THESIS PRESENTATION

FINANCIAL PERFORMANCE OF JOHNSON & JOHNSON AND ROCHE IN US: A COMPARATIVE ANALYSIS

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ABOUT THE ORGANISATION

ZS Associates is a management consulting and professional services firm focusing on consulting, software, and technology, headquartered in Evanston, Illinois that provides services for clients in private equity, healthcare, and technology

The firm was founded in 1983 by two professors at Northwestern University who developed sales force alignment models using the world's first personal-computer-aided territory mapping system

The firm employs more than 7,000 employees in 24 offices in North America, South America, Europe and Asia.

- **Business services**
  - **Consulting**
    - Strategy, insights and planning
    - Decision analytics
    - Data science
    - Knowledge management
  - **Operations**
    - Optimize business, processes, performing analysis
  - **Technology**
    - Solution delivery, strategy, business process transformation, application, management

Sources : 1. ZS Associates

OVERVIEW

The pharmaceutical market is an extremely competitive and booming sector. This sector continues to outperform in an era of aging population, high healthcare costs and the ongoing pandemic. Investors looking to invest in the top pharmaceutical firm are frequently faced with a plethora of options to choose from. This is where evaluating the financial performance of the company comes into play as it plays an important role in analysis and comparison of financial stability, overall profitability, weakness and future trends of the firm. Such an analysis benefits all three important stakeholders: the potential and existing investors, the end user and the company itself

As per financial year 2021 the following were the top 5 companies in terms of market capitalization. Johnson & Johnson and Roche have been selected for the purpose of this study

Organization	(Market capitalization in Billions)
Johnson & Johnson	$435.77 Billion
Roche	$287.85 Billion
Pfizer	$220.56 Billion
Abbott	$213.19 Billion
AbbVie	$202.25 Billion

Sources : 1. Marketcap 2. Investopedia

COMPANY FACTUALS

Johnson & Johnson is a company which is engaged in the research and development, manufacture and sale of a range of products in the healthcare field. It operates through three segments: Consumer, Pharmaceutical and Medical Devices. It was founded in 1886. Johnson & Johnson is one of the most valuable firms in the world. The company operates worldwide but makes about half of revenue in the US

Roche Holding AG operates as a research healthcare company. It operates through the following segments: Diagnostics and Pharmaceuticals. The Pharmaceutical segment refers to development of medicines in the field of oncology, immunology, ophthalmology, infectious diseases and neuroscience. The company was founded by Fritz Hoffmann-La Roche on October 1, 1896 and is headquartered in Basel, Switzerland

Sources : 1. Johnson & Johnson 2. Roche

OBJECTIVES

To compare the financial performance of Johnson and Johnson and Roche over five years (2016-2020) related to

- Liquidity Ratios
- Profitability ratios
- Debt coverage ratios
- Asset management ratios
- Market Value ratios

To understand the strategic options applied by the company from it's financials

MATERIALS AND METHODS

Data collection

- Secondary data was gathered using a systematic approach.
- A search string involving “Ratio analysis for pharmaceutical companies, Financial statement analysis + Roche + Johnson & Johnson” was done.
- Articles, financial fact sheets, journals, analyst and business reports, and other sources were mostly used to do the research.

Study design

To identify pharmaceutical firms and acquire secondary data on their financial performance in order to construct financial ratios, a cross sectional descriptive study methodology was adopted

Duration of study

April 2019 to June 2019 (Three months)

