| TIMELIN | $\text { JESS } 3$ | -owered 6 | 107 | High: <br> Low: | $\begin{array}{r} 27.0 \\ 20.8 \\ \hline \end{array}$ | $\begin{array}{r} 33.7 \\ 24.3 \\ \hline \end{array}$ | 44.9 31.7 | $\begin{aligned} & 53.4 \\ & 38.5 \end{aligned}$ | $\begin{aligned} & 53.0 \\ & 33.1 \end{aligned}$ | $\begin{aligned} & \hline 61.0 \\ & 40.3 \end{aligned}$ | $\begin{aligned} & 65.9 \\ & 41.4 \end{aligned}$ | $\begin{aligned} & 59.1 \\ & 48.1 \end{aligned}$ | $\begin{aligned} & 64.3 \\ & 49.3 \end{aligned}$ | $\begin{aligned} & \hline 70.0 \\ & 59.8 \end{aligned}$ | $\begin{aligned} & \hline 69.4 \\ & 56.7 \end{aligned}$ | $\begin{aligned} & 68.2 \\ & 59.7 \end{aligned}$ |  |  | Target Price | Range |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| SAFETY | $1$ | New 7/27 |  | LEGEN | S |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TECHNIC | CAL | Lowered | 10/26/07 | $\begin{aligned} \text { re } \\ \hline 10 \end{aligned}$ | (ex | Strengt |  |  |  |  |  |  |  |  |  |  |  |  |  | -160 |
| BETA 60 | 0 (1.00 = | Market) |  | $\begin{aligned} & \text { 2-for- } \mathrm{splifl} \\ & \text { - } \end{aligned}$ | $\begin{aligned} & 6 / 96 \\ & 6 / 01 \end{aligned}$ |  |  |  |  |  |  |  |  |  |  |  |  |  |  | -120 |
|  | -12 P | JECTIO |  | Options: Shaded | esea ind | s reces |  |  |  | 2-for-1 |  |  |  |  |  |  |  |  |  | 80 |
|  |  |  | Total |  |  |  |  |  |  | 1 |  |  |  |  | , | いい' |  |  |  | 60 |
| High |  |  |  |  |  |  |  |  |  |  | $1{ }^{1}$ | 114.m. | IIII! |  |  |  |  |  |  | 50 |
| Low |  | 5\%) |  |  |  |  |  |  | \|101] |  | 1 |  |  |  |  |  |  |  |  | 40 |
| Insider | Decisi | ons |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 30 |
| to Buy | $\begin{array}{lll} \mathrm{D} & \mathrm{~J} \\ 0 & 0 & 1 \end{array}$ | $\begin{array}{cccc}\text { M A M } \\ 0 & 0 & 0\end{array}$ | $\begin{array}{lll}J & J & A \\ 0 & 0 & 0\end{array}$ |  | 24 | - | -" |  |  |  |  |  |  |  |  |  |  |  |  | 20 |
| to $\begin{aligned} & \text { to Buy } \\ & \text { Options }\end{aligned}$ | 203 | $\begin{array}{ll}1 & 0 \\ 1 & 1 \\ 0\end{array}$ | (1) | - |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | -20 |
| to Sell | 200 | 000 | 000 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | RETURN 10/07 | -15 |
| Institut | 402006 | 102007 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | THIS STOCK VLARITH INDEX |  |
| to Buy | 735 | 743 | 693 |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1 yr . | -0.9 12.9 |  |
| to Sell | 705 | 746 | 753 | traded |  |  |  |  |  |  |  |  |  |  |  |  |  | 3 yr . | 19.3 50.1 |  |
| Hldd's(000) 18 | 8561061 | 8601051 | 841603 |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 5 yr . | 22.9145 .8 |  |
| 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | $\bigcirc{ }^{\circ}$ VAL | UE LINE PUB., INC | 10-12 |
| 4.67 | 5.25 | 5.50 | 6.12 | 7.27 | 8.11 | 8.41 | 8.80 | 9.88 | 10.47 | 10.83 | 12.23 | 14.10 | 15.94 | 16.98 | 18.43 | 21.30 | 22.25 | Sales | sh A | 27.00 |
| . 73 | . 85 | . 93 | 1.06 | 1.26 | 1.46 | 1.62 | 1.83 | 2.03 | 2.27 | 2.46 | 2.85 | 3.36 | 3.84 | 4.25 | 4.60 | 5.15 | 5.45 | "Cash | low" per sh | 6.70 |
| . 55 | . 62 | . 69 | . 78 | . 93 | 1.09 | 1.21 | 1.34 | 1.49 | 1.70 | 1.91 | 2.23 | 2.70 | 3.10 | 3.50 | 3.76 | 4.12 | 4.45 | Earning | per sh B | 5.50 |
| . 19 | . 22 | . 25 | . 28 | . 32 | . 37 | . 43 | . 49 | . 55 | . 62 | . 70 | . 80 | . 92 | 1.10 | 1.28 | 1.46 | 1.62 | 1.76 | Div'ds | Decl'd per sh - ${ }^{\text {c }}$ | 2.04 |
