PSG Wealth

Company Update Report

Johnson & Johnson

Healthcare

Ticker	JNJ-US
Share price	$263
Intrinsic value	$217
Upside/(Downside)	-18%
Recommendation	Sell

As at: 27 July 2026

Analyst thesis

Our recommendation is based on:

- A diversified portfolio: Johnson & Johnson's (JNJ's) Innovative Medicine and MedTech segments span oncology, immunology, neuroscience, and cardiovascular medicine, with 28 products and platforms each generating over $1 billion in annual revenue. This product diversity cushions the impact of any single patent cliff and supports a more resilient growth profile.
- An oncology franchise targeting $50 billion in revenue by 2030: Darzalex and Carvykti continue to scale rapidly, with Carvykti sales up 62% year-on-year (YoY) in 1Q26, while further approvals (Tecvayli plus Darzalex Faspro) and Phase 3 data extend the growth runway well beyond the Stelara biosimilar cliff.
- A portfolio reshaped for higher growth: the planned separation of the DePuy Synthes orthopaedics business (targeted for mid-to-late 2027) is expected to lift the MedTech segment's standalone growth rate and operating margin.
- A capital return tempered by litigation risk: 64 consecutive years of dividend increases reflect balance-sheet discipline, although unresolved talc litigation, roughly 76 000 pending cases, and a reserve with a present value of approximately $3.7 billion, remain an uncapped tail-risk overhang.
- Valuation: JNJ's current forward P:E of approximately 21x sits at a premium to both its five-year historical average and the broader pharma peer set (~16.8x), suggesting the market has already priced in a substantial portion of the anticipated oncology-led recovery, and the expected Stelara offset.

Latest company and market insights

Key highlights

In this report, we review the 2Q26 results released in July 2026:

Financial results at a glance:

- Revenue: Total revenue grew by 6.6% YoY from $23.7 billion in 2Q25 to $25.3 billion. Both the Innovative Medicine and MedTech segments drove growth.
- Profitability: Gross margin held steady at 73.3%, on favourable operational drivers and currency, partly offset by unfavourable Innovative Medicine product mix and MedTech tariff impact. Operating margin was consistent with the comparative period at 33.5%. R&D spend increased to $3.7 billion in the quarter, up 3.9% YoY ($7.2 billion YTD).
- Geographic mix: US sales rose 7.3% to $14.5 billion, while reported international sales rose 5.7% (3.4% in constant currency terms) to $10.8 billion, while MedTech continued to face volume-based procurement pricing pressure in China.
- Net income: Reported net earnings were roughly flat YoY at $5.53 billion (vs $5.54 billion), with diluted EPS of $2.27 (vs $2.29) reflecting higher litigation charges and a higher effective tax rate. Adjusted net earnings rose 5.7% to $7.08 billion and adjusted EPS rose 4.7% to $2.90, beating consensus of $2.85.
- FY2026 outlook: Management guided for reported sales of $101.1 billion, representing growth of 7.3%, and adjusted EPS of $11.68, showing an 8.2% rise. Key headwinds flagged include continued Stelara erosion, a 460 basis points (bps) drag on total company sales this quarter, MedTech tariffs of approximately $500 million guided for the full year, and the unresolved talc litigation overhang.