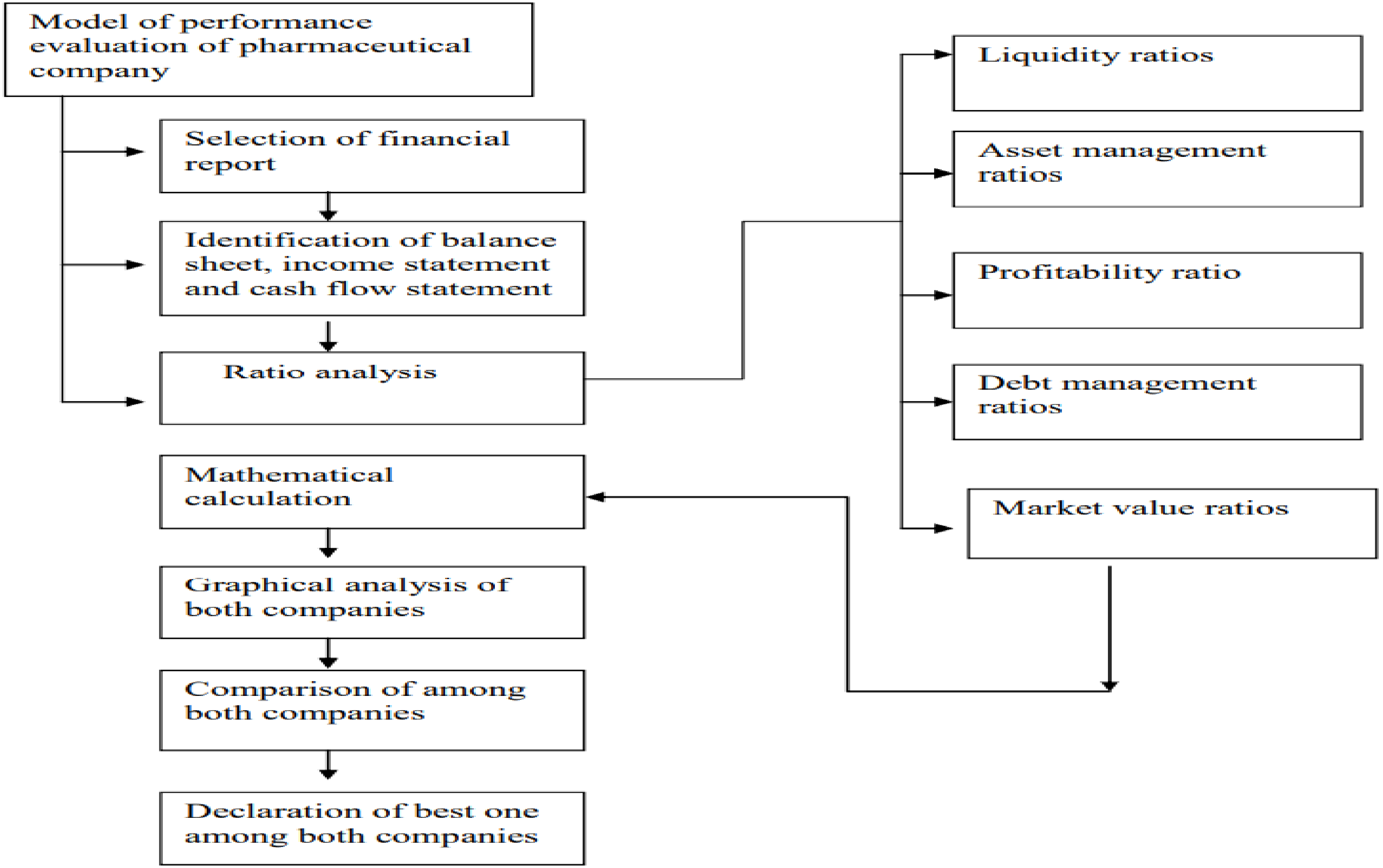
Sample Design

The top two performing pharmaceutical businesses from the top five global pharmaceutical companies were chosen using a judgement sampling technique

Sources of secondary data

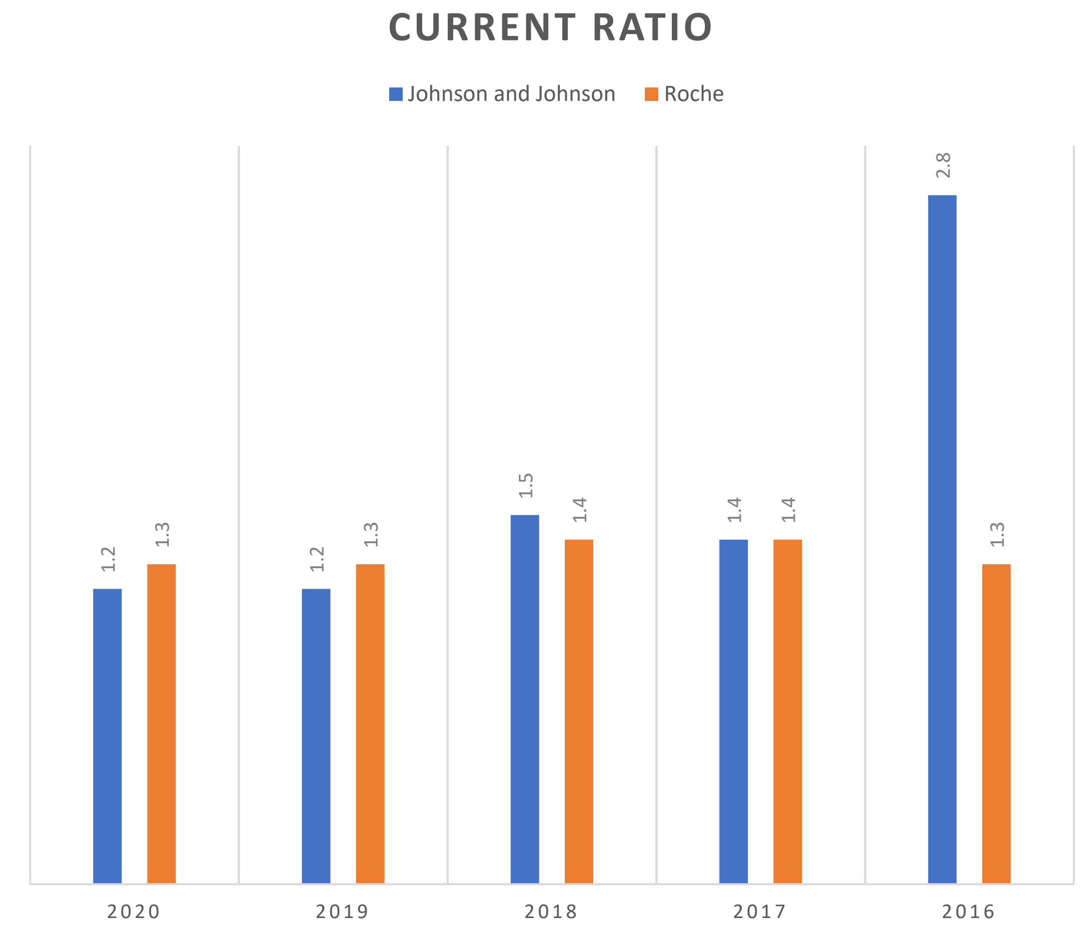
- Balance sheets
- Income statement
- Cash flow
- Annual reports, 10K filing
- Company website
- Analyst report

