



Stock Selection Guide[®]

The most widely used aid to good investment judgment

Company JOHNSON & JOHNSON Date 11/10/03

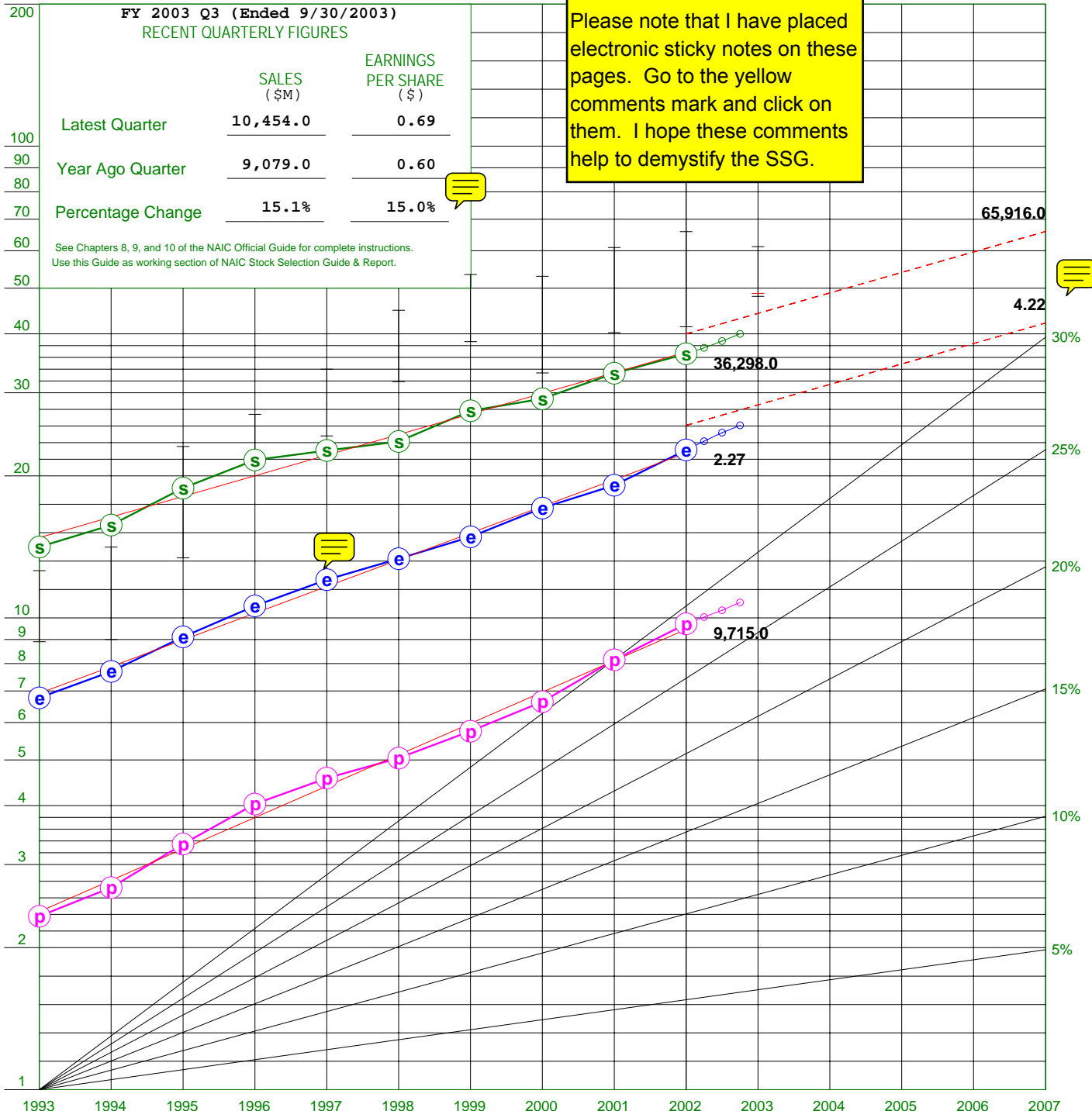
Prepared by MG Data taken from NAIC Data

Where traded NYSE Major product/service Pharmaceuti

CAPITALIZATION --- Outstanding Amounts		Reference	
Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	2,968.9	1.0	63.8
Debt (\$M)	0.0	% to Tot.Cap.	0.0
		% Potential Dil.	None