Sector outlook

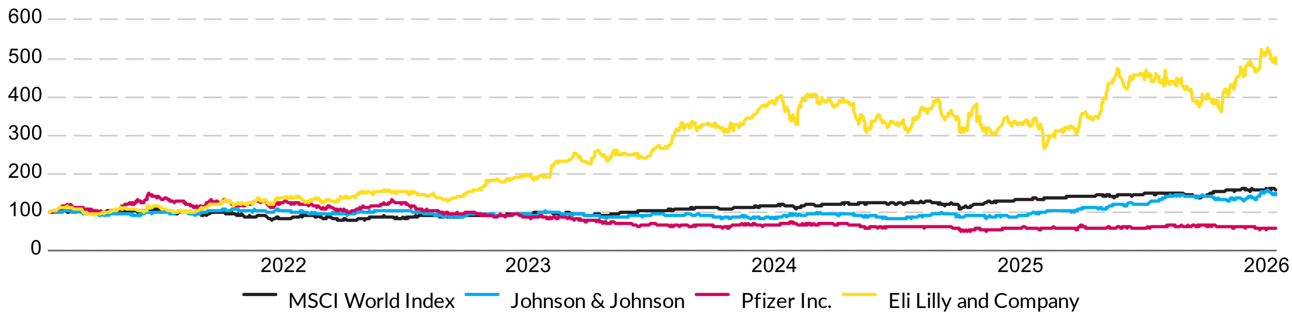
The pharmaceutical and MedTech sector is facing a mixed picture heading into 2H26. On the pressure side, new US government price cuts on major drugs kicked in this year, and a wave of drug patents due to expire in the early 2030s - the same issue driving the decline in JNJ's Stelara sales - threatens hundreds of billions in industry revenue. On the positive side, tariff worries have eased as big pharmaceutical companies strike agreements with the US government, and dealmaking is picking up as companies look to acquire new growth opportunities ahead of the patent cliff. Companies with a diversified product portfolio rather than reliance on one or two bestsellers are better positioned to absorb the pricing pain than narrower peers.

Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★☆☆	Expected three-year revenue CAGR is 6%, and expected three-year EPS CAGR is 18%. The planned separation of the DePuy Synthes orthopaedics business and continued oncology scaling are expected to structurally lift the blended MedTech and Innovative Medicine growth and margins as the Stelara biosimilar drag fades through 2027.
Valuation	★★★☆☆	The share price is trading at a 21% premium to the intrinsic value (IV), with 18% downside. Current NTM P:E of 21x is trading at a 32% premium to the five-year average P:E of 15.9x.
Dividend	★★★☆☆	LTM dividend yield 2.1%. NTM dividend yield 2.1%.
Issuance	★★★★☆	Shares issued have decreased by 9% over the past five years.
Catalyst	Oncology pipeline execution: Continued scaling of Darzalex, Carvykti and Tecvayli, supported by the March 2026 Tecvayli plus Darzalex Faspro approval and further Phase 3 readouts (Talvey combination data), underpins the $50 billion 2030 oncology revenue target. DePuy Synthes separation: Targeted for completion in mid-to-late 2027; management's own analysis points to at least a 75 bps lift to MedTech's standalone growth rate and operating margin.	
Quality of earnings	★★★☆☆	Five-year average ROE of 25.1%. Five-year average operating profit margin of 26%. The business has recorded positive earnings growth in six of the past 10 years. Earnings quality is impacted by non-recurring litigation provisions, specifically changes in the talc litigation reserve.
Moat	★★★☆☆	Intangible assets: Decades of FDA/EMA regulatory relationships, clinical-trial infrastructure, and patent portfolios across Innovative Medicine and MedTech create approval-speed and credibility advantages that new entrants cannot quickly replicate. Switching costs: Once a drug or device is embedded in a treatment protocol or surgical workflow, physicians and health systems face real friction (retraining, re-certification, formulary changes) in switching to a competitor, especially in MedTech. Scale advantages: Broad commercial infrastructure and manufacturing scale across 28 products and platforms each generating over $1 billion in annual revenue lets JNJ spread R&D, sales, and regulatory costs across a wider base than single-franchise peers, supporting steadier margins through cycles.
Management and governance	★★★★☆	Joaquin Duato has served as Chairman and CEO since January 2022. Duato has spent close to 40 years at JNJ, working across pharmaceuticals, consumer health, supply chain, and technology before becoming CEO. He oversaw the 2023 Kenvue consumer health spinoff, a precedent for the DePuy Synthes transaction. The board is independent with no controlling shareholder, which reflects a clean governance profile compared to peers.
Balance sheet	★★★☆☆	Net Debt to EBITDA ratio of 0.8x, interest coverage ratio of 16.3x. Debt to assets ratio of 24.8%.
Risks	Talc litigation: Roughly 67 000 – 68 000 pending cases following the March 2025 rejection of the Red River Talc bankruptcy settlement. JNJ is now litigating individually with no global resolution in sight, an uncapped tail-risk overhang. Pricing reform: IRA-negotiated Medicare prices (38%–79% discount on the first 10 selected drugs) took effect in January 2026, and Most Favoured Nation pricing agreements are compounding pressure on US-dependent revenue. Patent cliff continuation: Stelara biosimilar erosion remains a 460 bps drag on total company sales this quarter, and the sector-wide $200 billion-$300 billion patent cliff through the early 2030s could pressure future franchises. MedTech tariffs and China pricing pressure: ~$500 million guided full-year tariff impact, alongside continued volume-based procurement pricing pressure in China. Separation execution risk: The separation of the DePuy Synthes orthopaedics business (targeted for mid-to-late 2027) carries standard carve-out execution risk, including stranded costs and management distraction during the transition.	

