COMPANY PROFILE

Johnson & Johnson

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COMPANY OVERVIEW

Johnson & Johnson (J&J or 'the company') is one of the world's largest providers of diverse health care products. The company is engaged in the research, development, manufacture and sale of consumer health care products, pharmaceuticals, and medical devices. It provides pharmaceuticals in the areas of immunology, cancer, neuroscience, infectious, cardiovascular and metabolic diseases areas. J&J has business presence across the Americas, Europe, Asia-Pacific and Africa. J&J distributes its pharmaceutical products, medical devices and consumer products to retailers, wholesalers, health care professionals and hospitals and through a network of retail outlets and distributors. J&J is headquartered in New Brunswick, New Jersey, the US.

The company reported revenues of (US Dollars) US$76,450 million for the fiscal year ended January 2017 (FY2017), an increase of 6.3% over FY2016. In FY2017, the company’s operating margin was 23.1%, compared to an operating margin of 27.5% in FY2016. In FY2017, the company recorded a net margin of 1.7%, compared to a net margin of 23% in FY2016.

KEY FACTS

Head Office	Johnson & Johnson One Johnson & Johnson Plaza New Brunswick New Jersey New Brunswick New Jersey USA
Phone	1 732 5240400
Fax	
Web Address	www.jnj.com
Revenue / turnover (USD Mn)	76,450.0
Financial Year End	December
Employees	134,000
New York Stock Exchange Ticker	JNJ

SWOT ANALYSIS

Johnson & Johnson (J&J) is a provider of diverse healthcare products. Leadership position in diverse healthcare segments, strong brand portfolio, and focus on R&D are the company's major strengths, whereas product recalls and legal proceedings remain major areas of concern. In the future, healthcare reforms in the US, patent expiry of Remicade, and intense competition could affect the company's business operations. However, Product approvals, positive outlook for pharmaceuticals market in the US, and acquisitions and collaborations are likely to provide new growth opportunities to the company.

Strength	**Weakness**
Leadership position in diverse healthcare segments Strong brand portfolio Focus on R&D enabling innovative product launches	Legal proceedings Product recalls may dent J&J's brand image
Opportunity	**Threat**
Product approvals likely to help the company in catering to unmet medical needs Positive outlook for pharmaceuticals market in the US Acquisitions and collaborations to strengthen J&J offerings	Patent expiry for the key product: Remicade Intense competition Healthcare reforms in the US could negatively impact J&J's profitability

Strength

Leadership position in diverse healthcare segments

J&J is one of the largest and diversified healthcare companies in the world. It also has strong presence in the medical devices, pharmaceutical and consumer products markets worldwide. The company also holds leadership positions across several categories, including antithrombotic agents, antipsychotic (injectables), baby and kids care, biosurgicals, disposable contact lenses, electrophysiology diagnostics and catheters, endo-mechanical, endoscopy, hormone antagonists, infection prevention, oral rinses, orthopaedics (trauma/hips/shoulders), OTC, sodium glucose co□transporter 2 (SGLT2) inhibitors, sutures, systemic antipsoriasis products, and wound care. J&J conducts its business through over 230 operating companies located in 60 countries, including the US, worldwide. Strong market leadership enhances J&J's brand image and enables it to penetrate new markets as new product launches become easier.

Strong brand portfolio

J&J developed a broad and strong portfolio of brands. For instance, Xarelto (rivaroxaban) is the number one prescribed blood thinner in its class. Invokana (canagliflozin) is the most prescribed drug among the SGLT2 inhibitors class of medications that significantly lower the levels of glycated hemoglobin (A1C) in

