

# Johnson & Johnson's financial health status assessment: based on the comprehensive financial statement analysis

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**Abstract:** With the development of society and the improvement of people's living standards, a healthy life has been paid more and more attention. However, some insurmountable viruses are like obstacles to the road, threatening people's health. How to deal with these viruses and how to ensure human health and safety have become an urgent problem to be solved. Founded in 1886, Johnson & Johnson Company, as a well-known enterprise with a history of one hundred years, firmly believes that its core values come from the corporate creed. Over the years, Johnson & Johnson has always been committed to social feedback and taking practical actions to practice corporate value. Johnson & Johnson topped the 2020 list of the world's most valuable pharmaceutical companies. The success of Johnson & Johnson is closely related to its continuous innovation and pioneering spirit. The company's continuous innovation in medical devices, drugs, consumer health products and other fields makes Johnson & Johnson always maintain the leading position in the industry. This paper first discusses the development process and business strategy of Johnson & Johnson, and then systematically evaluates the business performance of Johnson & Johnson from both theoretical and empirical aspects. Based on the principle of selection indicators such as rationality and comparability, In order to study the financial statements of Johnson & Johnson, this paper selects a variety of indicators such as sales gross profit margin, net interest rate of total assets, inventory turnover, current assets turnover and total assets turnover for analysis, and uses DuPont analysis method. As a result of the analysis, in the past two years, the performance of Johnson & Johnson has been mediocre, and it is necessary to adjust the management to improve the asset management efficiency and operating capacity, so as to increase the profit margin to enhance the development capacity.

**Keywords:** DuPont analysis; balance sheet; income statement; cash flow statement.

## 1. Introduction

### 1.1. Research background and significance

#### 1.1.1. Research Background:

In 2020, the outbreak of COVID-19, like a sudden storm, quickly spread to all parts of the world, bringing unprecedented tests and changes to our lives. Hospitals across the world face a shortage of beds, shortage of staff and tight healthcare resources. The supply of epidemic prevention supplies and medicines is also seriously insufficient, resulting in great pressure on the medical system. In addition, the pandemic has had a huge impact on the global economy, with many industries being hit hard, with layoffs and closures, and unemployment rising sharply. Many countries are facing economic recession, international trade activities have been severely affected, and market confidence has been shaken. Stocks in the US Federal Reserve system have repeatedly triggered circuit breakers in just half a month; long-suspended schooling for more than a billion students worldwide... In the face of this major disaster, the concept of building a community with a shared future for mankind is particularly precious.

Global public health events are related to the life and health safety of all mankind, and major pharmaceutical companies in the world shoulder great responsibilities among them. They have a world-class team, technology, professional knowledge and strong economic strength. According to

the 2023 Hurun Global 500 Companies (2023 Hurun Global 500) released by the Hurun Research Institute, the top 10 pharmaceutical companies in the world are Eli Lilly and Company , Novo Nordisk , Johnson & Johnson , Abbvie , Roche , AstraZeneca , Novartis , Pfizer , Abbott , Amgen , Johnson & Johnson has gone through 137 years, Johnson & Johnson produces and sells products in the market of nursing products, medical products, medical equipment and diagnostic products. It owns Johnson & Johnson baby, Ludetrogena, Keli, Jiaojiao, Bondi, Daning, Tylenol and many other well-known brands. Johnson & Johnson has established more than 260 branches in 60 countries, with about 11 5,000 employees, and sells its products in 175 countries and regions. In the world 500 in 2023, Johnson & Johnson ranks the 18th among the strong enterprises, and its method to deal with the risk crisis is worth our thinking and exploration.

### **1.1.2. Study Significance:**

In the face of the coming challenges and how to survive and recover in the crisis is always the issue that enterprise managers must face, which is particularly critical for international companies with profound historical background like Johnson & Johnson. With the promotion of China's "Belt and Road" Initiative, more and more Chinese enterprises go global, and urgently need to learn from the experience and lessons of multinational companies like Johnson & Johnson. As a leading multinational pharmaceutical company, the connection between its manufacturers and its consumers is crucial, which means that all companies need to think from a global perspective. This paper evaluates the financial status of Johnson & Johnson through the specific data of the financial statements of Johnson & Johnson in recent years.

## **2. Analysis of the development process and current situation of Johnson & Johnson Company**

### **2.1 The Development history of Johnson & Johnson Company**

Founded in 1886, Johnson & Johnson became the first company to create sterile surgical dressings, and created a miracle of rapid growth in market sales. Johnson & Johnson's global market expansion strategy began in 1919, with its first branch in Canada. The Johnson & Johnson Band-Aid was launched in 1920, and it has produced more than 100.0 million pieces. Johnson & Johnson baby powder was produced in 1893, which is one of Johnson & Johnson's famous world consumer goods. 1979: Determination of technology transfer Agreement, establishment of China's first quality management system GMP chemical synthesis factory 1982: Company headquarters in Beijing 1985: joint venture pharmaceutical enterprise in Xi' an 1990: joint venture production of Bdi brand in Shanghai and enter the consumer market. According to official statistics, Johnson & Johnson began its global philanthropy in 1906 during the San Francisco earthquake and fire

The victims provided medical supplies. Johnson & Johnson was awarded the most praised company in Fortune 2006, and won the first place in the pharmaceutical field. In in 2005, J & J has been named the most reputable partner for seven consecutive years. On July 26,2005, boCOG officially announced in Beijing that Johnson & Johnson had become a partner of the Beijing 2008 Olympic and Paralympic Games. On February 15,2020, Johnson & Johnson donated more than 20 million RMB of medical protective materials to help the designated hospitals in many provinces and cities in China. In December 2021, Johnson & Johnson China announced that it would further support the country's grand goal of "common prosperity" with three major strategies and six major measures. The company is growing rapidly in three business areas. Thanks to its excellent profitability and solid debt management, Johnson & Johnson's market value has grown steadily, making it stand out in the global pharmaceutical industry and become one of the most successful companies in the healthcare field in the diversified and cross-industry development.

## 2.2 Development status of Johnson & Johnson:

Johnson & Johnson is the world's largest and diversified health and consumer care products and products. The production and sales of products involve nursing products, medical products and medical products and diagnostic products market and other fields. On January 23, 2024, Johnson & Johnson released its annual results for 2023: the annual sales in 2023 reached \$85.2 billion, up 6.5% year on year, mainly driven by the strong sales of Darzalex, Stelara, Erleada, Carvykti and other innovative drugs, and the development momentum is still good.