PROCESS FLOW



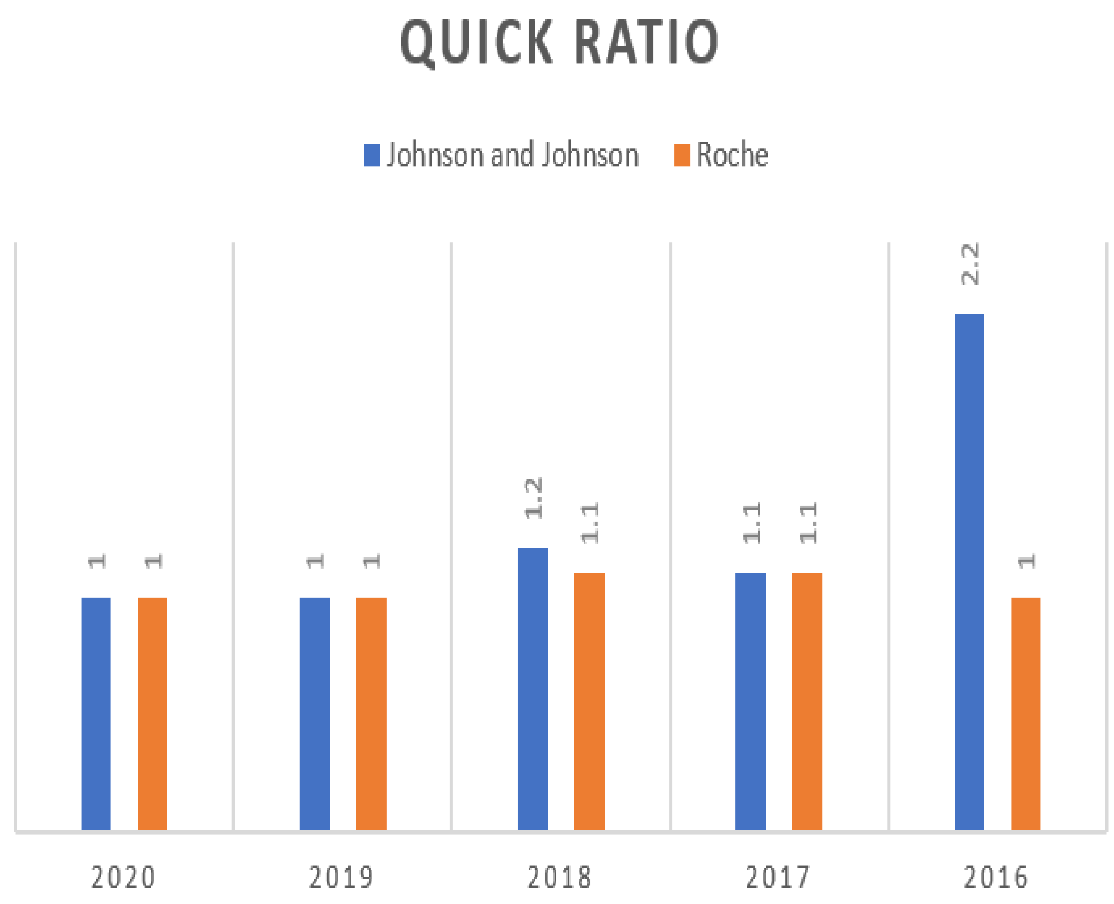
CURRENT RATIO

- The current ratio is a prediction of a company's ability to pay down short-term debts.
- On an average, Roche has shown consistency in terms of working capital to meet current liabilities. However, Johnson & Johnson has demonstrated a downward tendency in recent years.
- The downward trend with Johnson and Johnson maybe attributed to a dip in sales in the medical devices vertical. The drop from 2016 is attributed to it’s acquisition of Actelion Ltd. for $30 billion in cash, which isn’t entirely negative as this has proven to be good investment for Johnson & Johnson.
- Both companies in this aspect are almost at par with each other and the industry average