adults with type 2 diabetes. Stelara (ustekinumab) is the leading biologic in the dermatology market. Furthermore, Imbruvica (ibrutinib) is the leading therapy in the US for 1st and 2nd line CLL, mantle cell lymphoma (MCL) and WM. Also, other brands such as Complera (emtricitabine/rilpivirine/tenofovir disoproxil fumarate) and Invega Trinza (paliperidone palmitate) also have leading presence in their respective markets. Complera (emtricitabine/rilpivirine/tenofovir disoproxil fumarate) is the number one non-nucleoside reverse transcriptase inhibitor (NNRTI) for the HIV treatment. Invega Trinza (paliperidone palmitate) is the first and only schizophrenia treatment with a dosage frequency of four times a year, providing the longest dosing interval available. Moreover, the company offers 12 mega consumer brands such as Aveeno, Benadryl, Johnson's baby, Listerine, Neutrogena, Zyrtec, Carefree, Tylenol, Motrin IB, Clean & Clear, Band-Aid and Le petite Marseillais. Of these, Johnson's baby, Neutrogena and Listerine generate more than US$1 billion annual revenue. Most of these brands have an established market presence. For instance, Tylenol is the leading OTC brand for pain relief used by hospitals worldwide; Motrin IB is the most prescribed ibuprofen brand by pediatrics; and Listerine is the number one dentist recommended mouth wash brand.

Within the medical devices segment, J&J offers leading brands such as Acuve Oasys (leading reusable contact lenses brand); and 1-Day Acuve Moist (number one daily disposable brand) for vision care; and OneTouch, the number one doctor prescribed brand in the US for diabetes care. The company's major brands in beauty include the Aveeno; Clean & Clear; Dabao; Johnson's Adult; Le Petite Marseillais; Neutrogena; RoC and OGX product lines. Over-the-counter medicines include the broad family of Tylenol acetaminophen products; Sudafed cold, flu and allergy products; Benadryl and Zyrtec allergy products; Motrin IB ibuprofen products; and the Pepcid line of acid reflux products. Major brands in women's health outside of North America include Stayfree and Carefree sanitary pads and o.b. tampon brands. Wound care brands include the Band-Aid Brand Adhesive Bandages and Neosporin First Aid product lines. Further, the company expects to file 10 new products each with at least US$1 billion in potential sales, as well as filing an additional 40 line extensions with over US$500 million in potential sales by the end of 2019. Strong portfolio of market leading brands offers a significant source of revenue for the company, thereby providing competitive advantage over its peers.

Focus on R&D enabling innovative product launches

J&J's research and development (R&D) initiatives focus on developing new products in the areas of immunology, infectious, cardiovascular, metabolism, neuroscience and cancer therapy. The company operates R&D facilities in the US, Brazil, Belgium, China, Canada, Germany, Switzerland Singapore, the UK, France, Israel, India, Japan, and the Netherlands. In FY2017, the company invested US$10,554 million on R&D initiatives as compared to US$9,095 million in FY2016. It operates research facilities in the US, Belgium, Brazil, Canada, China, France, Germany, Israel, Japan, the Netherlands, Switzerland and the UK with additional R&D support in more than 30 other countries worldwide. The company's continued investments in R&D yielded many new pharmaceutical products in the past, including Olysio/Sovriad (simeprevir), for combination treatment of chronic hepatitis C in adult patients; Xarelto (rivaroxaban), an oral anticoagulant; Zytiga (abiraterone acetate), an oral, once-daily medication used in combination with prednisone for the treatment of metastatic, castration-resistant prostate cancer; Invokana (canagliflozin), for the treatment of adults with type 2 diabetes; and Imbruvica (ibrutinib), an oral, once-daily therapy approved for use in treating certain B-cell malignancies, or blood cancers and WM. Its other significant recent approvals in the pharmaceuticals segment include Darzalex (daratumumab) in combination with lenalidomide and dexamethasone, or bortezomib and dexamethasone, for the treatment