Source: FactSet, PSG Wealth

Graph 1: Five-year price (Indexed to 100)



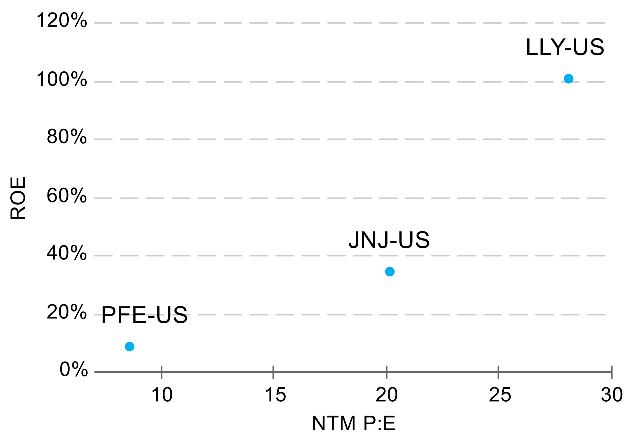
Source: FactSet

Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
JNJ-US	19.4%	-2.7%	3.5%	12.5%	59.2%	65.5%	54.5%	46.7%	100.8%
PFE-US	-0.3%	3.1%	-8.7%	-4.1%	0.9%	-14.7%	-31.7%	-38.1%	-28.7%
LLY-US	7.6%	-3.6%	27.8%	12.0%	49.9%	21.7%	157.3%	399.7%	1 341.8%
MSCI World	10.6%	0.9%	7.0%	8.2%	21.6%	33.3%	62.3%	65.3%	193.6%

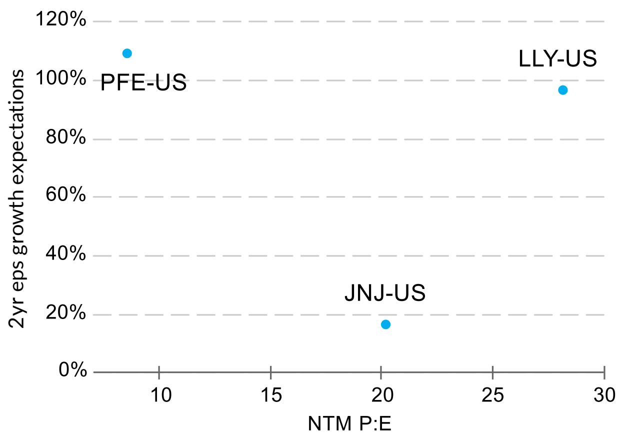
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs EPS 2Y CAGR forecast



