

Summary of the financial reports for Johnson & Johnson from 2003-2015

By David Belk MD

First, some definitions:

-Sales/revenue: Some companies report total sales only, some total revenue only and some itemize total sales then add extra revenue. I use total revenue whenever it's an option.

-Profit: Net income after taxes. Many companies will add or subtract money from taxes or other revenue/fees from discontinued items to that net income. In such cases I'll use net income attributable to that company for profit.

-Research includes research and development and purchased in-process research.

-Marketing is usually listed as Selling, informational, and administrative. It includes more than just the money spent on direct to consumer advertising. The marketing budget also includes money spent on pharmaceutical representatives that visit your doctor, free drug samples left at doctors' offices, payments to doctors who give "educational" talks on behalf of pharmaceutical companies, etc...

There are other administrative expenses that are not directly related to marketing lumped into this budget. This even includes litigation costs to fight lawsuits against these companies. Still, the pharmaceutical companies could list their marketing budget as a separate expense if they wanted the way Bristol-Myers Squibb lists their advertising budget separately, so it's their choice not to. Anyway, much of what Pharmaceutical companies call research is really just marketing so all figures should be taken with a grain of salt.

-Revisions: Revisions in financial reports occur for a number of reasons. Often, when a company divests a division by spitting it off or selling it to another company, it will retroactively deduct the revenue and expenses related to that division from the finances of previous years. For reasons unclear to me, companies often won't retroactively deduct the profits they earned from the divested division; only the revenue and expenses. Other revisions might reflect a change in accounting methods or a reallocation of funds.

When a figure is revised in a subsequent report I often use the revised figure unless the reason for the revision appears truly artificial. This can be challenging when, for example, frequent revisions occur over multiple years with little explanation (see Pfizer). In general, I did my best to use the numbers that I felt most accurately reflected the companies actual finances when considering the revisions.

Johnson & Johnson is the largest pharmaceutical company in the US, but the majority of their business isn't in making pharmaceuticals. Only about 40% of Johnson & Johnson's total revenue comes from pharmaceutical sales, but pharmaceutical sales provide about 50% of their profit. The rest of their revenue is from the sale of medical devices and consumer products (like baby shampoo).

Since the production and marketing of medical devices has a lot in common with the production and marketing of pharmaceuticals (high R&D costs, little to no transparency in pricing, similar profit margins, etc..) I chose to include J&J in my study. Consumer sales provided just over 20% of J&J's total revenue.

The only major revision in the report is from a change in accounting methods in 2006 that caused revisions in most of the 2003-2005 figures.

Here are the composite numbers for Johnson & Johnson from 2003-2015:

Total Revenue (Sales):	\$789 Billion
Total Profit:	\$151 Billion
Total Spent on Research:	\$99 Billion
Total Spent on Marketing:	\$253 Billion
Total Spent in Taxes:	\$43 Billion
US Revenue:	\$397 Billion
Revenue from All Other Countries:	\$391 Billion
Revenue from US Pharmaceutical Sales:	\$188 Billion
Revenue from International Pharmaceutical Sales:	\$135 Billion

Total Executive pay for Johnson & Johnson was \$57.6 million in 2015 with \$23.8 million going to their CEO Alex Gorsky.

