

Summary of the financial reports for Johnson & Johnson from 2010-2017

By David Belk MD

First, some definitions:

-Sales/revenue: For these reports I try to stick to the revenues from pharmaceutical sales only whenever possible. Many of these companies have other product lines such as medical devices, over-the counter (OTC) health aids or nutritional products. When possible, I separate out the revenues from those product sales, though.

-Profit: Net income after taxes. Many companies will add or subtract money from taxes or other revenue/fees from discontinued items to their net income after taxes. 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 might even include such expenses as 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.

-Rebates/Chargebacks: Rebates are payments that go mostly to pharmacy benefit managers (PBMs) in the U.S. These rebates are incentives for the PBMs "prefer" certain medications when deciding which medications to cover. Chargebacks are normally refunds given to medication suppliers to balance the rebates given to the PBMs. Both rebates and chargebacks are normally deducted from the total pharmaceutical revenue of a company initially, and not listed as an expense.

-Revisions: When a figure is revised in a subsequent report it's often because that company divested one or more products by either selling that line to another company or splitting off a new company. When companies do this, they often retroactively deduct the revenues and expenses related to that division from the finances of previous years, but not the profits. This makes year over year comparisons for these companies challenging. For the most part, I only use original data, and not revised data for these reports.

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

Here are the composite numbers for Johnson & Johnson from 2010-2017:

Total Sales Revenue (All Product Lines):	\$558 Billion
Total Profit:	\$97 Billion
Total Spent on Research:	\$70 Billion
Total Spent on Marketing:	\$168 Billion
Total Spent in Taxes:	\$39 Billion
US Revenue:	\$268 Billion
Revenue from All Other Countries:	\$290 Billion
Pharmaceutical Revenue	\$234 Billion
U.S. Pharmaceutical Revenue:	\$129 Billion
International Pharmaceutical Revenue:	\$105 Billion
Pharmaceutical Profit:	\$76 Billion
Pharmaceutical Research Costs:	\$49 Billion

Proportional Allocation of Revenue 2010-2017

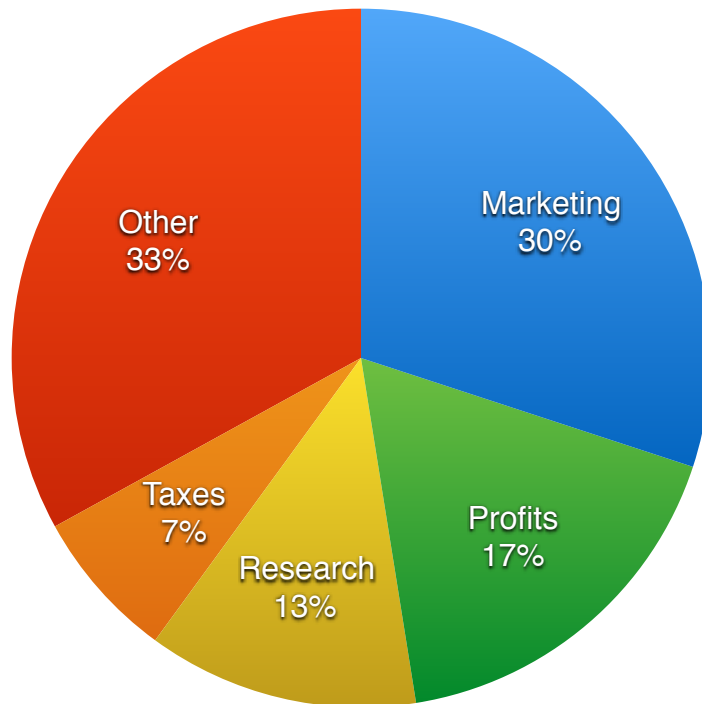


Figure 1: The proportion of Johnson & Johnson's total revenue that was allocated toward research, marketing, taxes and profits.