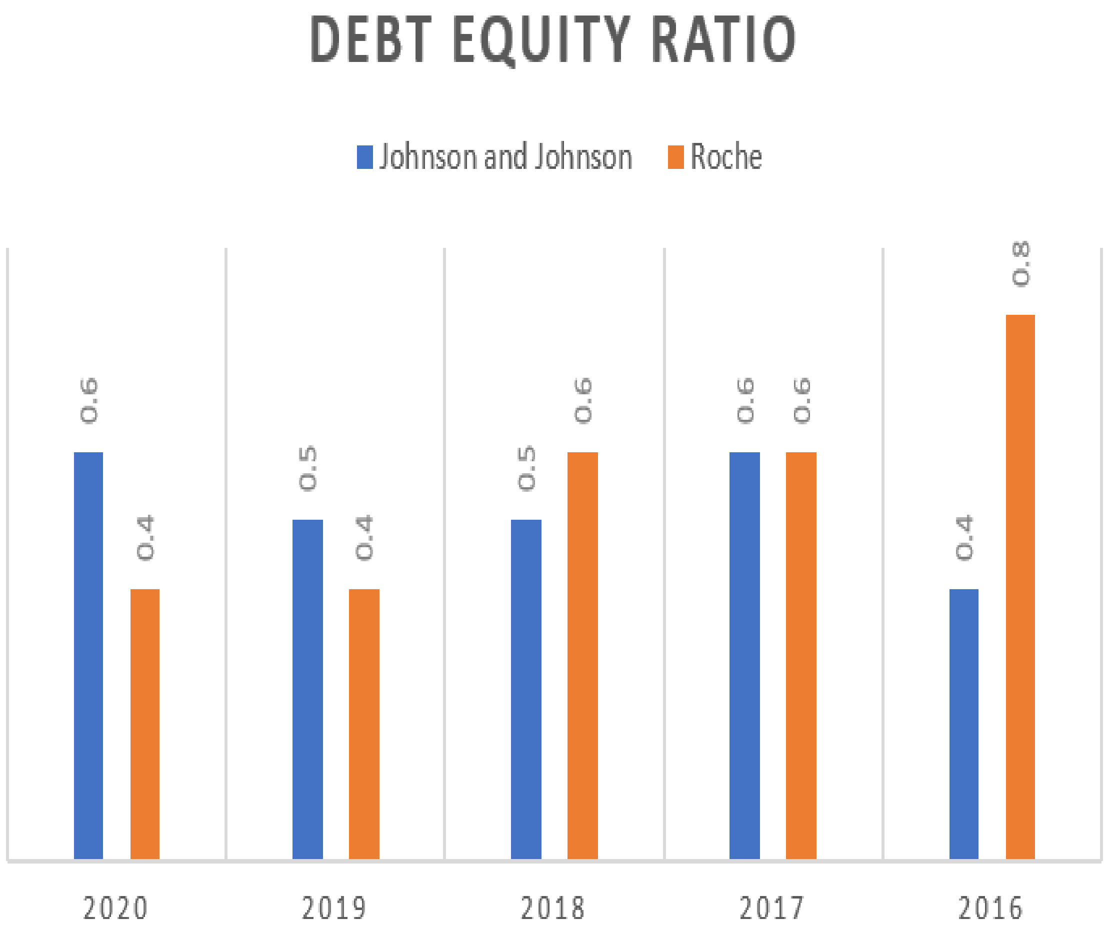
QUICK RATIO

- The quick ratio measures a company's means to pay down current obligations without relying on inventory sales.
- Johnson & Johnson has demonstrated a downward trend over the years, whereas Roche has remained consistent across ups and downs, making Roche a better overall investment decision.



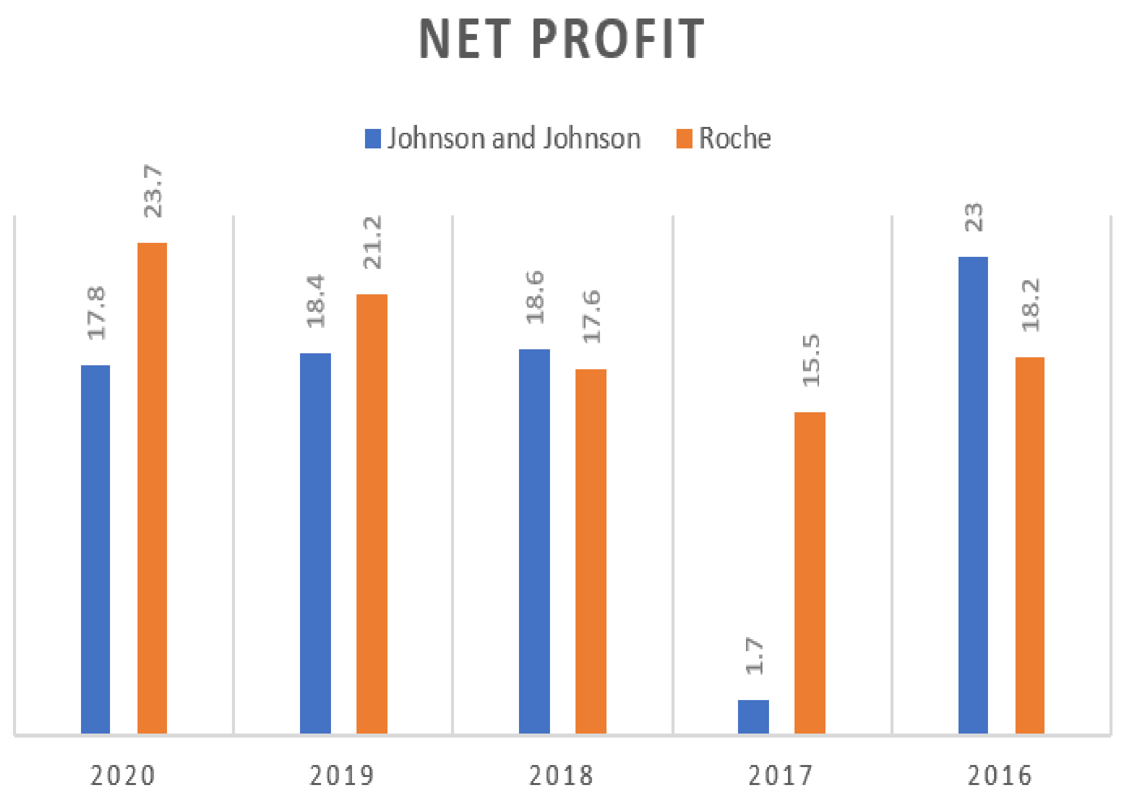
QUICK RATIO

- From 2017 to 2019, Johnson & Johnson's debt-to-equity ratio improved, but from 2019 to 2020, it deteriorated dramatically.
- Roche has shown improvement in its Debt equity ratio over the years
- Although both are below the industry average. A high debt-equity ratio may be good if it is well below the industry average, which is the case here. This also prompts that the company is aggressively financing it's growth. In this case Johnson & Johnson, although it has a high debt ratio, it has enough capital to meet all it's obligations.
- In this case although Roche would seem a more appropriate choice, Johnson & Johnson strategically is better.