<http://insiders.morningstar.com/trading/executive-compensation.action?t=JNJ>

http://truecostofhealthcare.net/pharmaceutical_financial_index/

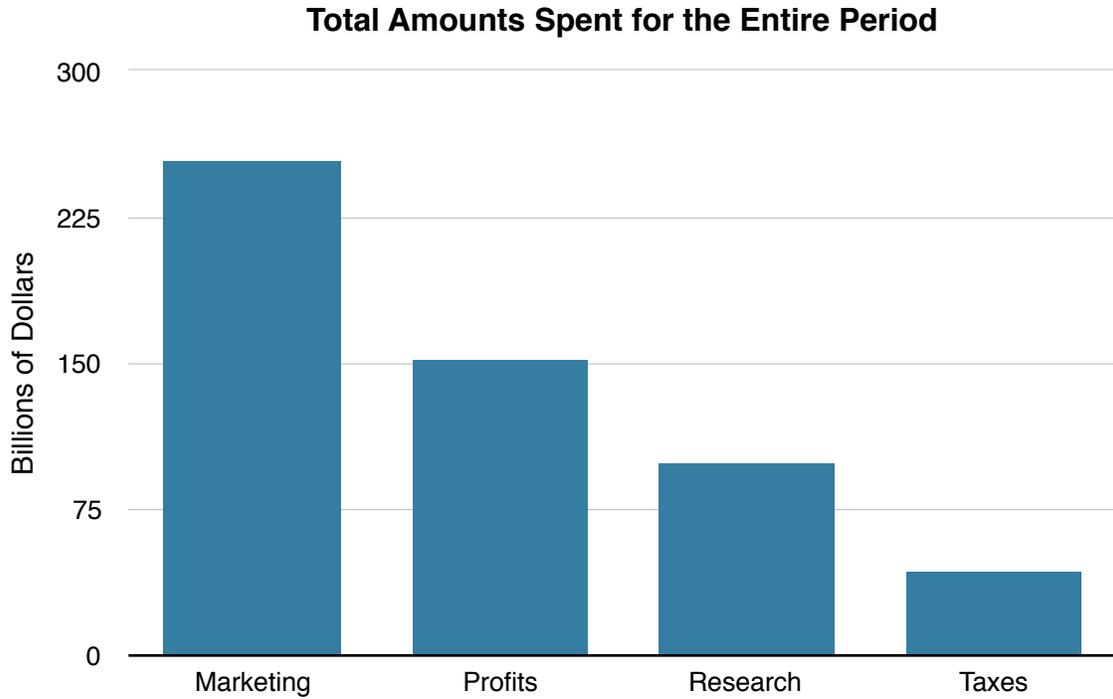


Figure 1: Total amount Johnson & Johnson earned in profit (net income after taxes) from 2003-2015 compared to how much they spent on research, marketing and taxes. Figure 2 (below) shows the proportion of J&J’s total revenue that was allocated toward research, marketing, taxes and profits.