Source: FactSet

Valuation

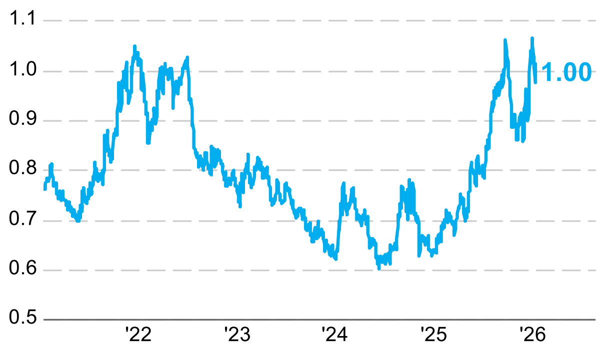
The valuation is anchored on a forward EV/EBITDA exit multiple applied to two-year forward EBITDA, using probability-weighted bear, base, and bull scenarios that vary the valuation multiple. The scenarios differ in the pace of oncology pipeline acceleration relative to the Stelara LOE, the speed at which MedTech increases its contribution to the total business, and how the talc litigation overhang and tariff exposure ultimately unfold. The bear case assumes slower oncology uptake and prolonged Stelara erosion. The base case assumes continued oncology-led growth and gradual margin recovery. The bull case assumes accelerated oncology penetration and a contained litigation overhang.

Table 3: Valuation summary

Valuation Probabilities			
	Bear	Base	Bull
EV: EBITDA Multiple	11x	13x	16x
Probability	10%	60%	30%
Implied share price	$172	$206	$256
Weighted intrinsic value			**$217**
Upside/(Downside)			**-18%**

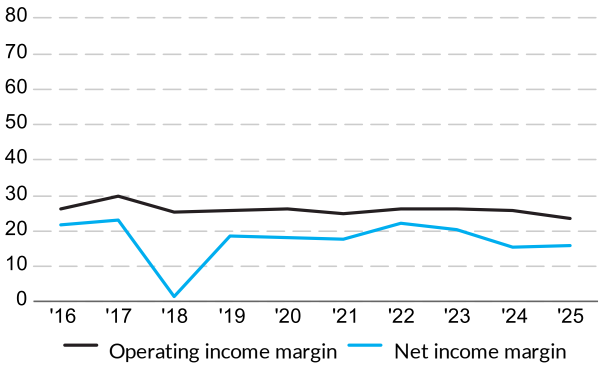
Source: FactSet, PSG Wealth

Graph 4: NTM P:E relative to benchmark (S&P500)



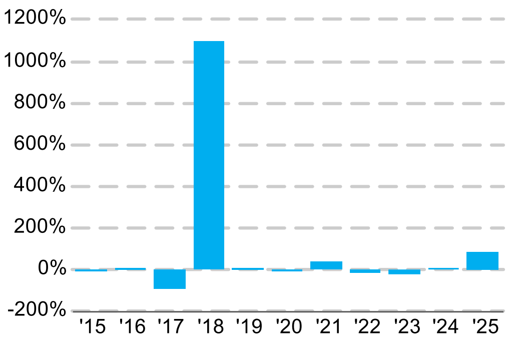
Source: FactSet

Graph 5: Profit margins (%)