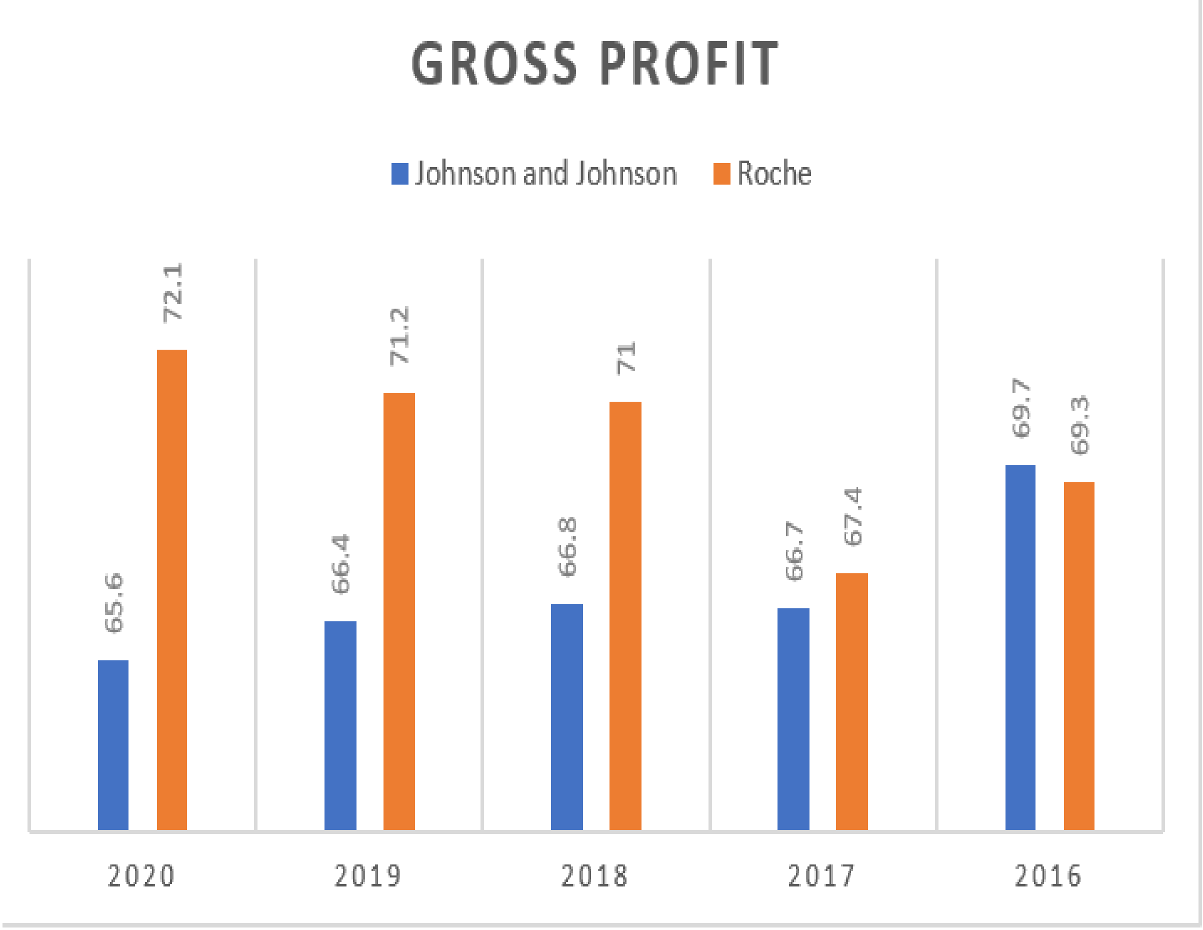
NET PROFIT

- Johnson and Johnson’s net profit has deteriorated from 2018 to 2020 despite it announcing the manufacture of COVID-19 vaccines. It an be attributed to declining sales it’s consumer segment and increase in Research and development costs.
- Roche on the other hand has shown consistent increase in the net profits making it a better investment option
- Roche in comparison to the industry average has been performing much better than Johnson and Johnson



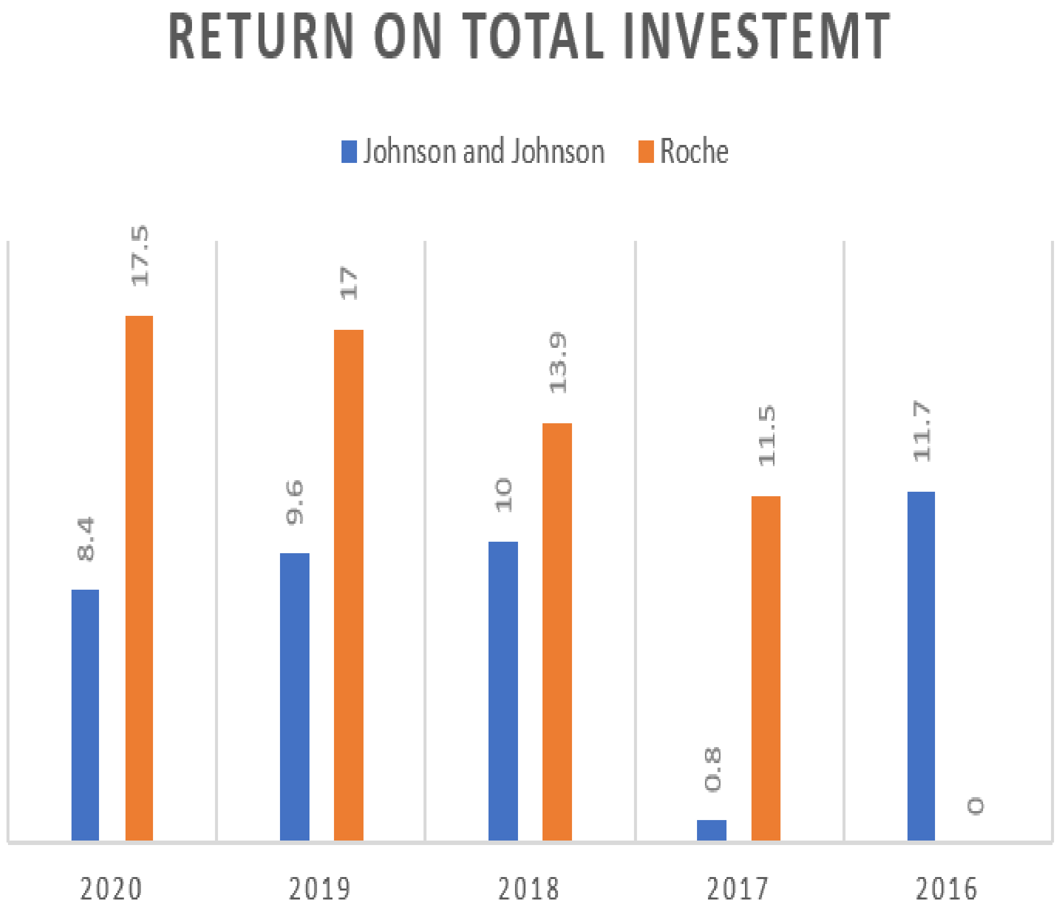
GROSS PROFIT

- Roche has seen an increase in gross profit over the years whereas Johnson and Johnson has shown a consistent decline in profits over the years.
- Roche has been performing well above the industry average whereas Johnson and Johnson has been at par with the industry trends