## 3. Balance-sheet analysis

### 3.1 Assets

#### 3.1.1 Current assets

Current assets are assets owned by an enterprise and which can be converted into cash or cash equivalents within one year. As shown in Table 1 – Table 2 and Figure 1:

Table 1 Current assets of Johnson & Johnson in 2023

Unit:US Dollar	Annual Report 2023	Third quarter 2023	Second quarter 2023	First quarter 2023
<b>Current Assets</b>				
Cash and cash equivalents	21,759,000,000.00	19,728,000,000.00	21,183,000,000.00	19,170,000,000.00
Restricted deposits and cash flows	----	----	----	7,695,000,000.00
Accounts receivable and notes	14,873,000,000.00	14,798,000,000.00	16,777,000,000.00	16,350,000,000.00
Prepayments and other collection flows	4,514,000,000.00	4,196,000,000.00	2,397,000,000.00	2,921,000,000.00
Inventory	11,181,000,000.00	11,198,000,000.00	12,888,000,000.00	12,809,000,000.00
Short-term investments	1,068,000,000.00	3,783,000,000.00	7,322,000,000.00	5,443,000,000.00
<b>Total current assets</b>	<b>53,495,000,000.00</b>	<b>53,703,000,000.00</b>	<b>60,567,000,000.00</b>	<b>64,388,000,000.00</b>

Table 2 Current assets of Johnson & Johnson in 2022

Unit:US Dollar	Annual Report 2022	Third quarter 2022	Second quarter 2022	First quarter 2022
<b>Current Assets</b>				
Cash and cash equivalents	14,127,000,000.00	11,355,000,000.00	10,983,000,000.00	10,463,000,000.00
Restricted deposits and cash flows	----	----	----	----
Accounts receivable and notes	16,160,000,000.00	15,890,000,000.00	16,139,000,000.00	15,594,000,000.00
Prepayments and other collection flows	3,132,000,000.00	3,592,000,000.00	3,703,000,000.00	3,452,000,000.00
Inventory	12,483,000,000.00	11,675,000,000.00	11,437,000,000.00	10,990,000,000.00
Short-term investments	9,392,000,000.00	22,724,000,000.00	21,585,000,000.00	19,925,000,000.00
<b>Total current assets</b>	<b>55,294,000,000.00</b>	<b>65,236,000,000.00</b>	<b>63,847,000,000.00</b>	<b>60,424,000,000.00</b>

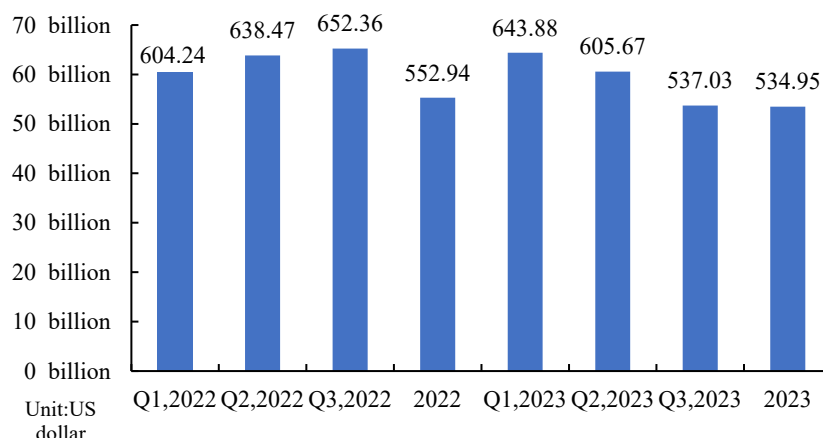


Figure 1 Total trend chart of current assets

From the above data, we can see that current assets in 2023 decreased by nearly \$1.8 billion in 2023 compared with 2022. One concept to introduce here: current asset turnover. As shown in Figure 2, The turnover rate of current assets is the ability to measure the main business income generated by each unit of current assets in a certain period of time. It is calculated by dividing the net main business income by the average amount of current assets, which is the average of the total current assets at the beginning of the year and the end of the year. This index reveals the flow speed of the current assets of enterprises, and reflects the utilization efficiency of the most liquid assets, so as to help analyze the key factors affecting the asset quality. Comparing this index can encourage enterprises to strengthen internal management and use current assets more effectively, such as reducing costs, using idle funds for short-term investment to increase returns, and taking measures to increase sales to improve the overall efficiency of the use of current assets. In general, the higher the turnover rate of current assets, the more efficient Johnson & Johnson's use of its current assets.

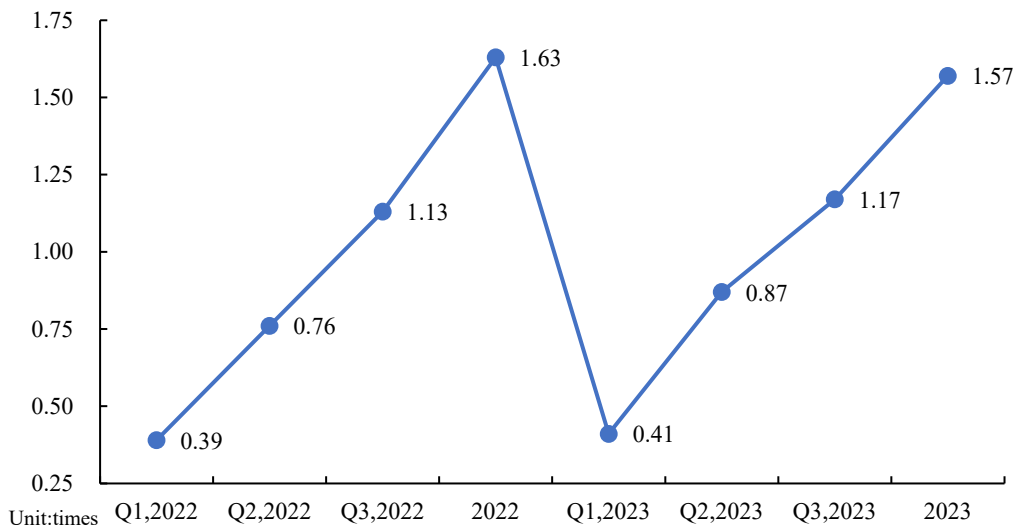


Figure 2 Sub-trend chart of current assets turnover ratio

In summary, it can be seen that Johnson & Johnson operates well, with cash and cash equivalents increasing by more than 7.7 billion yuan, increasing investment funds. However, it is slightly insufficient in accounts receivable, prepayments and inventory, and the turnover rate of current assets is relatively stable. The company will develop steadily and continuously in the future.