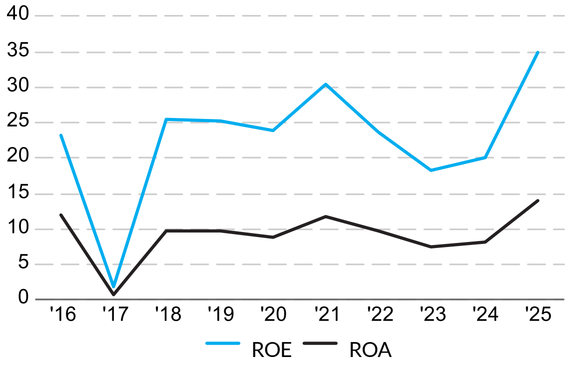
Source: FactSet

Graph 6: 10Y EPS year-on-year change



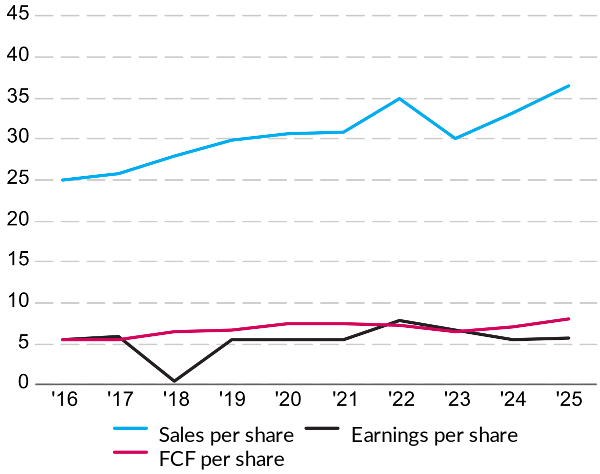
Source: FactSet

Graph 7: ROE and ROA (%)



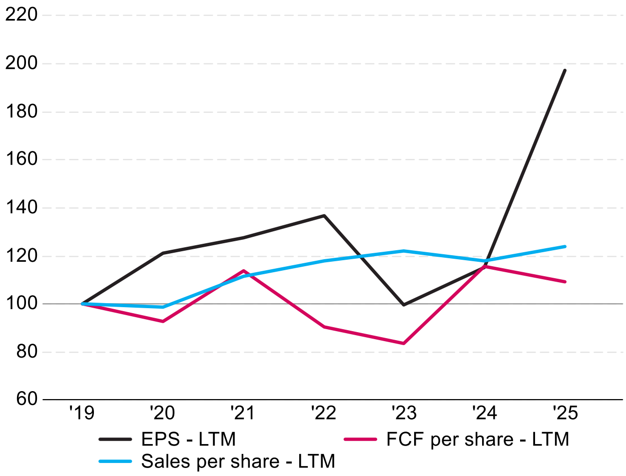
Source: FactSet

Graph 8: Sales, earnings and FCF per share (USD)