1 VISUAL ANALYSIS of Sales, Earnings and Price

JNJ



(1) Historical Sales Growth 10.6 %

(3) Historical Earnings Per Share Growth 13.9 %

(2) Estimated Future Sales Growth 10.5 %

(4) Estimated Future Earnings Per Share Growth 10.5 %

2 EVALUATING MANAGEMENT

Company **JOHNSON & JOHNSON** (JNJ)

11/10/03

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	16.5	17.0	17.6	18.7	20.2	21.3	20.9	22.8	24.7	26.8	23.3	UP	
B % Earned on Equity (E/S ÷ Book Value)	31.3	27.8	26.1	26.1	26.2	26.4	25.5	25.3	24.0	29.7	26.2	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

Year	PRESENT PRICE		HIGH THIS YEAR		LOW THIS YEAR				
	A	B	C	D	E	F	G	H	
	HIGH	LOW	Earnings Per Share	HIGH A ÷ C	LOW B ÷ C	Dividend Per Share	% Payout F ÷ C X 100	% High Yield F ÷ B X 100	
1 1998	44.9	31.7	1.34	33.6	23.7	0.485	36.3	1.5	
2 1999	53.4	38.5	1.49	36.0	25.9	0.545	36.7	1.4	
3 2000	53.0	33.1	1.71	31.0	19.4	0.620	36.3	1.9	
4 2001	61.0	40.3	1.91	31.9	21.1	0.700	36.6	1.7	
5 2002	65.9	41.4	2.27	29.0	18.2	0.795	35.0	1.9	
6 TOTAL	185.0			161.5	108.3		180.9		
7 AVERAGE	37.0			32.3	21.7		36.0		
8 AVERAGE PRICE EARNINGS RATIO	27.0		9 CURRENT PRICE EARNINGS RATIO		19.0				

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, predictions are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E $\frac{32.3}{(3D7 \text{ as adj.})}$ X Estimate High Earnings/Share 4.22 = Forecast High Price \$ 116.9 (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E $\frac{21.7}{(3E7 \text{ as adj.})}$ X Estimated Low Earnings/Share 2.27 = \$ 42.7

(b) Avg. Low Price of Last 5 Years = 37.0 (3B7)

(c) Recent Severe Market Low Price = 40.3

(d) Price Dividend Will Support $\frac{\text{Present Divd. } 0.960}{\text{High Yield (H) } 0.019}$ = 50.0

Selected Estimate Low Price = \$ 36.0 (4B1)

C ZONING

$\frac{116.9}{(4A1)}$ High Forecast Price Minus $\frac{36.0}{(4B1)}$ Low Forecast Price Equals $\frac{80.9}{(C)}$ Range. 1/3 of Range = $\frac{20.2}{(4CD)}$

(4C2) Lower 1/3 = $\frac{36.0}{(4B1)}$ to $\frac{56.2}{(Buy)}$ Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 = $\frac{56.2}{(Buy)}$ to $\frac{96.7}{(Maybe)}$

(4C4) Upper 1/3 = $\frac{96.7}{(Buy)}$ to $\frac{116.9}{(4A1) (Sell)}$

Present Market Price of 48.730 is in the Buy (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 116.9 Minus Present Price 48.730 = $\frac{68.2}{12.7}$ = $\frac{5.4}{(4D)}$ To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 116.9 = (2.399) X 100 = (239.9) - 100 = $\frac{139.9}{(4E)}$ % Appreciation

Relative Value: 70.4% Proj. Relative Value: 63.8%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A Present Full Year's Dividend \$ 0.960
 Present Price of Stock \$ 48.730 = $\frac{0.020}{(5A)}$ X 100 = $\frac{2.0}{(5A)}$ Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS
 Avg. Earnings Per Share Next 5 Years 3.45 X Avg. % Payout (3G7) 36.2 = $\frac{124.9}{(5B)}$ = 2.6 %

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

	5 Year Appreciation Potential (4E)	Average Yield (5B)	Average Total Annual Return Over the Next 5 Years (5C)	P.A.R. Average Yield	Tot. Ret. Annual Appreciation
	139.9	2.6 %	28.0 %	1.6 %	1.3 %
			30.6 %	15.0 %	19.1 %
				16.6 %	20.4 %