Johnson & Johnson current assets of total assets also rose over time, figure 3 proportion increase, stable rise, but not too high, in a stable range that the company's cash ability is good, short-term solvency is strong, Johnson & Johnson grasp every opportunity, use the existing assets investment, we can also see that Johnson & Johnson investment in 2023 than in 2022 increased about 100 million yuan of short-term investment.

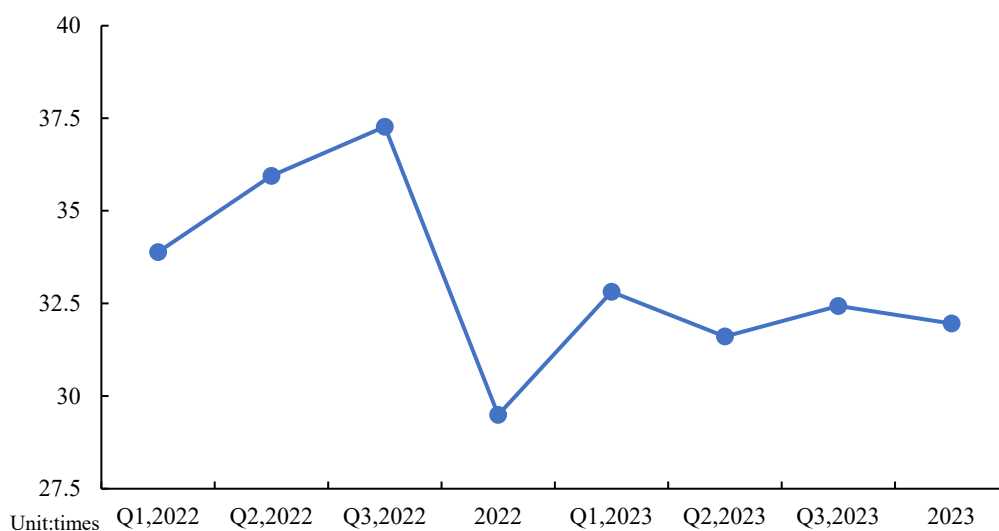


Figure 3 Trend chart of total assets of current assets

### 3.1.2 Non-current assets

Figure 4 and table 3-table 4, Johnson & Johnson's non-current assets from 1320 in 2022,100 million yuan to 114 billion yuan in 2023, reduced by 18 billion yuan, mainly in Johnson & Johnson when buying other companies pay premium value is lower than its book value, reflected in intangible assets such as brand, market share, customer relations, etc., the cause of goodwill impairment may include environmental changes, business strategy failure, technology industry change, etc. At the same time, as the above explanation of current assets can reflect the increase of the company's short-term operating activities and the stronger liquidity of capital assets.

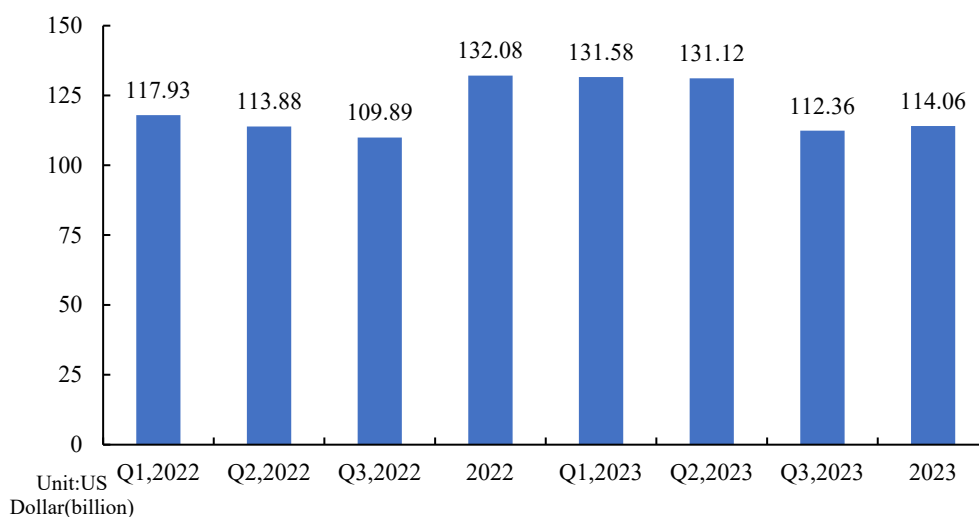


Figure 4 Trend chart of non-current assets

Table 3 Non-current assets of Johnson & Johnson in 2023

Unit:US Dollar	Annual Report 2023	Third quarter 2023	Second quarter 2023	First quarter 2023
<b>Non-current assets</b>				
Property, plant and equipment	19,898,000,000.00	45,626,000,000.00	51,218,000,000.00	50,367,000,000.00
Intangible assets	34,175,000,000.00	35,021,000,000.00	46,246,000,000.00	47,448,000,000.00
Goodwill	36,558,000,000.00	36,124,000,000.00	45,440,000,000.00	45,575,000,000.00
Deferred tax assets are non-current	9,279,000,000.00	9,259,000,000.00	8,779,000,000.00	8,817,000,000.00
Non-current assets other items	14,153,000,000.00	-13,672,000,000.00	-20,564,000,000.00	-20,626,000,000.00
<b>Total non-current assets</b>	<b>114,063,000,000.00</b>	<b>112,358,000,000.00</b>	<b>131,119,000,000.00</b>	<b>131,581,000,000.00</b>

Table 4 Non-current assets of Johnson & Johnson in 2022

Unit:US Dollar	Annual Report 2022	Third quarter 2022	Second quarter 2022	First quarter 2022
Non-current assets				
Property, plant and equipment	19,803,000,000.00	46,681,000,000.00	47,144,000,000.00	47,702,000,000.00
Intangible assets	48,325,000,000.00	40,336,000,000.00	42,408,000,000.00	44,420,000,000.00
Goodwill	45,231,000,000.00	33,383,000,000.00	34,166,000,000.00	34,935,000,000.00
Deferred tax assets are non-current	9,123,000,000.00	9,392,000,000.00	9,514,000,000.00	9,936,000,000.00
Non-current assets other items	9,602,000,000.00	-19,904,000,000.00	-19,355,000,000.00	-19,062,000,000.00
<b>Total non-current assets</b>	<b>132,084,000,000.00</b>	<b>109,888,000,000.00</b>	<b>113,877,000,000.00</b>	<b>117,931,000,000.00</b>

## 3.2 Liability

### 3.2.1 Current Liabilities

From Table 5 and Table 6 below, we can see that Johnson & J's current liabilities decreased from 55.8 billion yuan in 2022 to 46.2 billion yuan in 2023, a decrease of about 9.6 billion yuan. As for current liabilities, we need to know the proportion of current liabilities. Figure 5 below refers to the ratio of current liabilities to total liabilities. If the larger the proportion of current liabilities of an enterprise, the greater the pressure on the enterprise to repay debts. Current liabilities are usually characterized by low interest rate, short term, small amount and must be repaid at maturity. The structure analysis of current liabilities is mainly through whether the proportion and the changing trend of the current liabilities in the total current liabilities is reasonable, and what is the impact on the production and operation activities of the enterprise. The way to rescue it is to speed up the capital turnover.

