

A. The company of Johnson & Johnson is a holding company that focuses its research and development on a range of products of human health and well-being. Manufacturing and sales from business conducted worldwide. The business is broken into three segments called Consumer, Pharmaceutical, and Medical Devices.

- Consumers focusing on many products of personal healthcare in beauty such as: baby care, oral care, women's health, and over-the-counter pharmaceuticals.
- Pharmaceutical segment consists of six therapeutic areas: immunology, infectious diseases, neuroscience, oncology, cardiovascular and metabolism, and pulmonary hypertension.
- As for Medical Devices, it is a broad range of products used in orthopedic, surgery, interventional solutions, and eye health.

The company has 132,200 employees worldwide with a significant amount of patents and trademarks for their products.

B. Johnson & Johnson risk factors include:

- Subjected to significant legal proceedings which can result in significant expenses, fines, and reputational damages.
- Change in tax laws or exposure to additional tax liabilities
- Unable to secure and defend intellectual property rights that are essential
- Highly competitive product markets and competitive pressures affecting company's earnings
- Product reliability, safety, and effectiveness
- International business risks
- Delays in manufacturing operations
- Counterfeit versions of products harming patients and decrease in earnings, revenue
- Breaches in cybersecurity and information security
- Reliance on third party for manufacturing
- Increased regulatory scrutiny
- Challenges and delays in company's innovation and development

In my opinion the biggest challenges that Johnson & Johnson company faces is product reliability, counterfeit products, and information security / cybersecurity breach. If a product is deemed unsafe there are issues with safety alerts, product recalls, FDA regulatory actions, and even shutdown of manufacturing facilities. This would set back the company's revenue, production, and earnings. Counterfeit products risk patients' health and well-being and also damages the

reputation of the company. Breaches are hard to cover and without insurance for it the company would be a huge risk.

C. Johnson & Johnson company is focused on products related to human health and well-being. Local and global with evolving innovation and development. The foundation of “Our Credo” is to ensure the health of people and for the future. 2019 worldwide sales increased 0.6% to \$82.1 billion in comparison to 2018 increase of 6.7%. In the United States their sales reached a total of \$42.1 billion in 2019 and \$39.7 billion in 2018. The five-year compound annual growth rates for worldwide, U.S., and international sales were 2.0%, 3.9%, and 2.6%. As for the ten-year compound annual growth in the same order as the three said previously, it is 2.9%, 3.1%, and 2.6%

- Looking at Johnson & Johnson’s sales distribution by product segments of beauty, OTC, baby care, oral care, women’s health, wound care/other; baby care had the largest percent change from 2018 to 2019 with 9.9%. From \$1,858 million to \$1,675 million baby care consumer sales decreased. The products that have increased sales from 2018 to 2019 are beauty and OTC and the total consumer sales are \$13,898 million in 2019 and \$13,853 million 2018 with a 0.3% change.
- In their pharmaceutical segment their sales increased by 3.6% from 2018 to 2019 with \$42.2 billion. They got approvals for new drugs and indications for their existing drugs.
- In the medical devices segment, there was a decrease of 3.8% from 2018, with sales in 2019 reaching \$26.0 billion. Both U.S. and international sales decreased.
- Before tax on income the earnings in 2019 were \$17.3 billion and \$18 billion in 2018. In percent to sales, earnings before provisions to taxes were 21.1% and 22.1%, in 2019 and 2018.
- Johnson & Johnson’s dividend increased in 2019. Their cash dividends paid were \$3.75 per share (2019) and \$3.54 per share 2018.

Have a long-standing policy of pricing products responsibility due to rising concern of the rising cost of health care. The company and its subsidiaries are also involved in lawsuits and claims regarding product liability, intellectual property, commercial, and many others. However, it is not expected to have an adverse effect on the company’s financial position; but an increase in accrual of these matters in any reporting period may affect results of operations and cash flows of that period.

D. Johnson & Johnson audit report is an unqualified opinion. It is not a qualified, adverse, or a disclaimed opinion. The audit report states when the auditing had taken place which was December 29, 2019 and December 30, 2018. Also as well as doing so for the related consolidated statements of earnings, of comprehensive income, of equity, and of cash flows for each of the three fiscal years in that time period. End results suggest that the consolidated financial statements and results all conform with GAAP. Audits from PCAOB gave details on the procedures to assess risks of material misstatement of consolidated financial statements through examining, and evidence. Going further into the report the balance sheets are broken down into different segments of Johnson & Johnson company.