Pharmaceutical Research Costs and Profits as Proportions of Pharmaceutical Revenue

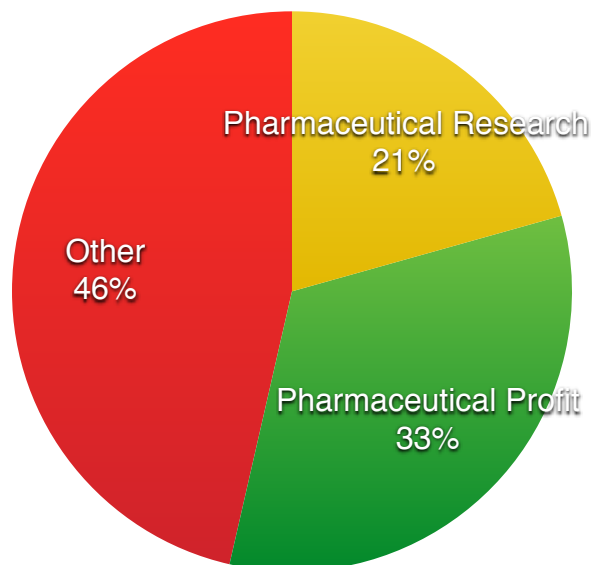


Figure 2: Pharmaceutical research costs require a much larger proportion of pharmaceutical revenue than the research costs for medical devices or consumer products. Still, pharmaceutical profits more than make up for these added costs.

Proportion of Pharmaceutical Revenue from US vs. All Other Countries 2010-2017

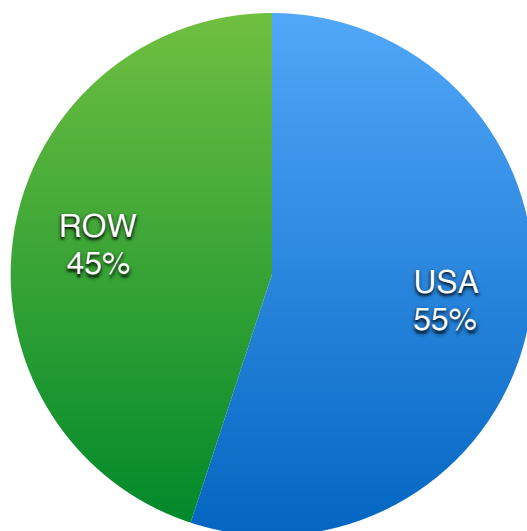
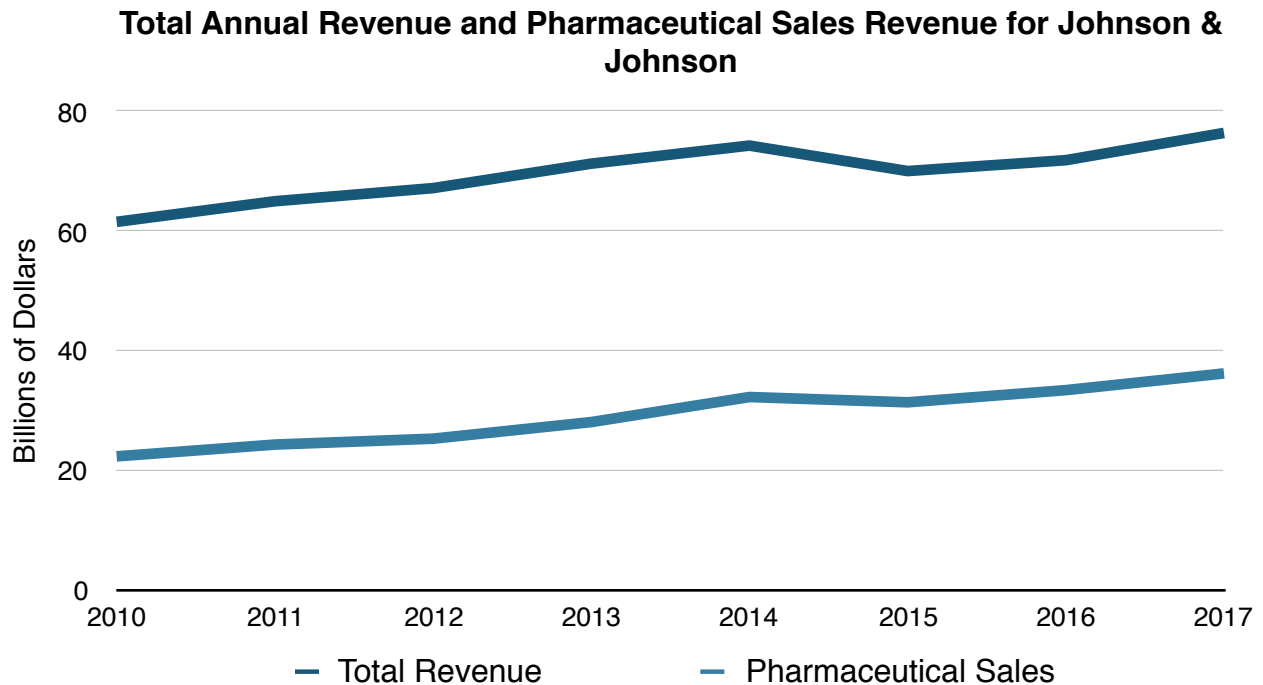