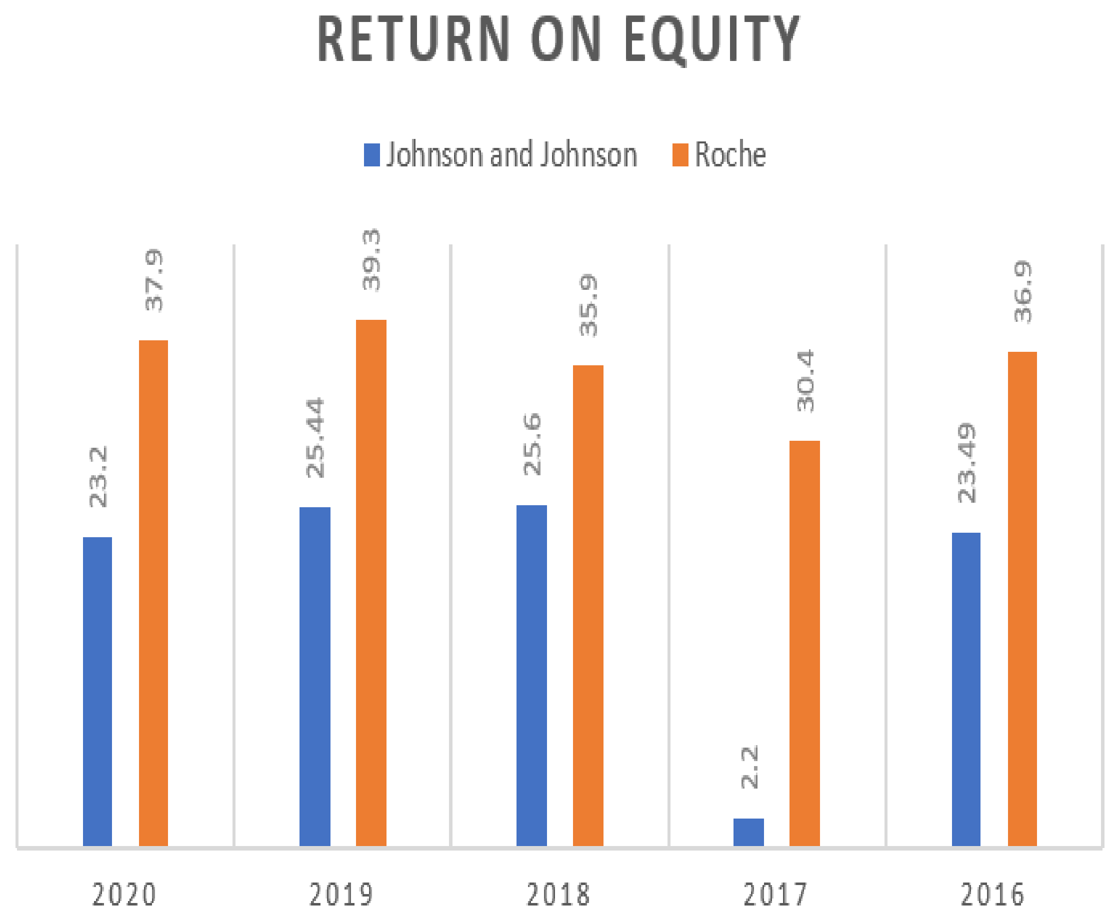
RETURN ON TOTAL INVESTMENT

- Roche has seen an increase in return on investments over the years whereas Johnson and Johnson has shown a consistent decline over the years.
- Roche has been performing well above the industry average whereas Johnson and Johnson has been at par with the industry trends
- Roche is thus a better bet to invest than Johnson and Johnson