| . 37 | . 42 | . 38 | . 36 | . 48 | . 52 | . 52 | . 54 | . 62 | . 59 | . 57 | . 71 | . 76 | . 73 | . 88 | 92 | . 95 | . 95 | Cap'IS | ending per sh | 1.10 |
| 2.11 | 1.97 | 2.17 | 2.77 | 3.49 | 4.07 | 4.59 | 5.06 | 5.83 | 6.76 | 7.95 | 7.65 | 9.05 | 10.71 | 12.73 | 13.59 | 15.65 | 17.80 | Book | lue per sh D | 25.95 |
| 2665.3 | 2621.6 | 2571.9 | 2572.0 | 2590.7 | 2665.0 | 2690.3 | 2688.1 | 2779.4 | 2781.9 | 3047.2 | 2968.3 | 2968.0 | 2971.0 | 2974.5 | 2893.2 | 2850.0 | 2830.0 | Comm | Shs Outst'g E | 2700.0 |
| 20.5 | 20.0 | 15.4 | 14.8 | 18.5 | 22.4 | 24.9 | 28.1 | 31.6 | 26.4 | 27.2 | 25.9 | 19.4 | 18.1 | 18.5 | 16.6 | Bold figu | ures are | Avg An | 'I P/E Ratio | 18.0 |
| 1.31 | 1.21 | . 91 | . 97 | 1.24 | 1.40 | 1.44 | 1.46 | 1.80 | 1.72 | 1.39 | 1.41 | 1.11 | . 96 | . 99 | . 90 |  |  | Relativ | P/E Ratio | 1.20 |
| 1.7\% | 1.8\% | 2.4\% | 2.4\% | 1.9\% | 1.5\% | 1.4\% | 1.3\% | 1.2\% | 1.4\% | 1.3\% | 1.4\% | 1.8\% | 2.0\% | 2.0\% | 2.3\% | estim |  | Avg An | 'I Div'd Yield | 2.2\% |
| CAPITAL | L STRUC | CTURE a | of 9/30 |  |  | 22629 | 23657 | 27471 | 29139 | 33004 | 36298 | 41862 | 47348 | 50514 | 53324 | 60200 | 63000 | Sales | mill) A | 72850 |
| Total Deb | bt \$7,897 | 7 mill. D | e in 5 Y | rs \$4,843 | mill. | 25.1\% | 26.6\% | 27.0\% | 27.4\% | 28.8\% | 31.2\% | 31.3\% | 31.6\% | 30.6\% | 30.8\% | 30.0\% | 30.6\% | Operati | g Margin | 31.2\% |
| LT Deb | ,633 |  | intere |  |  | 1067.0 | 1246.0 | 1444.0 | 1515.0 | 1605.0 | 1662.0 | 1869.0 | 2124.0 | 2093.0 | 2177.0 | 2275 | 2395 | Deprec | ation (\$mill) | 2785 |
|  |  |  |  | \$18 | mill. | 3303.0 | 3677.6 | 4209.0 | 4800.0 | 5885.0 | 6810.8 | 8096.6 | 9298.0 | 10545 | 11133 | 11950 | 12715 | Net Pro | it (\$mill) | 15015 |
|  |  |  |  |  |  | 27.8\% | 27.1\% | 27.5\% | 27.5\% | 28.2\% | 29.0\% | 30.2\% | 27.6\% | 24.8\% | 23.3\% | 25.0\% | 25.0\% | Income | Tax Rate | 25.0\% |
| Pension | Assets- | -12/06 \$9 | ,538 mill. | Oblig. \$ | 11,660 | 14.6\% | 15.5\% | 15.3\% | 16.5\% | 17.8\% | 18.8\% | 19.3\% | 19.6\% | 20.9\% | 20.9\% | 19.8\% | 20.2\% | Net Pro | it Margin | 20.6\% |
| mill. |  |  |  |  |  | 5280.0 | 2970.0 | 5746.0 | 8310.0 | 10429 | 7817.0 | 9547.0 | 13393 | 18759 | 3814.0 | 10430 | 14265 | Workin | Cap'l (\$mill) | 28400 |
| Pfd Stoc | ck None |  |  |  |  | 1126.0 | 1269.0 | 2450.0 | 2037.0 | 2217.0 | 2022.0 | 2955.0 | 2565.0 | 2017.0 | 2014.0 | 4650 | 4410 | Long-T | rm Debt (\$mill) | 4385 |
| Common | n Stock | 2,861,749 | 9,911 shs |  |  | 12359 | 13590 | 16213 | 18808 | 24233 | 22697 | 26869 | 31813 | 37871 | 39318 | 44600 | 50350 | Shr. Eq | uity (\$mill) | 70000 |
| as of $10 / 2$ | /28/07 |  |  |  |  | 24.9\% | 25.2\% | 22.9\% | 23.3\% | 22.5\% | 27.8\% | 27.4\% | 27.3\% | 26.5\% | 27.1\% | 24.0\% | 23.0\% | Return | on Total Cap'l | 20.0\% |
|  |  |  |  |  |  | 26.7\% | 27.1\% | 26.0\% | 25.5\% | 24.3\% | 30.0\% | 30.1\% | 29.2\% | 27.8\% | 28.3\% | 27.0\% | 25.5\% | Return | on Shr. Equity | 21.5\% |
| MARKET | T CAP: | \$193 billio | on (Larg | Cap) |  | 17.5\% | 17.5\% | 16.8\% | 16.4\% | 15.8\% | 19.5\% | 19.9\% | 19.0\% | 17.8\% | 17.5\% | 16.5\% | 15.5\% | Retaine | to Com Eq | 13.5\% |
| CURREN | NT POS | TION | 2005 | 2006 | 9/30/07 | 34\% | 35\% | 35\% | 36\% | 35\% | 35\% | 34\% | 35\% | 36\% | 38\% | 39\% | 39\% | All Div' | s to Net Prof | 37\% |