Figure 3: 55% of Johnson & Johnson's pharmaceutical revenue have come from sales in the U.S. since 2010.



Figures 4: Annual total and pharmaceutical revenues for Johnson & Johnson have gone up very slowly since 2014.

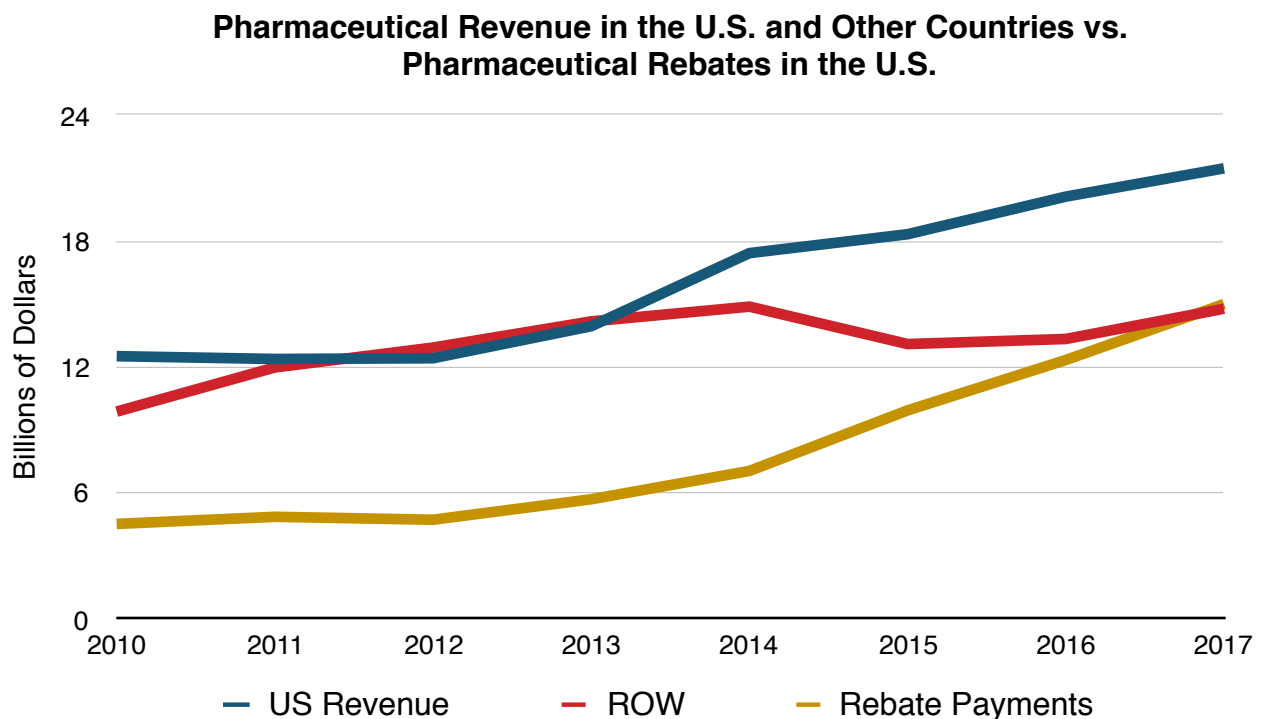


Figure 5: Rebates definitely boost sales for pharmaceutical companies. Increasing rebates given by Johnson & Johnson to PBMs in the U.S. (yellow line) have clearly led to a proportional increase in revenues from U.S. sales (blue line) relative to their sales in the rest of the world (red line).

Total Executive pay for Johnson & Johnson was \$91.7 million in 2017 with \$29.8 million going to their CEO Alex Gorsky.

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

http://truecostofhealthcare.net/pharmaceutical_financial_index/