Proportional Allocation of Revenue 2003-2015



Figure 2

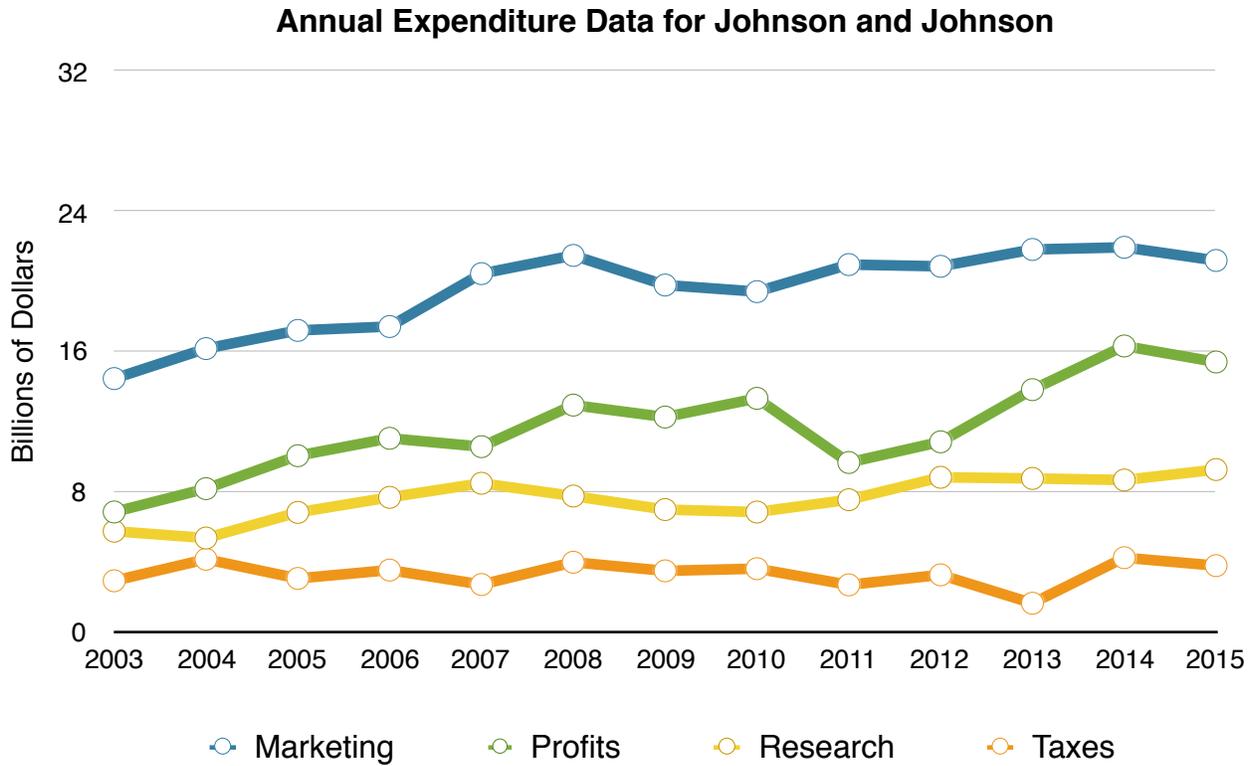
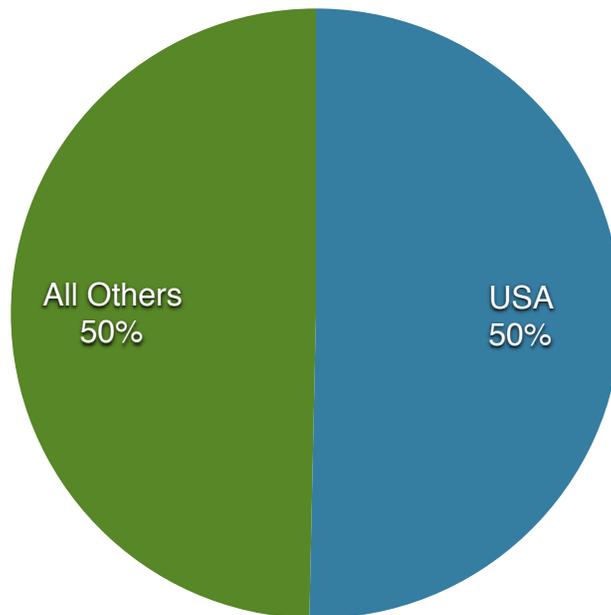


Figure 3: J&J's profit compared with amount spent on research, marketing and taxes each year from 2003-2015.

Proportion of Total Revenue from US vs. All Other Countries



Figures 4 & 5: 50% of J&J's total revenue and 58% of their pharmaceutical revenue (below) came from sales in the US since 2003.