of patients with MM who have received at least one prior therapy in the US; Stelara (ustekinumab) for the treatment of adult patients with moderately to severely active Crohn's disease in the US as well as Europe; Invokamet XR (canagliflozin and metformin hydrochloride extended-release), a once-daily, fixed-dose therapy for first-line use as an adjunct to diet and exercise in the US; and Imbruvica (ibrutinib) as an oral, once-daily, single-agent targeted therapy for previously untreated patients with active CLL in Canada. J&J's emphasis on R&D has also led to innovations in its medical devices and consumer platforms. For instance, In August 2017, FDA approved Imbruvica (ibrutinib), an inhibitor jointly developed and commercialized by Janssen Biotech, Inc. and Pharmacyclics LLC, an AbbVie Company. The first and only FDA approved Imbruvica (ibrutinib) for the treatment of adult patients with chronic graft-versus-host-disease (Cgvhd) after failure of one or more lines of systemic therapy. In July 2017, Janseen Biotech Inc., a J&J company announced the FDA approval of Tremfya (guselkumab) for the treatment of adults living with moderate to severe plaque psoriasis. Hence, the company's commitment to technological innovation as reflected in its R&D investments and a focus on new product development not only strengthens its market position but also helps it to maintain a robust product pipeline.

Weakness

Legal proceedings

J&J and certain of its subsidiaries are involved in various claims and lawsuits regarding product liability, intellectual property, commercial and other matters; governmental investigations; and other legal proceedings. The most significant of the product liability claims of the company involve products such as DePuy ASR XL Acetabular System, DePuy ASR Hip Resurfacing System, Pinnacle Acetabular Cup System, pelvic meshes, Risperdal and Xarelto. As of December 31, 2017, in the US there were about 2,000 plaintiffs with direct claims in pending lawsuits regarding injuries allegedly due to the DePuy ASR XL Acetabular System and DePuy ASR Hip Resurfacing System, 10,000 with respect to the Pinnacle Acetabular Cup System, 53,600 with respect to pelvic meshes, 13,700 with respect to Risperdal, 22,900 with respect to XarelTO, 6,610 with respect to body powders containing talc; and 1,100 with respect to Invokana. Involvement in legal proceedings results in huge financial expenses for the company in the form of fees and penalties. It could also hamper J&J's reputation in the market if proven guilty.

Product recalls may dent J&J's brand image

The company has recalled several of its products in the recent past. For instance, in January 2018, the US Food and Drug Administration (FDA) issued a recall of about 110 Agilis Steerable Introducer Sheath devices manufactured by the company's unit over a faulty valve. Earlier, December 2017, Johnson & Johnson Consumer Inc. recalled several first aid products over presence of an unspecified allergen. In May 2017, J&J's subsidiary, DePuy Mitek, Inc. initiated recalled 153 units of Latarjet Experience Top Hat Tap, as Combo Screw Driver tip has increased potential to break intra-operatively while used at an angle off-axis to screw. In May 2016, J&J's subsidiary, Ethicon initiated a worldwide recall of Physiomesh flexible composite mesh, as the studies showed higher revision rates after a type of minimally invasive hernia repair using the product. Ethicon recalled 228 units of Evarrest in April 2016, due to labelling error. Ethicon mentioned that the characters '0-bad' were printed in the expiration date field on the foil pouch labels of the product instead of the valid expiration date (2016-12-28). Such product recalls may dent J&J's brand image besides having a negative impact on its revenue growth.

Opportunity

Product approvals likely to help the company in catering to unmet medical needs

The company advanced its pipeline with several regulatory submissions and approvals for new drugs and additional indications for existing drugs in FY2017. For instance, in October 2017, the company's Janssen Biotech received the FDA approval for expanded indication of Stelara, which is used for the treatment of adolescents with moderate to severe plaque psoriasis for phototherapy or systemic therapy. In September 2017, Actelion Pharmaceuticals US, Inc. (Actelion), a Janssen Pharmaceutical Companies of Johnson & Johnson received FDA approval of Tracleer. It received approval for new 32 mg tablet for oral suspension for Tracleer, it is used in pediatric patients aged three years and older with pulmonary arterial hypertension (PAH) to improve pulmonary vascular resistance (PVR). In February 2017, DARZALEX (daratumumab) received positive CHMP opinion for the treatment of multiple myeloma in patients who have received at least one prior therapy. The ECHELON FLEX GST System received clearance from the FDA to offer both 45mm and 60mm endocutters with exclusive reloads in January 2017. These product approvals are expected to help J&J in catering to unmet medical needs and thereby generate huge revenues.

