

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



## How to Invest in the Johnson & Johnson Split

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Johnson & Johnson is a 135-year-old company whose brand names like Tylenol and Band-Aid can be found in virtually every home in America. It is also a leading big pharmaceutical company with 58 drugs in its pipeline for [late stage development](#) in the USA and EU. Johnson and Johnson announced its intention to spin off its well-known consumer products into a separate company with the process to be complete within two years. This got us thinking about how to invest in the Johnson & Johnson split.

### Why Is Johnson & Johnson Spinning Off Its Consumer Products Division?

Although Listerine, baby powder, Tylenol, Band-Aid and the rest of Johnson & Johnson's famous brands are the face of the company for most people, they are part of a legacy business with low profit margins and slow, if any, growth. Analysts expect Johnson & Johnson to realize profits in the billions from the spinoff. That money may be used to pay for acquisitions that will fuel faster growth. Another issue that gets glossed over is that Johnson & Johnson has liabilities associated with products like its famous baby powder which is claimed to have caused several cases of cancer due to the inclusion of talc in the product.

### What Kind of Profits Will the New Johnson & Johnson Consumer Products Division Provide?

Currently, the Johnson & Johnson consumer products division generates 17% of total company sales or \$14.05 billion but 10% of company income. Income from this business segment grew by 3% in the last year. The company has a market cap of \$434.4 billion at a current share price of \$165.01 and a P/E ratio of 24.66 and a Shiller CAPE ratio of 29.86. Total 2021 sales are projected to be \$88.8 billion excluding vaccine sales. Net company profit is projected to repeat at \$54 billion for the fourth year in a row. The new consumer products company will have reliable sales for its well-known product line but with a 3% rate of growth we expect the company to lag in profits and for its share price to stagnate.

### What Kind of Profits Will the Remaining Johnson & Johnson Units Provide?

The medical device division of Johnson & Johnson and the pharmaceutical division make up 90% of company profits and 86% of company sales. The pharmaceutical division made 50% of company sales and provided 55% of company revenue last year as it grew 8.4% year over year. The medical device segment slowed due to distortions caused by Covid in 2020 and 2021 but over the last few years this division grew at closer to 10% a year than the 3% a year of the consumer products division. It typically generates about 30% of sales and 35% of revenue. Thus, the remaining Johnson & Johnson business segments will grow at more than double the rate of the spun-off consumer products division starting at 85% of sales and 90% of revenue. If you look at the company's pipeline of drugs nearing FDA and EU approval you can see the promise of the pharmaceutical division far into the future. Looking at the two segments from the viewpoint of [intrinsic stock value](#), there is no

question that the medical device and pharmaceutical segment will outperform the spun-off consumer products and will be the far better long term investment.

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