Proportion of Pharma Revenue from US vs. All Other Countries

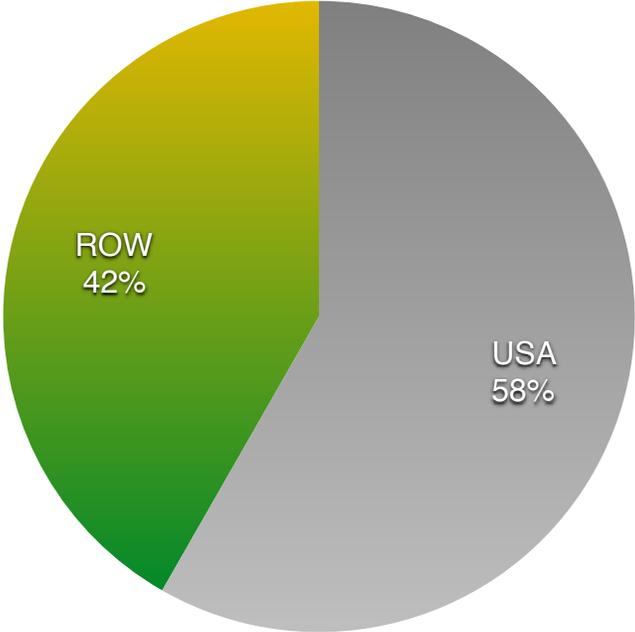


Figure 5

Proportion of J&J's Revenue from Pharmaceutical Sales

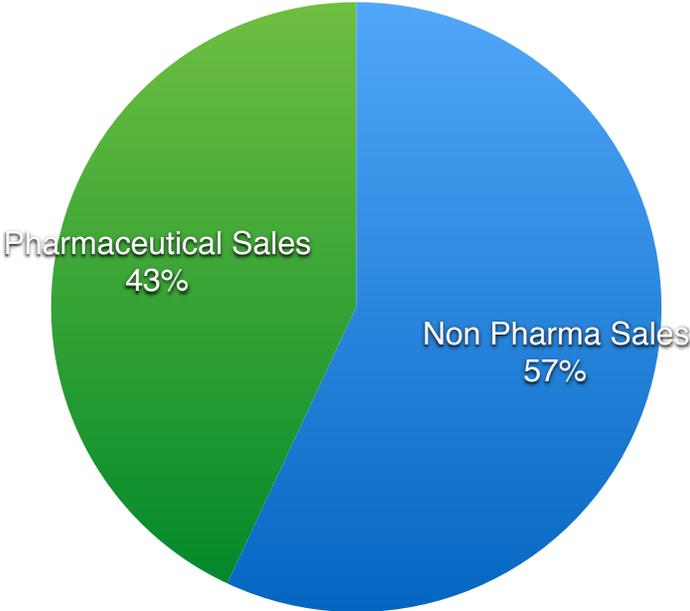


Figure 6: 57% of J&J's total revenue came from Non-pharmaceutical sales.

