

Zytiga label extended

FDA approves use in pre-chemo pts, as expected

Zytiga was previously approved for chemo-experienced advanced prostate cancer pts and now gets nod for earlier stage pre-chemo. **Pre-chemo market opportunity is >2x that of chemo-experienced.** We model Zytiga ww sales improving from \$1.0B in 2012 to \$1.4B in 2013 (US: +28%; ex-US: +53%), accounting for ~20% of our projected 3.5% total organic rev growth for JNJ in 2013.

Competition is the key question (Chart 1)

Since Xtandi approval in Sep, Zytiga TRx's are flatish (~1600/wk) and NRx's have dipped (now ~550/wk; peak ~600/wk). Use in chemo-naïve (but largely chemo-intolerant pts) has increased already ahead of the approval, and was estimated at 36% of US sales in 3Q12 (31% in 2Q12 and 28% in 1Q12 per JNJ, based on third-party analytics). A recent check with a high vol medical oncologist indicated all his new Zytiga vol is now pre-chemo (not intolerants) and reimbursement is not an issue.

Co-existence?

We assume that an expanding chemo-naïve market could sustain some Zytiga growth, although increasing Xtandi use in this setting may relegate Zytiga to downstream use. The PI for Zytiga indicates that the median OS of 35.3 mo's for Zytiga vs. 30.1 mo's for pbo did not meet statistical significance, which could put Zytiga at an overall disadvantage in this setting. Our view on Zytiga has always been that relatively long runway for chemo-naïve pts would facilitate some utility for multiple agents.

Valuation – Maintain Buy rating and \$76 price target (DCF-derived)

On our 2013E, JNJ trades at 13.0x PE and 8.3x EBITDA.

Highlights (US\$m)	12/10	12/11	12/12E	12/13E	12/14E
Revenues	61,587.00	65,030.00	67,071.02	71,649.10	74,784.91
EBIT (UBS)	16,527.00	16,240.00	17,552.20	19,365.83	20,722.38
Net Income (UBS)	13,280.37	13,867.00	14,226.76	15,339.55	16,424.07
EPS (UBS, US\$)	4.76	5.00	5.08	5.43	5.80
Net DPS (UBS, US\$)	2.11	2.25	2.39	2.43	2.60

Profitability & Valuation	5-yr hist av.	12/11	12/12E	12/13E	12/14E
EBIT margin %	25.8	25.0	26.2	27.0	27.7
ROIC (EBIT) %	36.8	36.0	31.9	29.2	30.7
EV/EBITDA (core) x	8.9	8.4	8.8	8.1	7.2
PE (UBS) x	13.6	12.7	13.9	13.0	12.2
Net dividend yield %	3.1	3.5	3.4	3.4	3.7

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$70.54 on 10 Dec 2012 15:41 EST

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Americas

Advanced Medical Devices	
12-month rating	Buy <i>Unchanged</i>
12m price target	US\$76.00 <i>Unchanged</i>
Price	US\$70.54

RIC: JNJ.N BBG: JNJ US

10 December 2012

Trading data

52-wk range	US\$72.52-61.78
Market cap.	US\$194bn
Shares o/s	2,745m (COM)
Free float	100%
Avg. daily volume ('000)	2,755
Avg. daily value (m)	US\$191.8

Balance sheet data 12/12E

Shareholders' equity	US\$63.5bn
P/BV (UBS)	3.1x
Net Cash (debt)	(US\$2.08bn)

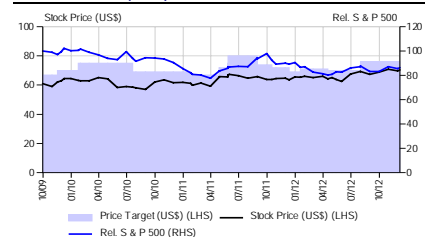
Forecast returns

Forecast price appreciation	+7.7%
Forecast dividend yield	3.4%
Forecast stock return	+11.1%
Market return assumption	5.2%
Forecast excess return	+5.9%