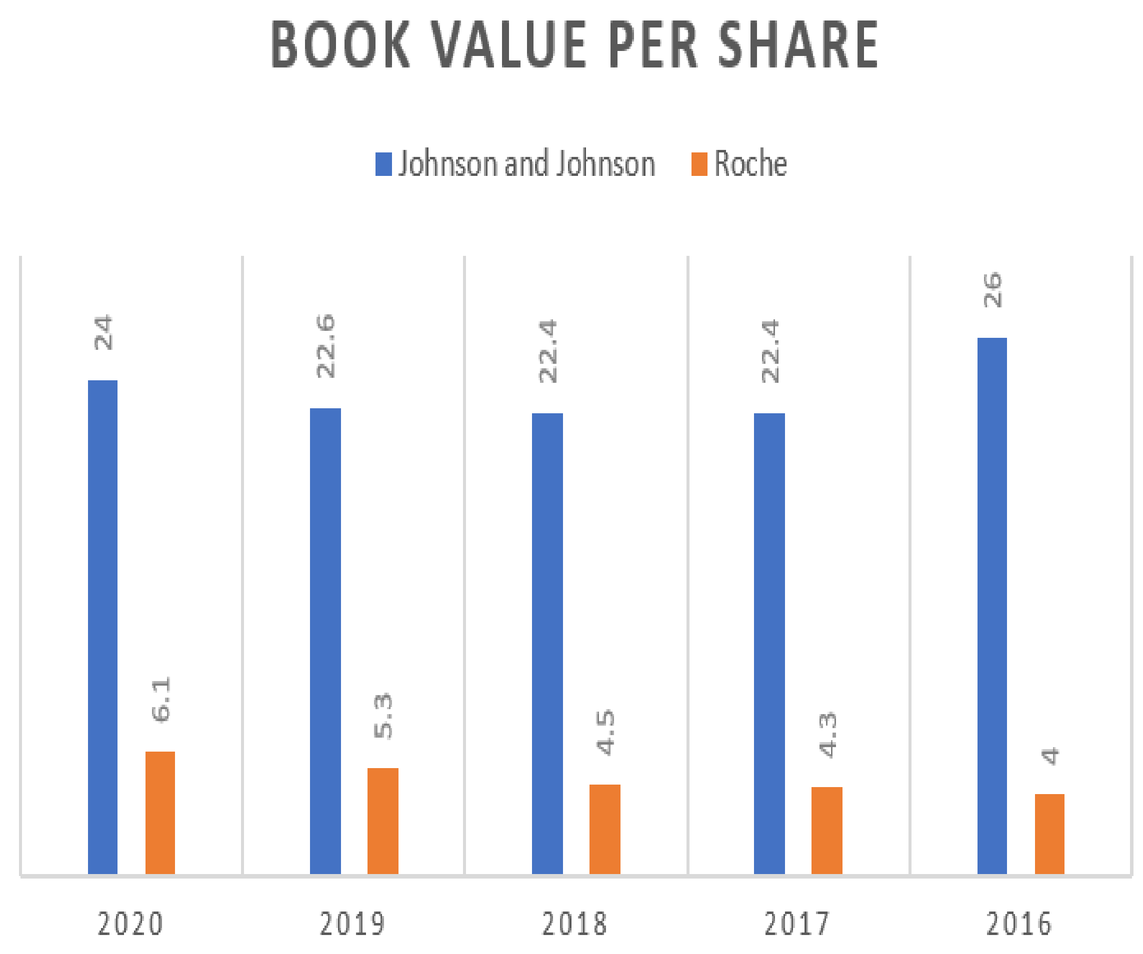
RETURN ON EQUITY

- Roche has seen an increase in ROE over the years whereas Johnson and Johnson has shown a consistent decline over the years.
- Roche has been performing well above the industry average whereas Johnson and Johnson has been at par or below the industry trends
- Roche is thus a better bet to invest than Johnson and Johnson



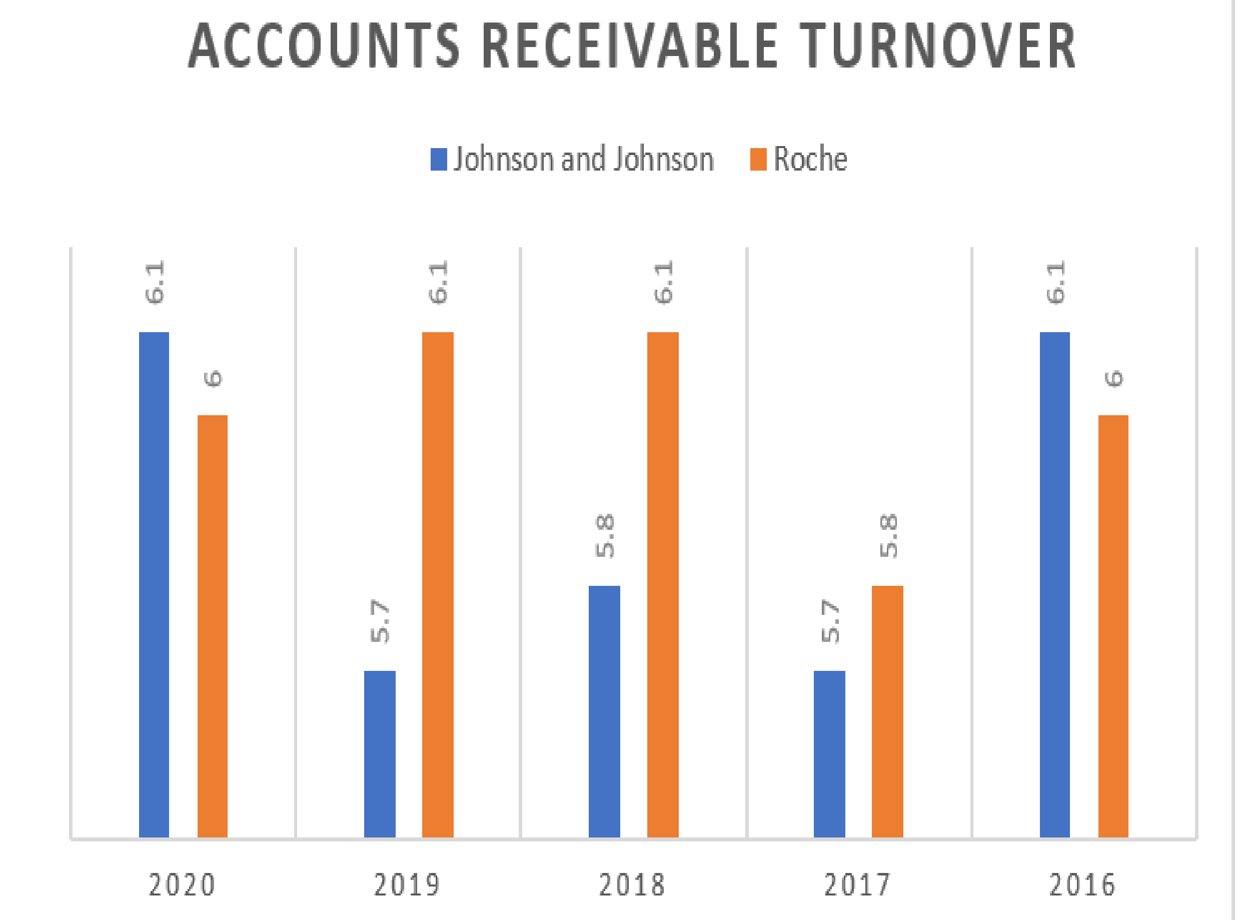
BOOK VALUE PER SHARE

- Very high book value per share despite declining profits depicts a share that maybe overvalued.
- A high book value per share is desirable which is the case with Roche, but a Johnson and Johnson book value is inflated when compared to the overall performance of the company