Positive outlook for pharmaceuticals market in the US

The pharmaceuticals market in the US is expected to maintain a consistent growth in the next few years. According to MarketLine, the US pharmaceuticals market was valued at US$383.8 billion in 2015, accounting for 40.3% of the global pharmaceuticals market value. The market grew at a compound annual growth rate (CAGR) of approximately 2% during 2011–15. By 2020, the pharmaceuticals market in the US is forecast to reach a value of US$422.9 billion, an increase of 10.2% since 2015. J&J offers pharmaceutical products in five therapeutic areas, including immunology, infectious diseases and vaccines, neuroscience, oncology, and cardiovascular and metabolic diseases. The pharmaceutical products are distributed to retailers, wholesalers, hospitals and health care professionals for prescription use. These products are marketed under Remicade, Simponi, Stelara, Edurant, Invega and Zytiga, among others. As of December 31, 2017, the pharmaceutical segment reported revenues of US$36,256 million, which accounted for 47.4% of the company's total revenue. Thus, J&J's focused approach to cater to the requirements of this market can make it a prominent player in the market.

Acquisitions and collaborations to strengthen J&J offerings

J&J made various strategic acquisitions and collaborations in the recent past, which are expected to enhance its operational capabilities. For instance, in February 2018, Johnson & Johnson Medical Devices Companies, through its French affiliate Apsis SAS, acquired Orthotaxy, a developer of software-enabled surgery technologies, to develop next-generation robotic-assisted surgery platform in orthopaedics area. In June 2017, the company's subsidiary, Janssen Holding GmbH completed the acquisition of Actelion Ltd, a Swiss drug discovery and development services firm, for US$30 billion. The acquisition will add Actelion's specialty in-market medicines and late-stage products J&J portfolio. It will also support J&J efforts to enhance its presence in therapeutic areas and serious illnesses. In February 2017, J&J acquired Abbott Medical Optics (AMO), a wholly owned subsidiary of Abbott. The acquisition would

enable the company to reach more patients globally through expansion into cataract surgery. In January 2017, J&J's Ethicon acquired Megadyne Medical Products, a medical device company that develops, manufactures and markets electrosurgical tools used in operating rooms worldwide. The acquisition complements and enhances Ethicon's energy portfolio with wide range of innovative electrosurgical tools. Ethicon entered into a definitive agreement to acquire Torax Medical, a medical device company that manufactures and markets the LINX Reflux Management System (a device for the surgical treatment of GERD) in February 2017. The acquisition will enable Ethicon to provide patients a safe and effective alternative to the anatomy-altering laparoscopic Nissen fundoplication surgical procedure. During the same period, the company acquired AMO, a wholly-owned subsidiary of Abbott Laboratories. The transaction included ophthalmic products in three business segments: cataract surgery, laser refractive surgery and consumer eye health. The acquisition of AMO complements J&J's Acuvue contact lens business.

The company also entered into various research collaborations with leading pharmaceutical companies. For instance, in January 2017, DePuy Synthes Products, part of J&J, entered into an asset purchase and development agreement with Interventional Spine, a manufacturer of expandable cage and MIS technologies for spinal fusion. Through the acquisition of Interventional Spine's technology, DePuy Synthes Products can enhance its portfolio of open and minimally invasive spine surgery solutions. Further during the same period, Janssen Biotech, in partnership with BMS, announced plans to evaluate daratumumab (DARZALEX), first CD38-directed cytolytic antibody, in combination with nivolumab (opdivo), a checkpoint inhibitor. Also in January 2017, DePuy Synthes Sales announced exclusive co-promotional agreement with Pacira Pharmaceuticals to co-promote EXPAREL, a long-lasting, non-opioid, local analgesic administered at the orthopaedic surgical site. Strategic acquisitions and collaborations such as these help the company build its portfolio of offerings and thereby cater to an expanded customer base.