EPS (UBS, US\$)

	12/12E		12/11
	UBS	Cons.	Actual
Q1	1.33	1.37	1.35
Q2	1.22	1.30	1.28
Q3	1.47	1.25	1.24
Q4E	1.17	1.17	1.13
12/12E	5.08	5.09	
12/13E	5.43	5.49	

Performance (US\$)

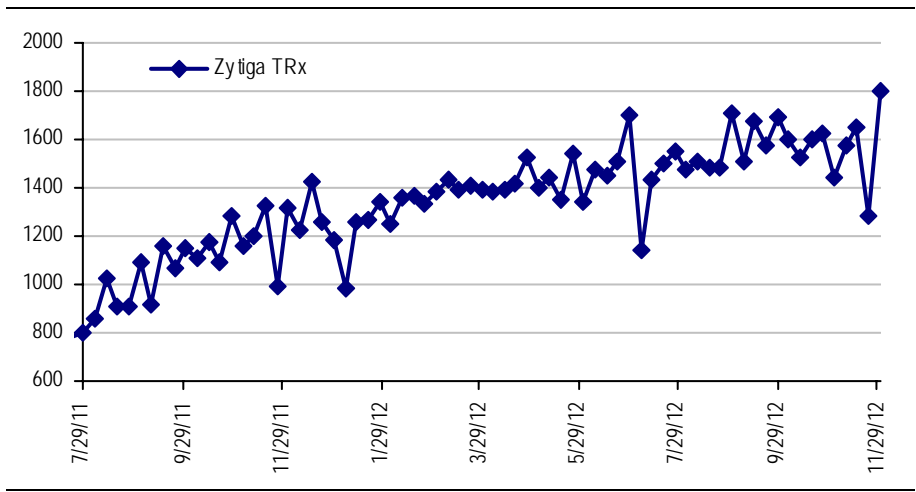


Source: UBS

www.ubs.com/investmentresearch

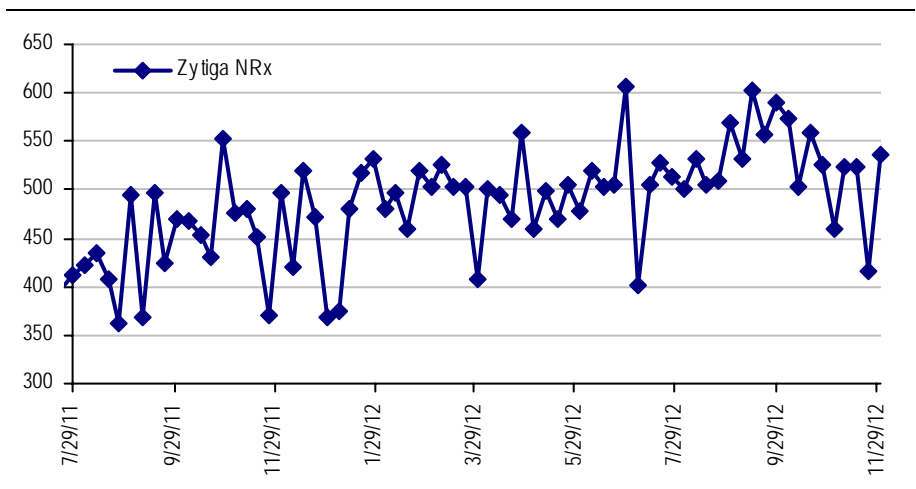
This report has been prepared by UBS Securities LLC