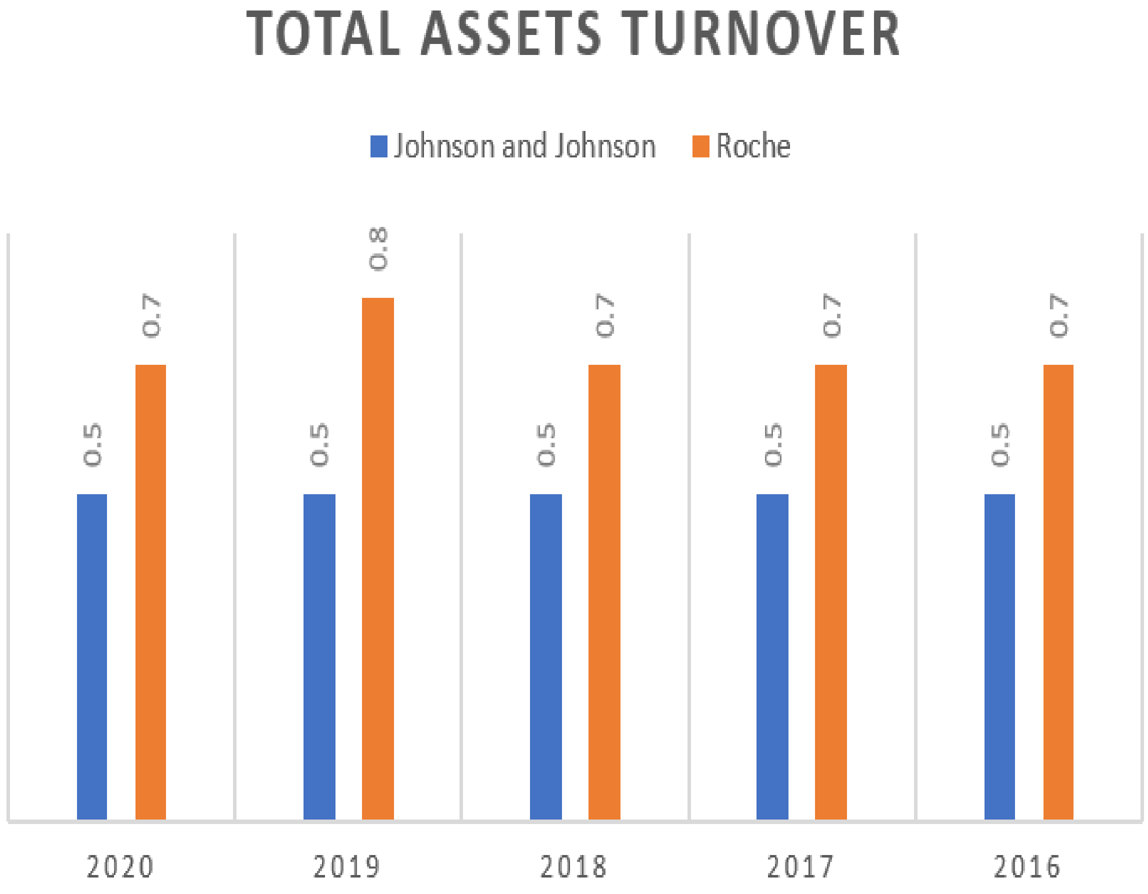
ACCOUNTS RECEIVABLE TURNOVER

- Johnson and Johnson despite showing a decline from 2018 showed an improvement in 2020
- Roche on the other hand due to the pandemic did work in tandem with the industry trends making Johnson and Johnson a better choice here.



TOTAL ASSETS TURNOVER

- Roche was experiencing an upward trend in the total assets' turnover up till the pandemic.
- Johnson and Johnson on the other hand has shown consistency in efficiently generating sales from its assets.
- Johnson and Johnson here is a better investment than Roche



CONCLUSION

- Roche has seen an increase in profits over the years which was largely led by it’s immunology and neuroscience products. Drugs like Xolair and Actmera drove sales for Roche in 2016 but Ocrevus launch in 2017 became the best drug launch gathering >$3.5 billion in sales in 2019. This is seen as the increase in profits in 2018. The revenue source in 2020 was the temporary increase in molecular testing for Covid-19. In the long run however, Roche’s current portfolio sees a looming threat from biosimilars and patent expiry for some of it’s products. The company’s acquisition plans are mostly around budding stage innovative bio-tech organizations. The play out would depend on choosing the right portfolio drugs.
- Both the companies have been increasing their spending on research & development for new products, Johnson & Johnson’s pipeline has shown greater promise with more number of approved products than Roche.
- The Johnson & Johnson stock maybe over-valued at present but it’s newly launched drugs- Imbruvica, Darzalex, and Stelara are swiftly gaining market share showing future promise. On closer observation it was seen that the company did manage to cut down on its operating expenses but the slip in revenue was faster than the increase. This also suggests the company’s investment growth to derive sales. Despite this, the company’s launch of Covid-19 vaccine, a promising portfolio and an efficient supply chain network depicts a future promise of being a good investment.

Over all, in near term, Roche maybe a better investment with a lower stock value delivering high returns but in far sight owing the high benefits over risk and key opportunities, Johnson & Johnson would be a better choice despite the stock being overvalued