1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	© VALUE LINE PUB., INC.	06-08
2.91	3.38	3.66	4.22	4.67	5.25	5.50	6.12	7.27	8.11	8.41	8.80	9.88	10.47	10.83	12.23	13.80	15.65	Sales per sh ^A	19.70
.43	.51	.56	.65	.73	.85	.93	1.06	1.26	1.46	1.62	1.83	2.03	2.27	2.46	2.85	3.25	3.80	"Cash Flow" per sh	4.85
.30	.36	.41	.48	.55	.62	.69	.78	.93	1.09	1.21	1.34	1.49	1.70	1.91	2.23	2.60	3.00	Earnings per sh ^B	3.80
.10	.12	.14	.16	.19	.22	.25	.28	.32	.37	.43	.49	.55	.62	.70	.80	.93	1.05	Div'ds Decl'd per sh ^C	1.32
.19	.25	.28	.31	.37	.42	.38	.36	.48	.52	.52	.54	.62	.59	.57	.71	.60	.70	Cap'l Spending per sh	.90
1.27	1.31	1.56	1.84	2.11	1.97	2.17	2.77	3.49	4.07	4.59	5.06	5.83	6.76	7.95	7.65	9.35	11.40	Book Value per sh ^D	18.50
2753.5	2684.6	2684.4	2684.6	2665.3	2621.6	2571.9	2572.0	2590.7	2665.0	2690.3	2688.1	2779.4	2781.9	3047.2	2968.3	2970.0	2970.0	Common Shs Outst'g ^E	2970.0
17.9	14.2	15.4	16.5	20.5	20.0	15.4	14.8	18.5	22.4	24.9	28.1	31.6	26.4	27.2	25.9			Avg Ann'l P/E Ratio	20.0
1.20	1.18	1.17	1.23	1.31	1.21	.91	.97	1.24	1.40	1.44	1.46	1.80	1.72	1.39	1.41			Relative P/E Ratio	1.35
1.9%	2.4%	2.2%	2.1%	1.7%	1.8%	2.4%	2.4%	1.9%	1.5%	1.4%	1.3%	1.2%	1.4%	1.3%	1.4%			Avg Ann'l Div'd Yield	1.7%

CAPITAL STRUCTURE as of 6/29/03				14138	15734	18842	21620	22629	23657	27471	29139	33004	36298	41000	46500	Sales (\$mill) ^A	58500
Total Debt \$6,418 mill. Due in 5 Yrs \$380.0 mill.				21.3%	22.4%	23.2%	24.6%	25.1%	26.6%	27.0%	27.4%	28.8%	31.2%	31.5%	32.0%	Operating Margin	32.0%
LT Debt \$3,164 mill. LT Interest \$185 mill. (11% of Cap'l)				617.0	724.0	857.0	1009.0	1067.0	1246.0	1444.0	1515.0	1605.0	1662.0	1875	2125	Depreciation (\$mill)	2950
Leases, Uncapitalized Annual rentals \$138.0 mill.				1787.0	2006.0	2403.0	2887.0	3303.0	3677.6	4209.0	4800.0	5885.0	6810.8	7800	9100	Net Profit (\$mill)	11500
Pension Assets-12/02 \$4,705 mill. Oblig. \$6,051 mill.				23.4%	25.2%	27.6%	28.4%	27.8%	27.1%	27.5%	27.5%	28.2%	29.0%	29.0%	29.0%	Income Tax Rate	29.0%
Pf'd Stock None				12.6%	12.7%	12.8%	13.4%	14.6%	15.5%	15.3%	16.5%	17.8%	18.8%	19.0%	19.6%	Net Profit Margin	19.7%
Common Stock 2,968,017,528 shs. as of 7/25/03				2005.0	2414.0	3550.0	4186.0	5280.0	2970.0	5746.0	8310.0	10429	7817.0	10100	11200	Working Cap'l (\$mill)	13700
MARKET CAP: \$146 billion (Large Cap)				1493.0	2199.0	2107.0	1410.0	1126.0	1269.0	2450.0	2037.0	2217.0	2022.0	3165	3165	Long-Term Debt (\$mill)	3165
CURRENT POSITION (SMILL.)				5568.0	7122.0	9045.0	10836	12359	13590	16213	18808	24233	22697	27800	33800	Shr. Equity (\$mill)	54900
Cash Assets				26.1%	22.3%	22.3%	24.2%	24.9%	25.2%	22.9%	23.3%	22.5%	27.8%	25.5%	25.0%	Return on Total Cap'l	20.0%
Receivables				32.1%	28.2%	26.6%	26.6%	26.7%	27.1%	26.0%	25.5%	24.3%	30.0%	28.0%	27.0%	Return on Shr. Equity	21.0%
Inventory (FIFO)				20.3%	18.0%	17.4%	17.7%	17.5%	17.5%	16.8%	16.4%	15.8%	19.5%	18.0%	17.5%	Retained to Com Eq	14.0%
Other				37%	36%	34%	34%	34%	35%	35%	36%	35%	35%	34%	All Div'ds to Net Prof	34%	