- U.S. Pharmaceutical Rebate Reserves - Managed Care, Medicare and Medicaid. A large portion of liability for the rebates and discounts from within the Accrued Rebates is from the sales of pharmaceuticals goods. It amounted to \$7 billion as of December 29, 2019. The audits suggest: developing an independent estimate of rebates using third party information, testing rebate claims by the company, and comparing independent estimates to management's estimates.
- In Litigation Contingencies - Talc, the audits states the unrecorded management can be determined by a loss and how to make the estimates and judgement required. There are verdicts against the company and it is believed it can be addressed by performing procedures and evaluating audit evidence and having an overall opinion on the consolidated financial statements.
- Litigation - Opioids, audits suggest to address this matter evaluating the opioid litigation.

i. Calculate the current ratio for 2019 and 2018

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{current liabilities}}$$

$$\frac{45,274}{35,964} = 1.26 \text{ (2019 current ratio)}$$

$$\frac{46,033}{31,230} = 1.47 \text{ (2018 current ratio)}$$

ii. Calculate return on Assets for 2019 and 2018

$$\text{Return on assets} = \frac{\text{net income}}{\text{net assets}}$$

$$\frac{15,119}{157,728} = .0959 = 9.6\% \text{ (2019)}$$

$$\frac{15,297}{152,954} = 0.100 = 10\% \text{ (2018)}$$

iii. Calculate return on Equity for 2019 and 2018

$$\text{Return on Equity} = \frac{\text{net income}}{\text{shareholders' equity}}$$

$$\frac{15,119}{59,471} = .254 = 25.4\% \text{ (2019)}$$

$$\frac{15,297}{59,752} = .256 = 25.6\% \text{ (2018)}$$

iv. Calculate the Accounts Receivable turnover for 2019 and 2018

$$\text{A/R Turnover} = \frac{\text{Net Sales Revenue}}{\text{Average Net A/R}}$$

$$\frac{82,059}{(14,481 + 14,098)/2} = \frac{82,059}{14,289.5} = 5.74 \text{ times (2019)}$$

$$\frac{81,581}{(14,098 + 13,490)/2} = \frac{81,580}{13,794} = 5.91 \text{ times (2018)}$$

v. Calculate the days in A/R for 2019 and 2018

$$\text{2019 days in A/R} = \frac{365 \text{ days}}{5.74} = 63.59 \text{ days}$$

$$\text{2018 days in A/R} = \frac{365 \text{ days}}{5.91} = 61.76 \text{ days}$$

vi. Calculate the Inventory turnover for 2019 and 2018

$$\text{Inventory Turnover} = \frac{\text{Cost of Products Sold}}{\text{Average Inventory}}$$

$$\text{2019 Inventory turnover} = \frac{27,556}{(9,020 + 8,599)/2} = \frac{27,556}{8,809.5} = 3.13 \text{ times}$$

$$\begin{aligned} \text{2018 Inventory turnover} &= \frac{27,091}{(8,599 + 8,765)/2} \\ &= \frac{27,091}{8,682} = 3.12 \text{ times} \end{aligned}$$

vii. Calculate the days in Inventory for 2019 and 2018

$$\frac{365 \text{ days}}{3.13} = 116.61 \text{ days (2019)}$$

$$\frac{365 \text{ days}}{3.12} = 116.99 \text{ days (2018)}$$

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Common-Size Comparative Year-End Balance Sheets

\$ millions	December 29, 2019		December 30, 2018	
	Dollars	Percentage	Dollars	Percentage
Assets				
Current assets				
Cash and cash equivalents	\$ 17,305	10.97%	18,107	11.84%
Marketable securities	1,982	1.26	1,580	1.03
A/R trade, less allowance for doubtful accounts	14,481	9.18	14,098	9.22
Inventories	9,020	5.72	8,599	5.62
Prepaid expenses and other receivables	2,392	1.52	2,699	1.76
Assets held for sale	94	.06	950	.62
Total Current Assets	45,274	28.70%	46,033	30.10%
Property, plant and equipment, net	17,658	11.20	17,035	11.14
Intangible assets, net	47,643	30.21	47,611	31.13
Goodwill	33,639	21.33	30,453	19.91
Deferred taxes on income	7,819	4.96	7,640	4.99
Other assets	5,695	3.61	4,182	2.73
Total assets	\$ 157,728	100.0%	152,954	100.0%
Liabilities and shareholders' Equity				
Current liabilities				
Loans and notes payable	\$ 1,202	1.22%	2,796	3.00%
Accounts payable	8,544	8.70	7,537	8.09
Accrued liabilities	9,715	9.89	7,601	8.16
Accrued rebates, returns and promotions	10,883	11.08	9,380	10.06
Accrued compensation and employee related obligations	3,354	3.41	3,098	3.32
Accrued taxes on income	2,266	2.31	818	.88
Total current liabilities	35,964	36.60%	31,230	33.51%
Long-term debt	26,494	26.96	27,684	29.70
Deferred taxes on income	5,958	6.06	7,506	8.05
Employee related obligations	10,663	10.85	9,951	10.68
Long-term taxes payable	7,444	7.58	8,242	8.84
Other liabilities	11,734	11.94	8,589	9.22
Total liabilities	98,257	100%	93,202	100%