Threat

Patent expiry for the key product: Remicade

J&J experienced significant challenges to patents covering its largest product, Remicade (infliximab), which accounted for about 8.3% of its total sales in FY2017. In the US, a biosimilar version of Remicade was introduced in 2016, and additional competitors continue to enter the market. Further, sales of infliximab biosimilars in the US market could result in a continued reduction of Remicade sales. J&J's patents related to Remicade (infliximab) will expire in 2018. The 471 patent, related to Remicade (infliximab), expires in September 2018 and is co-owned by JBI and NYU, with NYU having granted JBI an exclusive license to NYU's rights under the patent. Hence, the patents related to this product are extremely significant for J&J. There are two sets of patents related to Remicade (infliximab). The first set of patents is co-owned by Janssen Biotech and NYU Langone Medical Center (NYU). Janssen Biotech has exclusive licensing rights to NYU's interests in Remicade (infliximab) patents. These patents have expired in all countries outside the US. In the US, the latest of these patents is set to expire in September 2018. The second set of patents specifically related to Remicade (infliximab) was granted to The Kennedy Institute of Rheumatology in Europe, Canada, Australia and the US. Janssen Biotech owns licenses (exclusive for human anti-TNF antibodies and semi-exclusive for non-human anti-TNF antibodies) to these patents, which are due for expiry in 2017 outside the US and in 2018 in the US. J&J

does not expect any additional extensions for the above mentioned patents related to Remicade (infliximab). Also, many claims have been lodged by the company's competitors worldwide, challenging the validity of these patents. In case, any of the Remicade (infliximab) related patents are proved invalid, the company cannot rely on such patents to prevent the introduction of biosimilars into the market. Introduction of biosimilars could further intensify the competition for J&J and could result in reduction of market share for its products.

Intense competition

J&J operates in a highly competitive pharmaceutical, medical devices and healthcare industries. The competitive environment in pharmaceutical and consumer healthcare industries could affect the company's business operations. The company faces competition from biotechnology firms, major drug discovery and development firms, apart from medical devices manufacturers. J&J competes with Abbott Laboratories, Beiersdorf AG, Boston Scientific Corporation, Bristol-Myers Squibb Company, Eli Lilly and Company, Merck & Co., Inc., Novartis AG, Pfizer Inc, The Procter & Gamble Co, and Unilever in the areas of central nervous system, cardiovascular, gastrointestinal and metabolic disorders, immunology, oncology, hematological disorders, infectious diseases, medical devices and consumer products. Major factors influencing competition include changing incentive programs and new product launches in the market. Intense competition could affect the company's business operations.

Healthcare reforms in the US could negatively impact J&J's profitability

The recently enacted US Healthcare Reform could affect J&J's margins. In addition, business practices in the health care industry, particularly in the US, have come under increased scrutiny, by government agencies and state attorneys general, and resulting investigations and prosecutions carry the risk of significant civil and criminal penalties. In 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (together, the US Healthcare Legislation, and also known as the Affordable Care Act or ACA), was enacted in the US. Certain provisions of the US Healthcare Legislation became effective in 2010 or in 2011, while other provisions will become effective on various dates. Among other things, the principal provisions affecting the biopharmaceutical industry include an increase in the minimum rebate on branded prescription drugs sold to Medicaid beneficiaries from 15.1% to 23.1% effective January 1, 2010. The new law also increased the types of entities eligible for the federal 340B drug discount program. It requires pharmaceutical manufacturers to pay a 50% point of service discount to Medicare Part D beneficiaries when they are in the Medicare Part D coverage gap (also called as 'donut hole'). Increased rebates on prescription pharmaceuticals could affect J&J's profitability. Further, in the EU, Japan, and several countries, governments have pervasive involvement in funding healthcare, which could directly or indirectly impose price controls, limit access to, or reimbursement for the company's products, or reduce the value of its intellectual property protection.