| (\$MILL.) |  |  |  |
| :--- | ---: | ---: | ---: |
| Cash Assets | 16138 | 4084 | 8320 |
| Receivables | 7010 | 8712 | 9384 |
| Inventory (FIFO) | 3959 | 4889 | 5414 |
| Other | 4137 | 5290 | 5823 |
| Current Assets | $\boxed{31394}$ | 22975 | 28941 |
| Accts Payable | 4315 | 5691 | 5963 |
| Debt Due | 668 | 4579 | 3264 |
| Other | 7652 | 8891 | 10101 |
| Current Liab. | $\frac{12635}{}$ | $\frac{19161}{}$ | 19328 |


| ANNUAL RATES | Past | Past | Est'd '04'-06 |
| :--- | :---: | :---: | :---: |
| of change (per sh) | 10 Yrs. | 5 YYs. | to 10.12 |
| Sales | $9.0 \%$ | $10.5 \%$ | $8.0 \%$ |
| "Cash Flow" | $13.0 \%$ | $13.5 \%$ | $8.0 \%$ |
| Earnings | $14.0 \%$ | $15.5 \%$ | $8.0 \%$ |
| Dividends | $14.5 \%$ | $15.5 \%$ | $8.0 \%$ |
| Book Value | $13.5 \%$ | $12.5 \%$ | $13.0 \%$ |


| Fiscal <br> Year <br> Ynds | QUARTERLY SALES (\$ mill.) A <br> Mar.Per Jun.Per Sep.Per Dec.Per | Full <br> Fiscal <br> Year |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 2004 | 11559 | 11484 | 11553 | 12752 | 47348 |
| 2005 | 12832 | 12762 | 12310 | 12610 | 50514 |
| 2006 | 12992 | 13363 | 13287 | 13682 | 53324 |
| 2007 | 15037 | 15131 | 14970 | 15062 | 60200 |
| 2008 | 15800 | 15700 | 15600 | 15900 | 63000 |
| Fiscal | EARNINGS PER SHARE AB |  |  |  | Full |
| Year |  |  |  |  |  |
| Ends | Mar.Per Jun.Per Sep.Per Dec.Per | Fiscar <br> Year |  |  |  |
| 2004 | .83 | .82 | .78 | .67 | 3.10 |
| 2005 | .97 | .93 | .87 | .73 | 3.50 |
| 2006 | .99 | .98 | .98 | .81 | 3.76 |
| 2007 | 1.16 | 1.05 | 1.06 | .85 | 4.12 |
| 2008 | 1.20 | 1.14 | 1.14 | .97 | 4.45 |
| Cal- | QUARTERLY DIVIDENDS PAID C. | Full |  |  |  |
| endar | Mar.31 | Jun.30 | Sep.30 | Dec. 31 | Year |
| 2003 | .20 | .24 | .24 | .24 | .92 |
| 2004 | .24 | .285 | .285 | .285 | 1.10 |
| 2005 | .285 | .33 | .33 | .33 | 1.28 |
| 2006 | .33 | .375 | .375 | .375 | 1.46 |
| 2007 | .375 | .415 | .415 |  |  |