Table 5: Johnson & Johnson's current balance sheet for 2023

Unit:US Dollar	Annual Report 2023	Third quarter 2023	Second quarter 2023	First quarter 2023
Current liabilities				
Accounts payable and notes	9,632,000,000.00	8,355,000,000.00	10,443,000,000.00	9,909,000,000.00
Tax payable flow				
Payable compensation and benefits	3,993,000,000.00	3,337,000,000.00	3,062,000,000.00	2,231,000,000.00
Other payables and accrued expenses	32,657,000,000.00	32,678,000,000.00	40,665,000,000.00	48,233,000,000.00
<b>Total current liabilities</b>	<b>46,282,000,000.00</b>	<b>44,370,000,000.00</b>	<b>54,170,000,000.00</b>	<b>60,373,000,000.00</b>

Table 6: Johnson & Johnson's current balance sheet for 2022

Unit:US Dollar	Annual Report 2022	Third quarter 2022	Second quarter 2022	First quarter 2022
Current liabilities				
Accounts payable and notes	11,703,000,000.00	14,577,700,000.00	14,070,000,000.00	13,606,000,000.00
Tax payable flow	2,127,000,000.00	1,986,000,000.00	1,980,000,000.00	1,708,000,000.00
Payable compensation and benefits	3,328,000,000.00	3,006,000,000.00	2,717,000,000.00	2,098,000,000.00
Other payables and accrued expenses	38,644,000,000.00	25,974,000,000.00	26,054,000,000.00	25,978,000,000.00
<b>Total current liabilities</b>	<b>55,802,000,000.00</b>	<b>45,543,000,000.00</b>	<b>44,821,000,000.00</b>	<b>43,390,000,000.00</b>

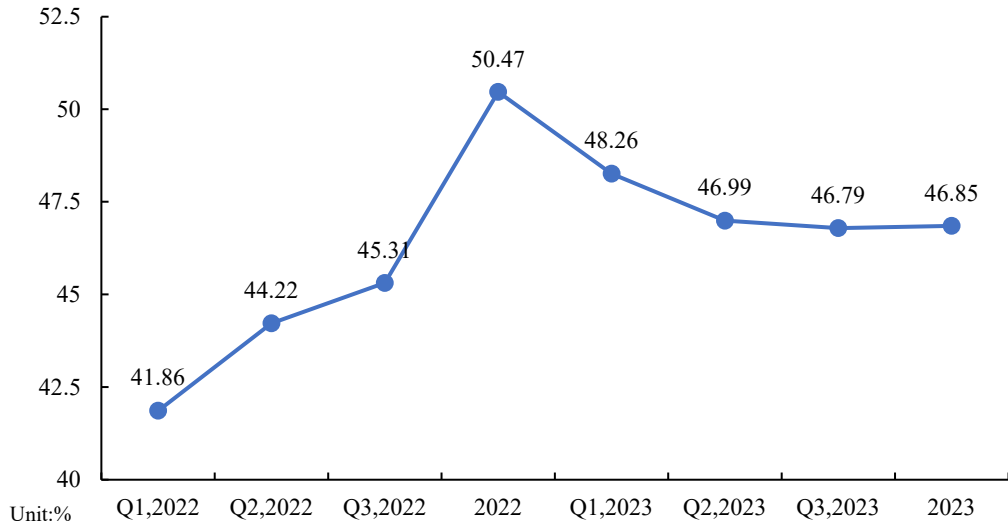


Figure 5 Total trend chart of current liabilities

Through the above data, we know that the current load proportion of Johnson & Johnson has decreased from 50.47% in 2022 to 46.85% in 2023. This is a good phenomenon, indicating that the debt repayment pressure of Johnson & Johnson is also decreasing. According to public reports, the first lawsuit against Johnson & Johnson's talc powder products began in 2013. Over the past 10 years, the company has faced more than 38,000 lawsuits, involving more than \$2.2 billion (about 15.1 billion yuan). But in 2023, J & J announced plans to pay \$8.9 billion (about 61.2 billion yuan) in compensation over the next 25 years. Through the development of Johnson & Johnson to ensure the quality of products, from quantitative change to qualitative change, so that the enterprise can have better working capital assets and improve their solvency.

### 3.2.2, Non-current liabilities

As shown in Figure 6 below, Johnson & Johnson's non-current liabilities decreased from 54.7 billion yuan in 2022 to 52.5 billion yuan in 2023, a decrease of about 2.2 billion yuan. Although lower, the debt base is still large. The proportion of non-current liabilities in the total liabilities reflects the level of the borrowing cost and the level of the cost of raising non-current liabilities. The higher the degree of the enterprise using foreign long-term funds in the process of operation, the greater the corresponding repayment pressure of the enterprise.