BUSINESS: Johnson & Johnson manufactures and sells health care products. Major lines by segment: Consumer (baby care, non-prescription drugs, sanitary protection, and skin care), Professional (wound closures, minimally invasive surgical instruments, diagnostics, orthopedics, and contact lenses), and Pharmaceutical (contraceptives, and psychiatric, anti-infective, and dermatological drugs). Important brands: *Band-Aid*, *Monistat*, *Neutrogena*, *Reach*, *Stayfree*, and *Tylenol*. Int'l business, 38% of '02 sales. '02 deprec. rate: 11.6%; R&D, 10.9% of sales. Has 101,800 empl.; 164,200 stockholders. Off./dir. own 0.2% (3/02 Proxy). Chrmn. & CEO: William Weldon. Inc.: NJ. Addr.: One Johnson & Johnson Plaza, New Brunswick, NJ 08933. Tel.: 732-524-0400. Internet: www.jnj.com.

The April FDA approval of Johnson & Johnson's coronary stent should be a key driver of earnings for 2003 and 2004. Primarily due to the strong demand for the drug-eluting stent *Cypher*, June-quarter sales from circulatory disease management products increased 40% over the prior-year period. J&J controls more than 50% of the U.S. stent market, on a dollar basis. In sum, we look for share net to advance roughly 15% for each of 2003 and 2004, to \$2.60 and \$3.00, respectively. **The growth rate in the pharmaceutical division will likely slow.** First, revenue from the company's top drugs, such as the *Procrit*/*Eprex* franchise (anemia) and *Remicade* (rheumatoid arthritis), are hurting due to greater branded competition. Amgen's *Aranesp* is taking market share from *Procrit*/*Eprex*, and Amgen's *Enbrel* and Abbott's *Humira* from *Remicade*. Second, *Duragesic* (chronic pain) will soon face generic competition. We expect domestic sales to fall dramatically from an estimated \$1.2 billion in 2004, when its patent expires in January, 2005. **Johnson & Johnson continues to invest heavily in research and development.** It plans to file *AP48*, the next-generation *Duragesic*, with the FDA by 2005. Also, J&J is looking to expand opportunities for several drugs, including broadening *Remicade's* indications. Furthermore, its acquisition of biotechnology company *Scios*, which closed during the June quarter, boosts J&J's drug pipeline. Most notably, it gains *Natreco* (congestive heart failure), which may have a peak annual sales potential of several hundred million dollars, and *SCIO-469*, an oral pill in Phase II trials for rheumatoid arthritis. **These shares are trading at a more reasonable price-to-earnings multiple.** They are 17% off their yearly high. On a risk-adjusted basis, this stock offers good total-return potential to 2006-2008, despite our projections of share earnings advancing at a mid-teens annual rate to 2004 and falling to single digits in 2005. *Nancy Chow* September 5, 2003

Sales (and Operating Margins) ^F by Business Line				
	2001	2002	2003	2004
Consumer	6962(14.4%)	6564(18.7%)	7100(20.5%)	7800(20.0%)
Professional	11191(17.9%)	12583(19.8%)	14300(18.5%)	16700(19.0%)
Pharmaceutical	14851(33.2%)	17151(33.7%)	19600(34.0%)	22000(33.5%)
Company Total	33004(24.0%)	36298(25.6%)	41000(24.5%)	46500(24.0%)

(A)	(B)	(C)	(D)	(E)	(F)
Year ends on last Sunday of December.	Primary earnings through '96, diluted thereafter. Excludes nonrecurring gains/(losses): '90, 5c; '92, 23c; '98, 22c; '99, 2c; '01, (7c); '02, (7c); '03: Q2, (30c). May not sum to total due to rounding. Next earnings report due mid-October.	Dividends historically paid mid: March, June, Sept., Dec. Div'd reinvestment plan available.	Incl. intang. in '02: \$9.2 billion, \$3.11/sh. (E) In mill., adj. for stock splits.	Based on earnings before interest expense and taxes; includes nonrecurring items.	Company's Financial Strength A++
					Stock's Price Stability 95
					Price Growth Persistence 100
					Earnings Predictability 100

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