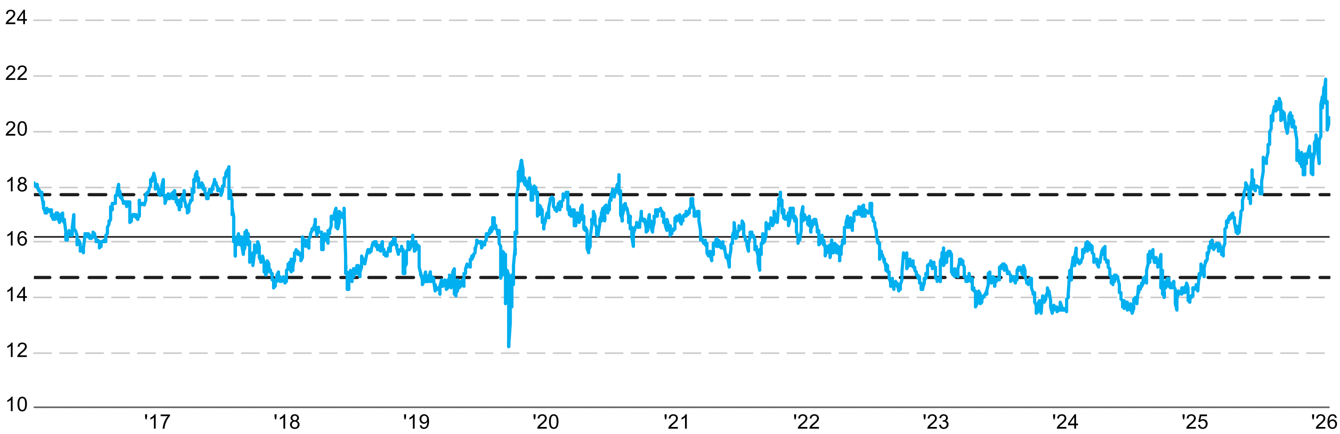
Source: FactSet

Graph 9: Sales, earnings, and FCF per share indexed



Source: FactSet

Graph 10: NTM P:E



Source: FactSet

Table 4: Financials and ratios

Income statement ($Mn)	Dec 21	Dec 22	Dec 23*	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	93 758	95 015	85 152	88 819	94 178	6%	0%	3%
Cost of sales	29 874	30 718	26 430	27 862	29 552	6%	-1%	1%
Gross income	63 884	64 297	58 722	60 957	64 626	6%	0%	3%
EBIT	24 481	24 780	22 162	20 823	26 124	25%	2%	5%
EBITDA	31 871	28 177	29 648	28 162	33 627	19%	6%	4%
Net income	20 878	17 941	13 326	14 066	26 804	91%	14%	13%
EPS (USD)	7.8	6.7	5.5	5.8	11.0	91%	18%	15%
Balance sheet ($Mn)	**Dec 21**	**Dec 22**	**Dec 23**	**Dec 24**	**Dec 25**	**1Y Growth**	**3Y CAGR**	**5Y CAGR**
Total assets	182 018	187 378	167 558	180 104	199 210	11%	2%	3%
Total shareholders' equity	74 023	76 804	68 774	71 490	81 544	14%	2%	5%
Total liabilities	107 995	110 574	98 784	108 604	117 666	8%	2%	1%
Ratios	**Dec 21**	**Dec 22**	**Dec 23**	**Dec 24**	**Dec 25**	**5Y Avg**		
Net debt/EBITDA	0.07	0.62	0.22	0.43	0.83	0.43		
Interest coverage	30.3	23.8	17.8	16.9	16.3	21.0		
Debt/assets	19.1%	21.7%	18.2%	21.0%	24.8%	21.0%		

Source: FactSet *FY2023 reporting impacted by Kenvue separation.

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
$	United States dollar
CAGR	Compounded annual growth rate
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMA	European Medicines Agency
EPS	Earnings per share
EU	European Union
FCF	Free cash flow
FDA	Food and Drug Administration
FY	Financial year
JNJ-US	Johnson & Johnson
IRA	Inflation Reduction Act
LLY-US	Eli Lilly and Company
LOE	Loss of exclusivity
LTM	Last 12 months (also known as trailing)
MTD	Month-to-date
NTM	Next 12 months (also known as forward)
P:E	Price to earnings
PFE-US	Pfizer Inc
QoQ	Quarter-on-quarter
R&D	Research and development
ROA	Return on assets
ROE	Return on equity
US	United States of America
YoY	Year-on-year
YTD	Year-to-date

Contact details

Qhama Macanda
Equity Analyst
+27 (11) 996 5200
Qhama.Macanda@psg.co.za

Pierre Muller, CA(SA), CFA
Head of Equity Solutions
+27 (11) 996 5200
Pierre.Muller@psg.co.za

The purpose of this document is to provide information and is not available for external distribution.

About PSG Investment Management recommendations

PSG Investment Management provides medium- to long-term recommendations based on the premium or discount that a company trades at, relative to our estimation of intrinsic value. We expect companies to rerate towards their intrinsic value over a one- to three-year period. The long-term valuation is a quantitative-based valuation based on the fundamental performance of each company in the past, as well as their future forecasts. The fundamental features used are based on profitability and growth measures such as EPS growth and return on equity (ROE).

House view guidance: House view guidance is indicative only. Each client's circumstances are different, and it remains critical that indicative guidance is discussed with your portfolio manager or financial adviser.

Date and share price: The date the report was reviewed and approved by the investment research team is likely to precede the release date and price on the report.

*Share price as at closing.

Disclaimer

Analyst certification

The research analyst who prepared this report certifies that the view expressed herein accurately reflects the research analyst's personal views about the subject, security and issuer and that no part of their compensation was, is or will be directly or indirectly related to specific recommendations or opinions contained in this report.

FSP

PSG Investment Management (Pty) Ltd is an authorised financial services provider. FSP: 44306

PSG Securities Limited is an authorised member of the JSE and authorised financial services provider. FSP: 42996