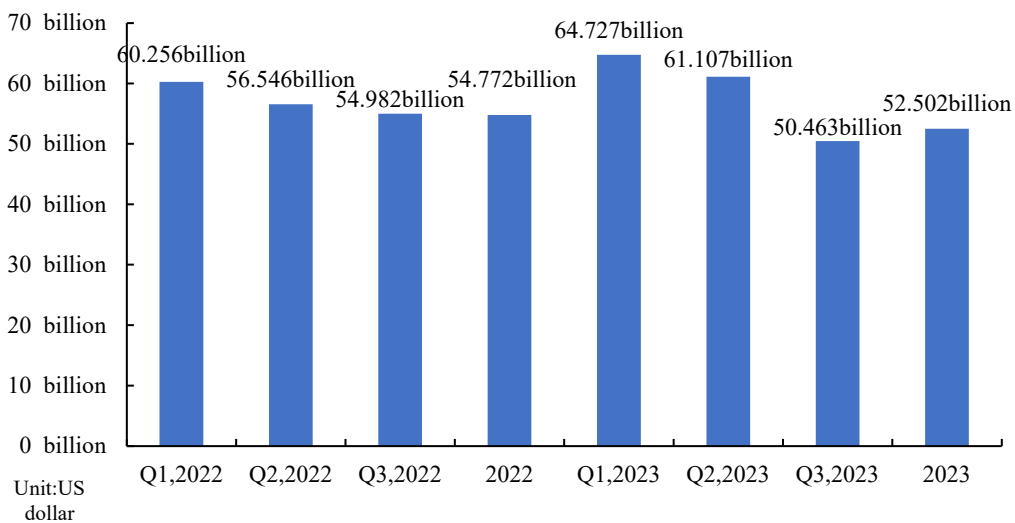


Figure 6 Total trend chart of non-current liabilities

As shown in Figure 7 below, it can be seen that although Johnson & Johnson's non-current liabilities decreased, the proportion of non-current liabilities increased by 3.62%, more than 50% of the total debt. J & J can issue stocks or bonds through direct financing, capital increase, debt reduction, or debt restructuring to ease the debt pressure.

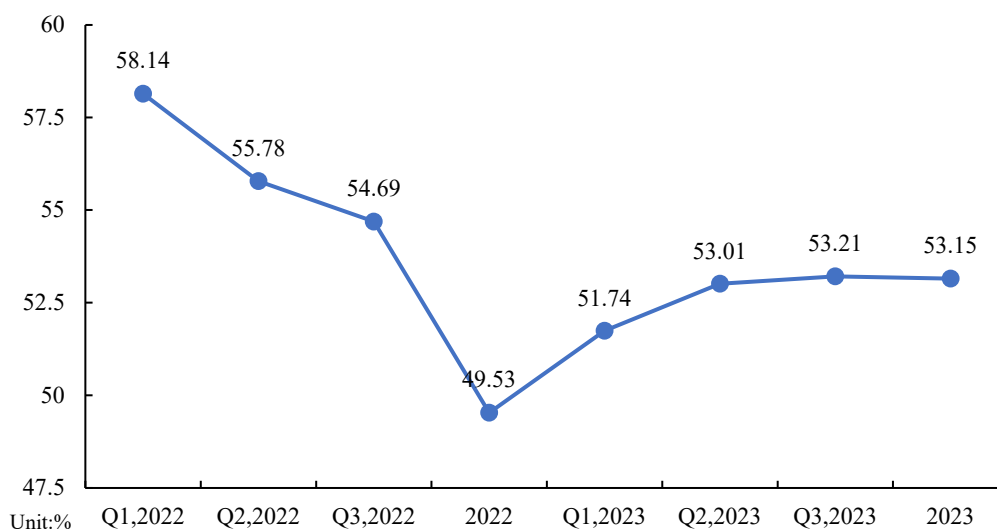


Figure 7 Total trend chart of non-current liabilities

#### 4. Profit statement

##### 4.1 Operating income

J & J's 2023 performance, as shown in Figure 8 below. Sales rose 6.5% from 2022 to approximately \$85.2 billion. The fourth quarter growth was strong, with sales of \$21.4 billion, up 7.3% from a year earlier. The U. S. business is the backbone of J & J, with revenue of \$46.4 billion, up 10.6% year on year, while the international business outside the U. S. was \$38.7 billion, up just 1.9% year on year. Because Johnson & Johnson spun off its OTC and health care business last year, there are only two major businesses: innovative drugs and medical technology (devices and devices), with innovative drugs' annual revenue \$54.8 billion, up 4.2% year on year, and device revenue \$30.4 billion, up 10.8% year on year.

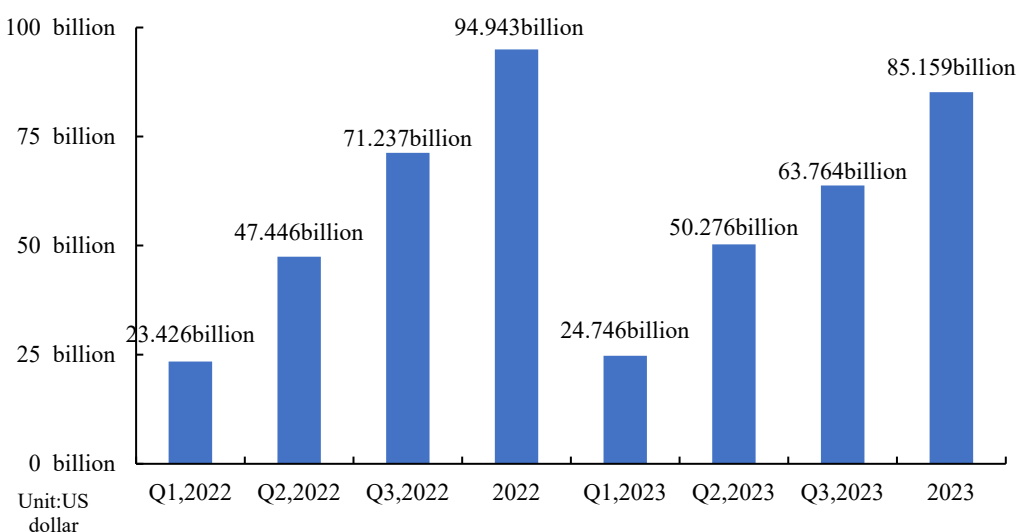


Figure 8 Operating income trend chart

In the innovative drug business, the main factors driving growth are DARZALEX (tumor products such as ERLEADA (apatide), TECVAYLI (teclistamab-ccyv) and CARVYKTI (ciltacabtagene autoleucel), immunotherapy products such as STELARA (tec mab) and TREMFYA (Guseczymab), and newly marketed SPRAVATO (levketamine). Of course, in addition to growth products, sales such as abiraterone, eirutinib and infliximab are falling rapidly because of the patent cliff. The 12.4% increase was the acquisition of Abiomed (Abimet, a leading heart device manufacturer, acquired by Johnson & Johnson for \$16.6 billion) and the combination of the exceptional sales of electrophysiology products, contact lenses, postoperative wound sutures, and surgical products.

Johnson & Johnson's innovative drug business mainly includes six pipelines: immune regulation, anti-infection, nervous system, tumor, pulmonary hypertension and cardiovascular disease.

1) In the field of immunization, the annual sales were us \$18.052 billion, up 6.6% year on year. Among them, annual sales of infliximab were \$1.839 billion, down 21.5% year on year; sales of Golimumab were \$2.197 billion, up 0.6% year on year; sales of Tekzumab were \$10.858 billion, up 11.7% year on year; revenue of Gusecuzumab was \$3.147 billion, up 17.9% year on year; and total sales of other immunization products were only \$11 million, down 33.8% year on year.