Chart 1: Zytiga weekly TRx trends



Source: IMS

Chart 2: Zytiga weekly NRx trends



Source: IMS

Income statement (US\$m)	12/07	12/08	12/09	12/10	12/11	12/12E	% ch	12/13E	% ch	12/14E	% ch
Revenues	61,095.00	63,747.00	61,897.00	61,587.00	65,030.00	67,071.02	3.1	71,649.10	6.8	74,784.91	4.4
Operating expenses (ex deprn)	(43,105.00)	(44,746.00)	(42,347.00)	(42,121.00)	(45,632.00)	(45,740.83)	0.2	(48,109.98)	5.2	(49,650.16)	3.2
EBITDA (UBS)	17,990.00	19,001.00	19,550.00	19,466.00	19,398.00	21,330.20	10.0	23,539.11	10.4	25,134.75	6.8
Depreciation	(2,777.00)	(2,832.00)	(2,774.00)	(2,939.00)	(3,158.00)	(3,777.99)	19.6	(4,173.29)	10.5	(4,412.37)	5.7
Operating income (EBIT, UBS)	15,213.00	16,169.00	16,776.00	16,527.00	16,240.00	17,552.20	8.1	19,365.83	10.3	20,722.38	7.0
Other income & associates	144.00	636.00	140.00	651.00	1,593.00	1,050.00	-34.1	700.00	-33.3	700.00	0.0
Net interest	156.00	(74.00)	(361.00)	(348.00)	(480.00)	(525.00)	9.4	(525.00)	0.0	(500.00)	-4.8
Abnormal items (pre-tax)	(2,230.00)	198.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	13,283.00	16,929.00	16,555.00	16,830.00	17,353.00	18,077.20	4.2	19,540.83	8.1	20,922.38	7.1
Tax	(2,707.00)	(3,980.00)	(4,289.00)	(3,496.00)	(7,681.00)	(3,850.44)	-49.9	(4,201.28)	9.1	(4,498.31)	7.1
Profit after tax	10,576.00	12,949.00	12,266.00	13,334.00	9,672.00	14,226.76	47.1	15,339.55	7.8	16,424.07	7.1
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	10,576.00	12,949.00	12,266.00	13,334.00	9,672.00	14,226.76	47.1	15,339.55	7.8	16,424.07	7.1
Net Income (UBS)	12,085.00	12,901.00	12,906.00	13,280.37	13,867.00	14,226.76	2.6	15,339.55	7.8	16,424.07	7.1

Tax rate (%)	20.38	23.51	25.91	20.77	44.26	21.30	-51.9	21.50	0.9	21.50	0.0
Pre-abnormal tax rate (%)	22.10	22.89	22.04	21.09	20.09	21.30	6.0	21.50	0.9	21.50	0.0

Per share (US\$)	12/07	12/08	12/09	12/10	12/11	12/12E	% ch	12/13E	% ch	12/14E	% ch
EPS (local GAAP)	3.63	4.57	4.40	4.78	3.49	5.08	45.7	5.43	7.0	5.80	6.9
EPS (UBS)	4.15	4.55	4.63	4.76	5.00	5.08	1.6	5.43	7.0	5.80	6.9
Net DPS	1.62	1.80	1.93	2.11	2.25	2.39	6.2	2.43	1.7	2.60	7.0
Cash EPS	5.16	5.61	5.64	5.84	6.16	6.45	4.7	6.93	7.5	7.39	6.6
BVPS	15.14	15.32	18.36	20.53	20.71	22.63	9.2	26.31	16.3	30.20	14.8