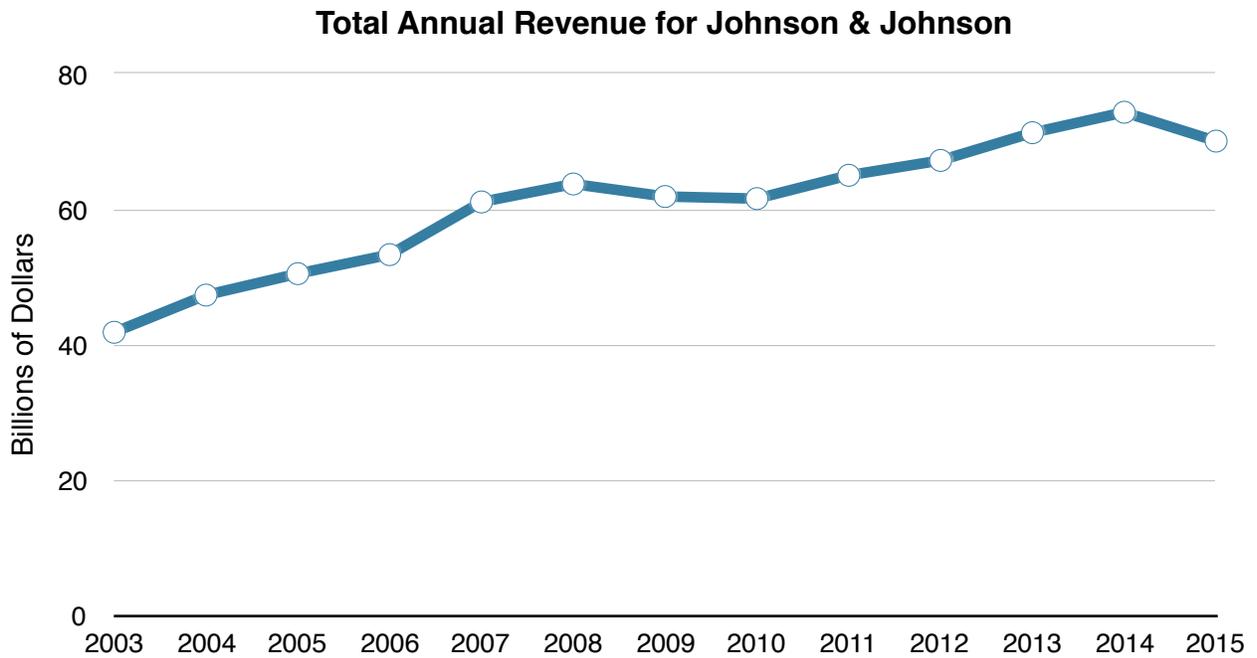


Figure 7: Annual total revenue and pharmaceutical revenue appears to have reached their peaks in 2014. This is in spite of the fact that Johnson & Johnson, like all major pharmaceutical companies, has drastically increased the prices of the medications they sell in the US.

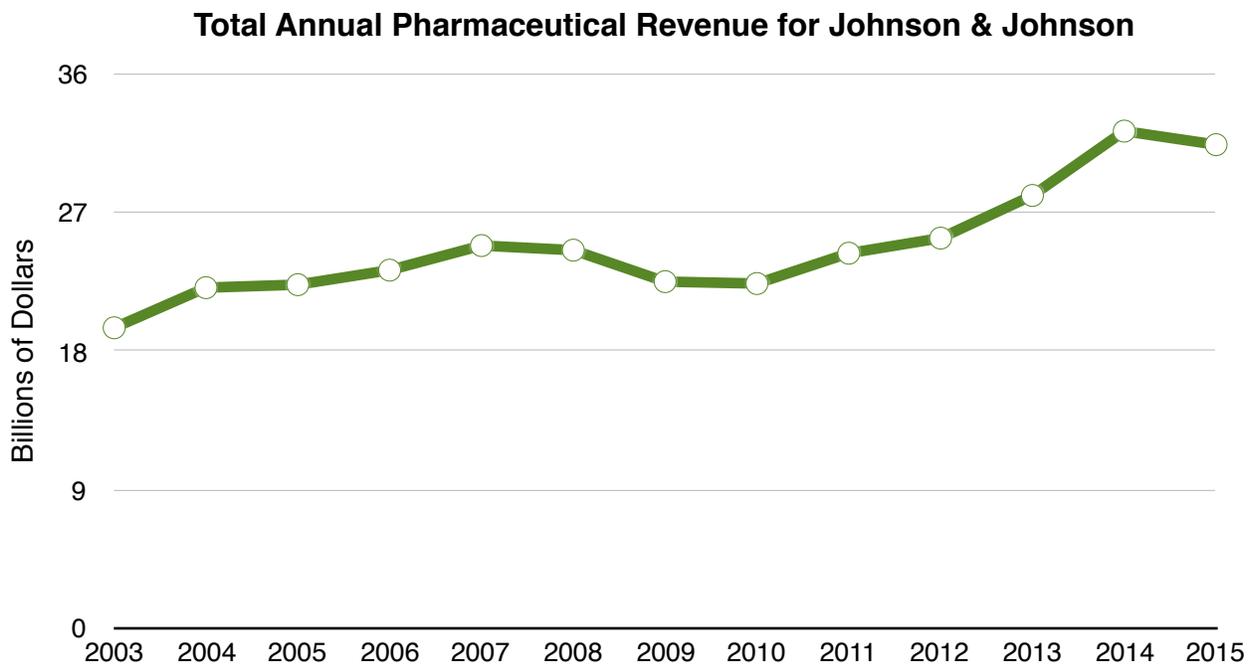


Figure 8: Annual revenue from pharmaceutical sales.

<http://truecostofhealthcare.net/brand-name-medication-prices/>