2) In the anti-infection sector, the annual sales were us \$4.418 billion, down 18.9% year on year. Among them, the annual revenue of new coronavirus was \$1.117 billion, down 48.8% year on year; the revenue of AIDS drug Liavirin (EDURANT) was \$1.15 billion, up 14.1% year on year; the sales of PREZISTA / PREZCOBIX / REZOLSTA / SYMTUZA were \$1.854 billion, down 4.6% year on year; and the total sales of other pipeline products was \$297 million, down 6.7% year on year.

3) In the CNS sector, the annual revenue was \$7.14 billion, up 3.6% year on year. Among them, the sales of methylphenidate (CONCERTA) were \$783 million, up 21.6% year on year; the annual revenue of paliperidone nanocrystalline series (INVEGA SUSTENNA / XEPLION / INVEGA) was \$4.115 billion, down 0.6% year on year; levoketamine was \$689 million, up 84.1% year on year, and the total sales of other CNS products was \$1.553 billion, down 10.4% year on year.

4) In the anti-tumor sector, the annual revenue was us \$17.661 billion, up 10.5% year on year. This (CARVYKTI) generated \$100 million, Up \$367 million from last year; Daleumab sales of \$9.744 billion, Up 22.2%; sales of \$2.387 billion, Year-on-year growth of 26.9%; Ilotinib (IMBRUVICA) had revenue of \$3.264 billion, Year-on-year decline of 13.7%; Aabiraterone (ZYTIGA) sales of \$887 million, Down 44.9% year on year, All other anti-tumor products generated \$879 million, Up \$441 million.

5) Total revenue of pulmonary hypertension treatment pipeline was \$3.815 billion, up 11.6% year on year. Among them, revenue of Opsumit (MT, T) was \$1.973 billion, up 10.6% year on year, sales of Cercipa (UPTRAVI) were \$1.582 billion, up 19.7% year on year, and total sales of other products were \$260 million, down 16.7% year on year.

6) The annual revenue of cardiovascular pipeline was \$3.671 billion, down 5.5% year on year. The main product of the pipeline is Rivaroxaban (XARELTO), with annual sales of \$2.365 billion (with U. S. sales interest only), down 4.4% year on year, while total sales of all other cardiovascular products were \$1.306 billion, down 7.6% year on year.

## 4.2 Operating costs

As shown in Figure 9 below, Johnson & Johnson's operating cost was reduced from 31 billion yuan in 2022 to 26.5 billion yuan in 2023, down by about \$4.5 billion. In the case of the huge number of products sold, Johnson & Johnson can obtain more profits by reducing costs.

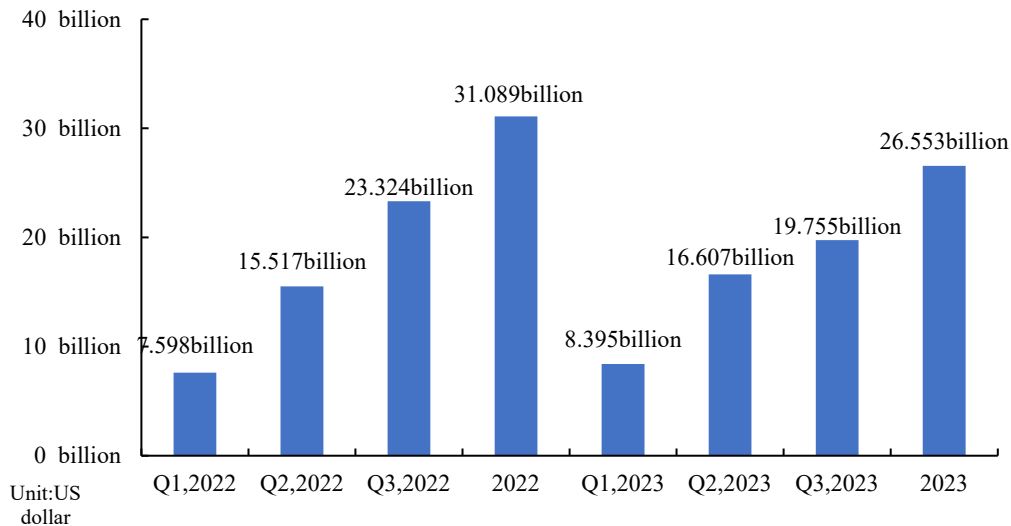


Figure 9 Operating cost trend chart

### 4.3 MAO profit

From the following figure 10, we can see that the gross profit of Johnson & Johnson has decreased, decreasing by \$5.2 billion in 2023 compared with 2022, but its R & D expenses and other operating expenses have decreased. However, we can understand the profitability of Johnson & Johnson by analyzing the gross profit margin. Given the fierce competition in the medical industry that Johnson & Johnson is in, it is considerable to achieve the gross profit margin of nearly 69%. And there is a steady upward trend.

The following is the situation of Johnson & Johnson's gross profit margin in the past two years, as shown in Figure 10- -Figure 11:

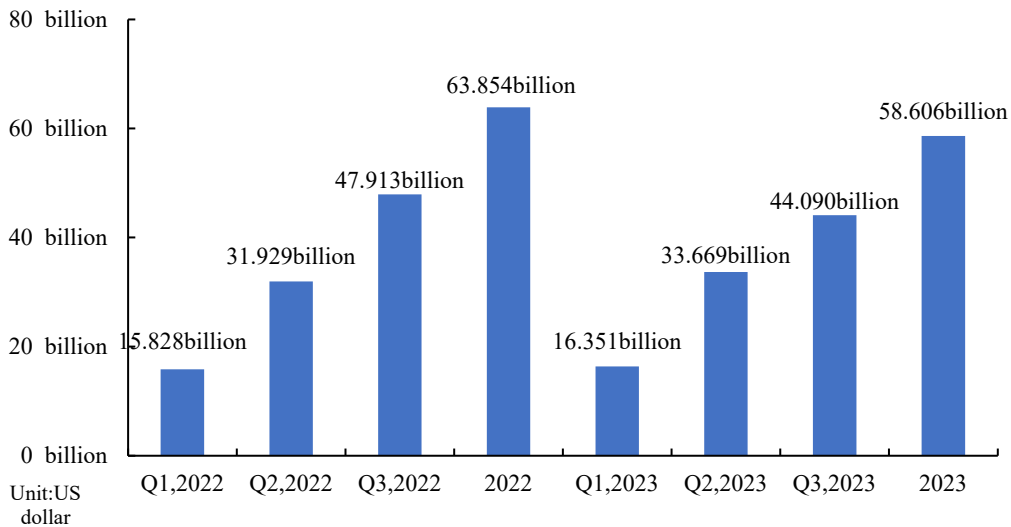


Figure 10 Gr trend plot

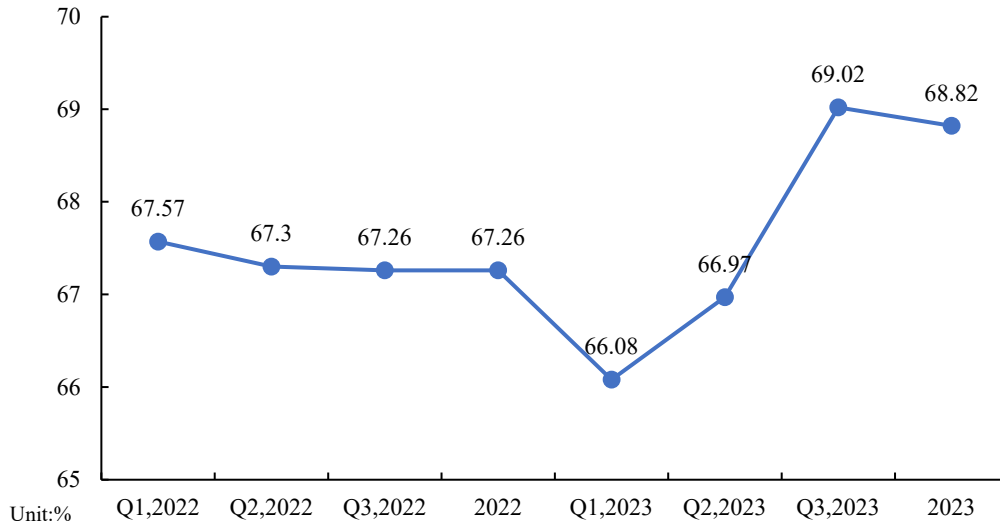


Figure 11 Trend chart of gross sales margin

#### 4.4 Operating profit

Operating profit is the operating income of the enterprise, but it includes the operating income of the enterprise. Because the operating income is not sustainable, it is excluded in the analysis and calculation. Add interest income, minus interest expense and minus non-operating income. We can find that Johnson & Johnson is stable, although a small reduction also maintains a high profit.

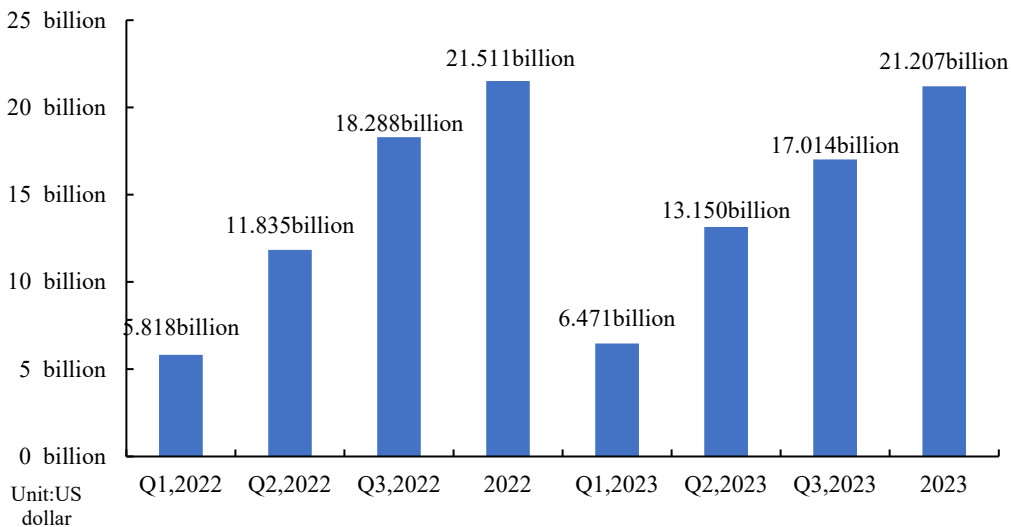


Figure 12 Operating profit trend chart

#### 4.5 net profit

Johnson & Johnson's net profit in 2023 was about \$35.1 billion, almost double the net profit in 2022, thanks to Johnson's continued innovation and acquisition of other companies to drive operating revenue.

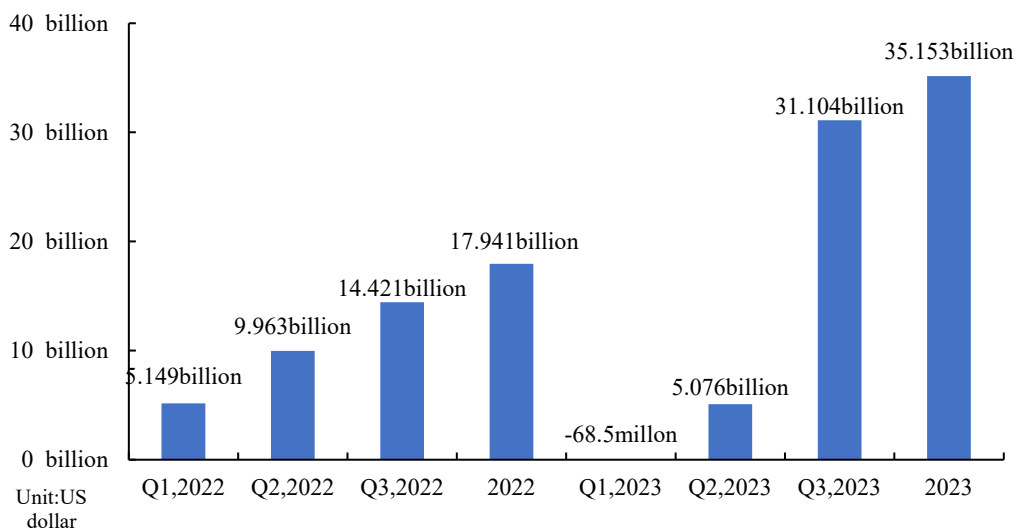


Figure 13 Net profit trend chart

Net interest rate on total assets is the percentage of the company's net profit to the average total assets. It reflects the level of which the company can profit from all its assets. Johnson & Johnson increased from 9.71% in 2022 to 19.81% in 2023, reflecting Johnson & Johnson's high input-output level, effective asset operation, high cost control level and high management level of the company.