BUSINESS: Johnson \& Johnson manufactures and sells health care products. Major lines by segment: Consumer (baby care, nonprescription drugs, sanitary protection, and skin care), Med. Device \& Diag. (wound closures, minimally invasive surgical instruments, diagnostics, orthopedics, and contact lenses), and Pharmaceutical (contraceptives, psychiatric, anti-infective, and dermatological
J ohnson \& J ohnson is having a good year. In addition to strong internal growth, the company has benefited from successful acquisitions and currency effects. Indeed, since JNJ generates over $40 \%$ of its sales overseas, the weakening dollar has been a boon to the top line. We look for sales to rise about $10 \%$ in the December period, on a year-to-year basis. However, our bottom-line call of $\$ 0.85$ a share is only 5\% higher than last year's result. F or the full year, our bottom-line estimate is \$4.12.
Cost cutting should give a boost to earnings next year. About 3\%-4\% of the total workforce will be laid off, mostly from the Medical Devices \& Diagnostics segment. Other streamlining initiatives are being put into place as well. This plan should reduce expenses by $\$ 1.3$ billion to $\$ 1.6$ billion annually, beginning in 2008. One area of concern is in the Pharmaceuticals segment. The patent on RISPERDAL, the company's top-selling drug, expires at the end of 2007. Thus, we expect only modest top-line growth (4\%-5\%), but earnings per share should advance about 8\%.
drugs). 2006 sales (operating income) by segment: Pharm., 44\% (48\%); Med. Device \& Diag., 38\% (42\%); Consumer, 18\% (10\%). Int'l business, $44 \%$ of ' 06 sales; R\&D, 13.4\%. Has 122,200 employees. Off./dir. own less than $1 \%$ of common stock ( $3 / 07$ Proxy). Chrmn. \& CEO: William Weldon. Inc.: NJ. Addr.: One J\&J Plaza, New Brunswick, NJ 08933. Tel.: 732-524-0400. Web: www.jnj.com.
changing. Two new business segments are being added. Surgical Care will focus on developing technologies and strategies that are used during surgical procedures. Comprehensive Care will focus on treatment of chronic disorders. Also, JNJ is creating a division, called the Office of Strategy and Growth, whose mission will be to identify growth opportunities outside of existing operations. All of these changes will be implemented at the start of 2008. Our estimates for next year were only modestly affected by the announcements.
Johnson \& Johnson is a solid option for long-term total return potential. The Consumer and Medical Devices \& Diagnostics segments are consistent contributors to growth. The Pharmaceutical division is more of an unknown, but this business seems to have a decent pipeline. As a result, J NJ 's 3- to 5-year capital appreciation potential is about average. After factoring in the decent dividend yield, Highest (1) Safety rank, and top-notch ratings for Financial Strength, Earnings Predictability, and Price Stability, we see a very strong risk-reward scenario here. Tom Nikic

November 30, 2007

[^0]Company's Financial Strength Stock's Price Stability
Price Growth Persistence


[^0]:    (A) Year ends on last Sunday of December. (B) Primary earnings through '96, diluted thereafter. Excludes nonrecurring gains/(losses): after. Excludes nonrecurring gains/(losses):
    '92, 23¢; '98, 22¢; '99, 2¢; '01, (7¢); '02, (7¢);
    '03 (30¢); '04, (26¢); '05, (4¢); '06, (3¢); '07
    Q1, (28¢). Next earnings report due midQ1, (28¢)

    June, Sept., and Dec. - Div'd reinvestment plan available.
    (D) Incl. intang.: In '06, \$28.7 billion; \$9.92/sh. (E) In mill., adj. for stock splits.