Balance sheet (US\$m)	12/07	12/08	12/09	12/10	12/11	12/12E	% ch	12/13E	% ch	12/14E	% ch
Cash and equivalents	9,315.00	12,809.00	19,425.00	27,658.00	32,261.00	27,206.68	-15.7	35,980.06	32.2	45,568.34	26.6
Other current assets	20,630.00	21,568.00	20,116.00	19,649.00	22,055.00	22,991.54	4.2	23,902.14	4.0	24,948.25	4.4
Total current assets	29,945.00	34,377.00	39,541.00	47,307.00	54,316.00	50,198.22	-7.6	59,882.20	19.3	70,516.59	17.8
Net tangible fixed assets	14,185.00	14,365.00	14,759.00	14,553.00	14,739.00	20,516.36	39.2	20,357.95	-0.8	20,034.61	-1.6
Net intangible fixed assets	28,763.00	27,695.00	31,185.00	32,010.00	34,276.00	48,161.96	40.5	48,662.81	1.0	49,212.35	1.1
Investments / other assets	8,061.00	8,475.00	9,197.00	9,038.00	10,313.00	10,313.00	0.0	10,313.00	0.0	10,313.00	0.0
Total assets	80,954.00	84,912.00	94,682.00	102,908.00	113,644.00	129,189.55	13.7	139,215.96	7.8	150,076.54	7.8
Trade payables & other ST liabilities	17,374.00	17,120.00	15,413.00	15,455.00	16,153.00	15,609.76	-3.4	15,226.39	-2.5	15,744.56	3.4
Short term debt	2,463.00	3,732.00	6,318.00	7,617.00	6,658.00	6,658.00	0.0	6,658.00	0.0	6,658.00	0.0
Total current liabilities	19,837.00	20,852.00	21,731.00	23,072.00	22,811.00	22,267.76	-2.4	21,884.39	-1.7	22,402.56	2.4
Long term debt	7,074.00	8,120.00	8,223.00	9,156.00	12,969.00	22,630.00	74.5	22,121.00	-2.2	22,112.00	0.0
Other long term liabilities	10,724.00	13,429.00	14,140.00	14,101.00	20,784.00	20,784.00	0.0	20,784.00	0.0	20,784.00	0.0
Total liabilities	37,635.00	42,401.00	44,094.00	46,329.00	56,564.00	65,681.76	16.1	64,789.39	-1.4	65,298.56	0.8
Equity & minority interests	43,319.00	42,511.00	50,588.00	56,579.00	57,080.00	63,507.80	11.3	74,426.57	17.2	84,777.98	13.9
Total liabilities & equity	80,954.00	84,912.00	94,682.00	102,908.00	113,644.00	129,189.55	13.7	139,215.96	7.8	150,076.54	7.8

Cash flow (US\$m)	12/07	12/08	12/09	12/10	12/11	12/12E	% ch	12/13E	% ch	12/14E	% ch
Net income	10,576.00	12,949.00	12,266.00	13,334.00	9,672.00	14,226.76	47.1	15,339.55	7.8	16,424.07	7.1
Depreciation	2,777.00	2,832.00	2,774.00	2,939.00	3,158.00	3,777.99	19.6	4,173.29	10.5	4,412.37	5.7
Net change in working capital	1,475.00	(1,639.00)	1,339.00	(858.00)	1,683.00	(1,479.78)	-	(1,293.96)	-12.6	(527.94)	-59.2
Other (operating)	421.00	830.00	192.00	970.00	(215.00)	(2,328.87)	983.2	(317.28)	-86.4	(308.05)	-2.9
Net cash from operations	15,249.00	14,972.00	16,571.00	16,385.00	14,298.00	14,196.10	-0.7	17,901.59	26.1	20,000.46	11.7
Capital expenditure	(2,712.00)	(2,281.00)	(2,365.00)	(2,384.00)	(2,893.00)	(2,414.56)	-16.5	(2,507.72)	3.9	(2,542.69)	1.4
Net (acquisitions) / disposals	(1,388.00)	(1,214.00)	(2,316.00)	(745.00)	(1,455.00)	(21,026.77)	1345.1	(2,008.00)	-90.5	(2,095.88)	4.4
Other changes in investments	(368.00)	(83.00)	(109.00)	(38.00)	(778.00)	0.00	-	0.00	-	0.00	-
Cash from investing activities	(4,468.00)	(3,578.00)	(4,790.00)	(3,167.00)	(5,126.00)	(23,441.32)	357.3	(4,515.72)	-80.7	(4,638.57)	2.7
Increase/(decrease) in debt	3,017.00	2,725.00	2,483.00	2,395.00	2,983.00	9,661.00	-	(509.00)	-	(9.00)	-
Share issues / (repurchases)	(4,045.00)	(5,165.00)	(1,248.00)	(1,571.00)	(1,279.00)	1,138.92	-	2,682.64	-	1,552.93	-
Dividends paid	(4,670.00)	(5,024.00)	(5,327.00)	(5,804.00)	(6,156.00)	(6,609.01)	7.36	(6,786.14)	2.68	(7,317.54)	7.83
Other cash from financing	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash from financing activities	(5,698.00)	(7,464.00)	(4,092.00)	(4,980.00)	(4,452.00)	4,190.91	-	(4,612.50)	-	(5,773.61)	25.2

