available

What would validate the consensus: A Q3 2026 earnings beat with Innovative Medicine growth above 7%, MedTech margin above 13%, and no adverse talc ruling. A successful OTTAVA launch would also help.

What would disappoint: A MedTech margin below 12%, a Stelara replacement gap larger than expected, a negative talc ruling, or guidance that reduces the adjusted EPS range from \$11.60 to \$11.75.

12. KEY BUSINESS DRIVERS

Driver 1: Innovative Medicine ex-Stelara growth

Why it matters: This is the main profit engine at a 36.9% margin and must replace Stelara and upcoming LOE revenue.

Current level: \$60.4B segment revenue, +6.0% in FY2025; Q1 2026 operational growth +6.9%.

Bull threshold: Sustained Innovative Medicine growth above 7% with new launches contributing at least \$1.5B annually.

Bear threshold: Growth below 4% as Stelara and Xarelto losses overwhelm new products.

Next data point: Quarterly earnings around late January 2027 and the December 8, 2026 Enterprise Business Review.

Driver 2: MedTech margin and Orthopaedics separation

Why it matters: MedTech is the second engine, but its 12.2% margin is one-third of Innovative Medicine, so mix shift dilutes profitability.

Current level: 12.2% margin in FY2025, up from 11.7%.

Bull threshold: MedTech margin above 13% and Orthopaedics separation completed without a margin penalty.

Bear threshold: Margin stalls below 12% or orthopaedics restructuring costs exceed \$500 million.

Next data point: Quarterly segment disclosures.

Driver 3: Patent cliff replacement ratio

Why it matters: The company lost \$913 million of sales to Stelara and replaced it with \$2.4 billion, but kept less than half. The key is net replacement.

Current level: Replacement ratio slightly above 1:1 after offsets.

Bull threshold: New sales replace lost exclusivity sales at a 3:1 net ratio by 2028.

Bear threshold: Replacement ratio falls below 1:1, causing Innovative Medicine revenue to stall.

Next data point: Quarterly sales of Darzalex, Carvykti, Tremfya, Icotyde, Rybrevant, Inlexzo, and Tecvayli.

Driver 4: Free cash flow and dividend coverage

Why it matters: The preservation case depends on FCF covering the \$12.9B dividend and litigation costs.

Current level: FCF margin 20.4%, FCF/Dividend 1.55x, payout 46% adjusted.

Bull threshold: FCF above \$21B with coverage above 1.6x.

Bear threshold: FCF below \$15B, coverage below 1.15x.

Next data point: 10-K and 10-Q cash flow statements.

Driver 5: Litigation outcomes

Why it matters: Talc and Bayer v. Janssen create headline and reserve risks that can move the stock 3% to 5% in a day.

Current level: Active litigation with unknown consolidated liability; no new reserve quantification in the package.

Bull threshold: Settlements within existing reserves and dismissal of the Bayer marketing claims.

Bear threshold: An adverse jury award requiring a new multi-billion-dollar reserve.

Next data point: Court rulings and 10-K/10-Q reserve disclosures.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy | Ticker/Symbol | Relationship | Signal (bullish if X, bearish if Y)

Health Care Select Sector SPDR | XLV | Sector beta and defensive rotation | Bullish if XLV holds above its 200-day moving average; bearish if it breaks below the 50-day and 200-day moving averages together.

iShares U.S. Medical Devices ETF | IHI | MedTech segment sentiment | Bullish if IHI relative strength improves against XLV; bearish if IHI underperforms on procedure volume concerns.

SPDR S&P Biotech ETF | XBI | Biotech and pharma pipeline risk sentiment | Bullish if XBI rallies on positive clinical data; bearish if XBI falls on regulatory or financing fears.

iShares iBoxx Investment Grade Corporate Bond ETF | LQD | Credit spreads and debt funding costs | Bullish if LQD is firm or spreads tighten; bearish if LQD weakens ahead of debt-funded M&A.

Monitoring rule: If XLV breaks below its 200-day moving average, re-evaluate the Johnson & Johnson thesis within five days, focusing on defensive demand and MedTech procedure volumes.

EXIT TRIGGERS (for the HOLD recommendation)

Trigger to upgrade to BUY: Price falls to \$220 or below, restoring a 10% margin of safety to the \$243 fair value.

Trigger to upgrade to BUY: The forward P/E falls below 18 while the dividend yield rises above 2.4% without a deterioration in FCF or dividend coverage.

Trigger to downgrade to AVOID: Bear case total return turns negative below negative 10% on a talc judgment requiring a new reserve above \$10 billion, or a dividend cut.

Trigger to downgrade to AVOID: MedTech margin falls below 10% and Innovative Medicine ex-Stelara growth turns negative for two consecutive quarters.

Trigger to re-review: The Orthopaedics separation results in restructuring charges above \$800 million or higher-than-expected stranded costs.

FINAL RECOMMENDATION

RECOMMENDATION: HOLD

Johnson & Johnson is a high-quality, wide-moat healthcare company with a fortress-adequate balance sheet, a 64-year dividend growth record, and resilient recession economics. At \$258.45, the stock trades 6.0% above my base-case fair value of \$243. The base-case total return of 7.5% clears the 7% hurdle only narrowly. The probability-weighted return across scenarios is 6.7%, below the target. Existing shareholders should hold: the downside protection is adequate, and the company does not warrant a sell. New capital should wait for \$220 to restore a margin of safety.

ANALYST NOTES

Key Assumptions:

Current price \$258.45 as instructed; fair value \$243 based on normalized forward EPS of \$12.45 and a 19.5 terminal forward multiple; dividend annualized at \$5.36; base EPS growth of 7.0%; bear terminal P/E of 15.0; bull terminal P/E of 22.0; scenario weights 25/50/25.

Limitations:

The research package does not provide current ratio, interest coverage, share count history, individual peer financials, beta, current short interest, or a full dividend and buyback history. The package's FY2025 net income jump and operating margin swing are not explained in the provided MD&A excerpts. Short interest data is from January 31, 2025. Some source prices and market cap figures differ from the live price; I use only the instructed live price.

Confidence Level: MEDIUM. The quality and solvency conclusions are high confidence. The valuation and scenario return conclusions depend on a normalized forward EPS and terminal multiple that are model inputs, not observed data. The HOLD call is medium confidence because a further operational beat could extend the re-rating, while a talc ruling could compress the multiple faster than modeled.

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