\$ in millions	December 29, 2019		December 30, 2018	
	Dollars	Percentage	Dollars	Percentage
Shareholder's equity				
Preferred stock				
Common stock	3,120	1.98%	3,120	2.04%
Accumulated other comprehensive income (loss)	(15,891)	-10.07	(15,222)	-9.95
Retained earnings	110,659	70.16	06,216	69.44
Common stock held in treasury, at cost	(38,417)	-24.36	(34,362)	-22.47
Total shareholders' equity	59,471	37.70	59,752	39.07
Total liabilities and shareholders' equity	<u>157,728</u>	<u>100%</u>	<u>152,954</u>	<u>100%</u>

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Common-Size Comparative Year-End Income Statements

\$ in millions	FYE 2019		FYE 2018		FYE 2017	
	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
Sales to customers	\$ 82,059	100%	81,581	100%	76,450	100%
Cost of products sold	-27,556	-33.58	-27,091	-33.21	-25,439	-33.28
Gross profit	54,503	66.42	54,490	66.79	51,011	66.72
Selling, marketing and administrative expenses	-22,178	-27.03	-22,540	-27.63	-21,520	-28.15
Research and development expense	11,355	-13.84	-10,715	-13.21	-10,594	-13.86
In-process research and development	-890	-1.08	1,126	-1.38	-408	-.53
Interest income	357	.44	611	.75	385	.50
Interest expense, net of portion capitalized	-318	-.39	-1,005	-1.23	-934	-1.22
Other (income) expense, net	-2,525	-3.08	-1,405	-1.72	42	-.05
Restructuring	-266	-.32	-251	-.31	-309	-.40
Earnings before provision for taxes on income	17,328	21.12	17,999	22.06	17,673	23.12
Provision for taxes on income	-2,209	-2.69	-2,702	-3.31	-16,373	-21.42
Net earnings	\$ 15,119	100%	15,297	100%	1,300	100%

For the current ratio, it is in 2019, 1.26 and it went down from 2018. This is not good as if it goes lower than 1 then the company would be a risk of bankruptcy. The return on asset has declined from 2018 to 2019, a difference of 0.4%. every dollar that the company has invested in assets generates 8.3 cents of net income. Return on equity stays relatively the same between the two years. With an accounts receivable turnover of 5.74 times it has gone down. The days in A/R are approximately 63 days in 2019 and also 2018, it is stagnant. In the common-size comparative year-end balance sheet and also income statement net earnings increased from 2017 to 2018 but declined from 2018 to 2019. Total assets and total liabilities and shareholders increased in 2019.

F. The balance sheet and income statement of Johnson and Johnson were interesting to me. While the balance sheet contained only the details of the years 2018 and 2019, the income statement included those two plus 2017. I found it interesting how big of a jump 2017 to 2018 was in the income statement. From \$1,300 million to \$15,297 million in net earnings it made me wonder how they got it to increase so much in a short period of time. Not only this but in provision for taxes on income, 2017, Johnson & Johnson company had to pay a rather much more significant amount of tax compared to 2018 and 2019.

G. I would invest in the company. Looking at the financial statements sales seem to be doing fairly well. From 2017 to 2019 there was a huge significant boost from \$76,450 million to \$82,059 million. Their provision for taxes on income has dropped which means the company put aside a smaller amount of money to pay off taxes. Everything is steady from 2018 to 2019. With the growing number of citizens getting older and because the company focuses on the medical research and development for the healthcare field this would be good. They have many different segments of the Johnson & Johnson company with a variety of products in different fields of healthcare. Also from looking through the notes, everything is in accordance to GAAP so there are not any issues concerning this. Their audit report is an unqualified opinion which is good. I would accept employment in the company of Johnson & Johnson. An additional topic of discussion that I would have enjoyed to be a part of this project is the inclusion of the qualitative and quantitative disclosures of market risks. This would help get a better understanding of the risks that the Johnson & Johnson company faces.