Cash flow chge in cash & equivalents	5,083.00	3,930.00	7,689.00	8,238.00	4,720.00	(5,054.32)	-	8,773.38	-	9,588.28	-
FX / non cash items	148.00	(436.00)	(1,073.00)	(5.00)	(117.00)	(.00)	-	0.00	-	0.00	-
Bal sheet chge in cash & equivalents	5,231.00	3,494.00	6,616.00	8,233.00	4,603.00	(5,054.32)	-	8,773.38	-	9,588.28	-

Core EBITDA	17,990.00	19,001.00	19,550.00	19,466.00	19,398.00	21,330.20	10.0	23,539.11	10.4	25,134.75	6.8
Maintenance capital expenditure	(2,712.00)	(2,281.00)	(2,365.00)	(2,384.00)	(2,893.00)	(2,414.56)	-16.5	(2,507.72)	3.9	(2,542.69)	1.4
Maintenance net working capital	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	15,278.00	16,720.00	17,185.00	17,082.00	16,505.00	18,915.64	14.6	21,031.39	11.2	22,592.07	7.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

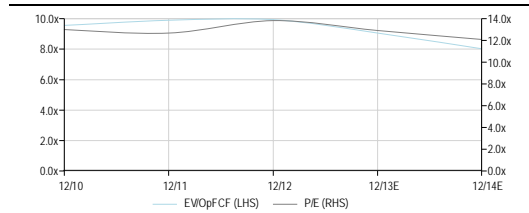
12m price target

US\$76.00

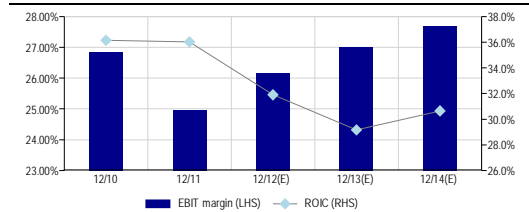
Company profile

Johnson & Johnson engages in research and development, manufacturing, and sale of products in healthcare through operations in three segments: Pharmaceutical (e.g., anti-fungal, anti-infective, cardiovascular, contraceptive, gastrointestinal, hematology, immunology, oncology, pain management, psychotropic, and virology); Medical Devices and Diagnostics (e.g., circulatory disease management, orthopedics, wound care, surgical, blood glucose monitoring, insulin delivery, and vision care); and Consumer (baby care, skin care, oral care, women's health, nutritionals, and OTC pharmaceuticals).

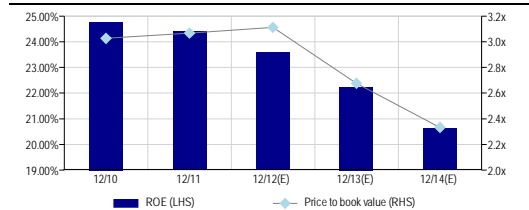
Value (EV/OpFCF & P/E)



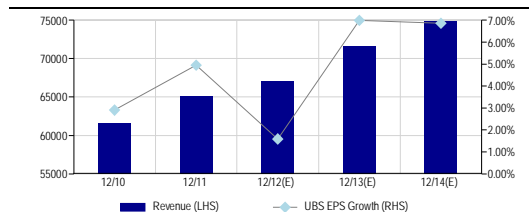
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
P/E (local GAAP)	15.2	13.0	18.2	13.9	13.0	12.2
P/E (UBS)	13.6	13.1	12.7	13.9	13.0	12.2
P/CEPS	11.0	10.7	10.3	10.9	10.2	9.5
Net dividend yield (%)	3.1	3.4	3.5	3.4	3.4	3.7
P/BV	3.5	3.0	3.1	3.1	2.7	2.3
EV/revenue (core)	2.7	2.7	2.5	2.8	2.7	2.4
EV/EBITDA (core)	8.9	8.4	8.4	8.8	8.1	7.2
EV/EBIT (core)	10.5	9.9	10.1	10.7	9.9	8.8
EV/OpFCF (core)	10.3	9.6	9.9	10.0	9.1	8.0
EV/op. invested capital	3.9	3.6	3.6	3.4	2.9	2.7

Enterprise value (US\$m)	12/10	12/11	12/12E	12/13E	12/14E
Average market cap	171,284.3	175,130.7	193,637.8	193,637.8	193,637.8
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	(7,884.50)	(11,759.50)	(5,276.34)	(2,559.87)	(11,999.70)
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	163,399.8	163,371.2	188,361.5	191,077.9	181,638.1

Growth (%)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
Revenue	1.6	-0.5	5.6	3.1	6.8	4.4
EBITDA (UBS)	1.9	-0.4	-0.3	10.0	10.4	6.8
EBIT (UBS)	1.6	-1.5	-1.7	8.1	10.3	7.0
EPS (UBS)	4.6	2.9	4.9	1.6	7.0	6.9
Cash EPS	4.5	3.4	5.5	4.7	7.5	6.6
Net DPS	8.6	9.3	6.6	6.2	1.7	7.0
BVPS	8.2	11.8	0.9	9.2	16.3	14.8

Margins (%)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
EBITDA / revenue	30.5	31.6	29.8	31.8	32.9	33.6
EBIT / revenue	25.8	26.8	25.0	26.2	27.0	27.7
Net profit (UBS) / revenue	20.8	21.6	21.3	21.2	21.4	22.0

Return on capital (%)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
EBIT ROIC (UBS)	36.8	36.2	36.0	31.9	29.2	30.7
ROIC post tax	-	28.5	28.8	25.1	22.9	24.1
Net ROE	27.2	24.8	24.4	23.6	22.2	20.6

Coverage ratios (x)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
EBIT / net interest	-	NM	NM	NM	NM	NM
Dividend cover (UBS EPS)	2.4	2.3	2.2	2.1	2.2	2.2
Div. payout ratio (% UBS EPS)	41.6	44.2	44.9	46.9	44.6	44.6
Net debt / EBITDA	NM	NM	NM	0.1	NM	NM

Efficiency ratios (x)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
Revenue / op. invested capital	1.4	1.3	1.4	1.2	1.1	1.1
Revenue / fixed assets	1.4	1.3	1.4	1.1	1.0	1.1
Revenue / net working capital	14.4	13.8	12.9	10.1	8.9	8.4

Investment ratios (x)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
OpFCF / EBIT	1.0	1.0	1.0	1.1	1.1	1.1
Capex / revenue (%)	4.0	3.9	4.4	3.6	3.5	3.4
Capex / depreciation	0.9	0.8	0.9	0.6	0.6	0.6

Capital structure (%)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
Net debt / total equity	(10.6)	(19.2)	(22.1)	3.3	(9.7)	(19.8)
Net debt / (net debt + equity)	(13.2)	(23.8)	(28.4)	3.2	(10.7)	(24.7)
Net debt (core) / EV	-2.53	(4.8)	(7.2)	(2.8)	(1.3)	(6.6)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US\$70.54 on 10 Dec 2012 15:41 EST Market cap(E) may include forecast share issues/buybacks.

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■ Johnson & Johnson

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