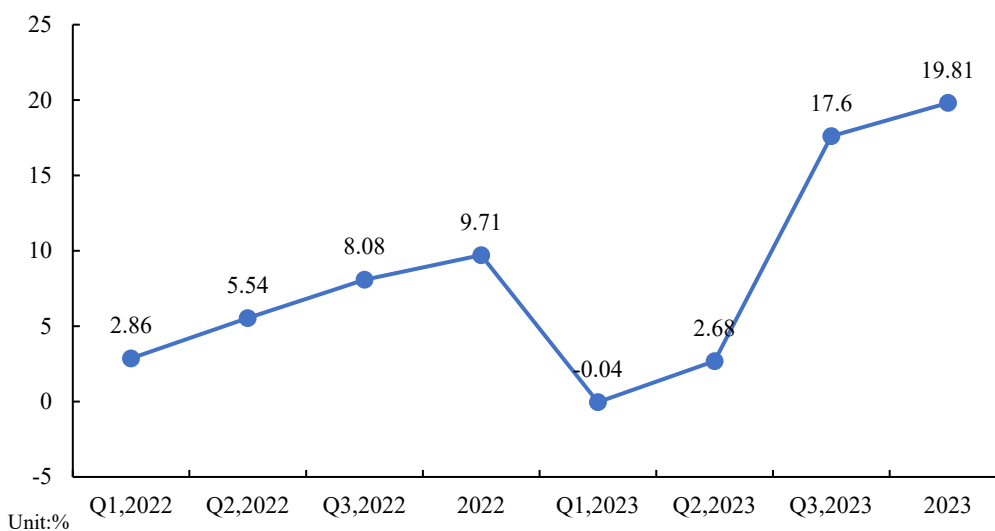


Figure 14 Trend chart of total assets

## 5. Cash flow statement

### 5.1 Cash flow generated from operating activities

The cash flow generated by Johnson & Johnson's operating activities in the past two years is positive, and the company's operating activities have generated enough cash inflow to pay for the daily operating income. And Johnson & Johnson's cash flow increased by about \$1.6 billion in 2022 compared to 2023. The ratio of cash flow generated through operating activities, that is, the ratio of cash flow generated from operating activities to operating income, shows that the cash flow generated by each unit of product sold, increased from 22.32% in 2022 to 26.76% in 2023, promising for Johnson & Johnson. See Figure Figure Figure 15- -see Figure Figure 16

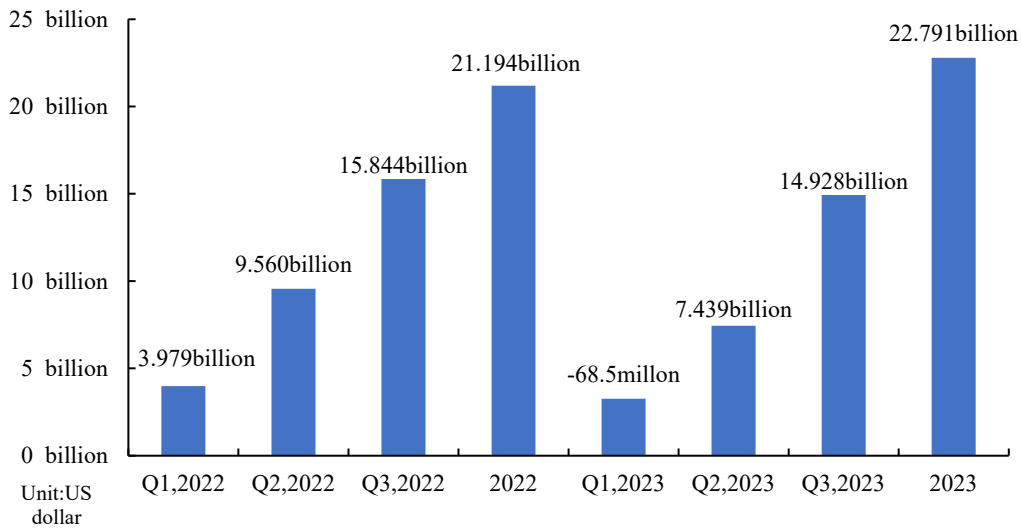


Figure 15 Trend chart of net cash flow generated from operating activities

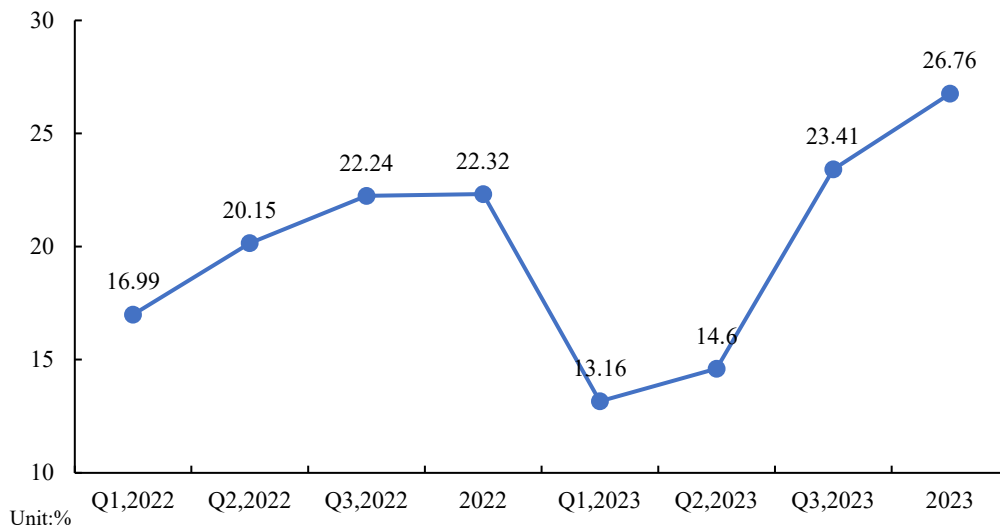


Figure 16 Trend chart of net cash flow generated from operating activities

## 5.2 Cash flow generated from investment activities

The net cash flow generated by investment activities, namely the cash flow generated by investment activities minus the cash outflow, reflects the actual cash situation of the enterprise in terms of investment. As we can see from the figure 17 below, Johnson & Johnson has been making a large amount of investments. Compared with the net profit of Johnson & Johnson, Johnson & Johnson will use a large amount of funds to upgrade its assets and continuously expand them. J & J's net profit may increase

Less investment in 2023.

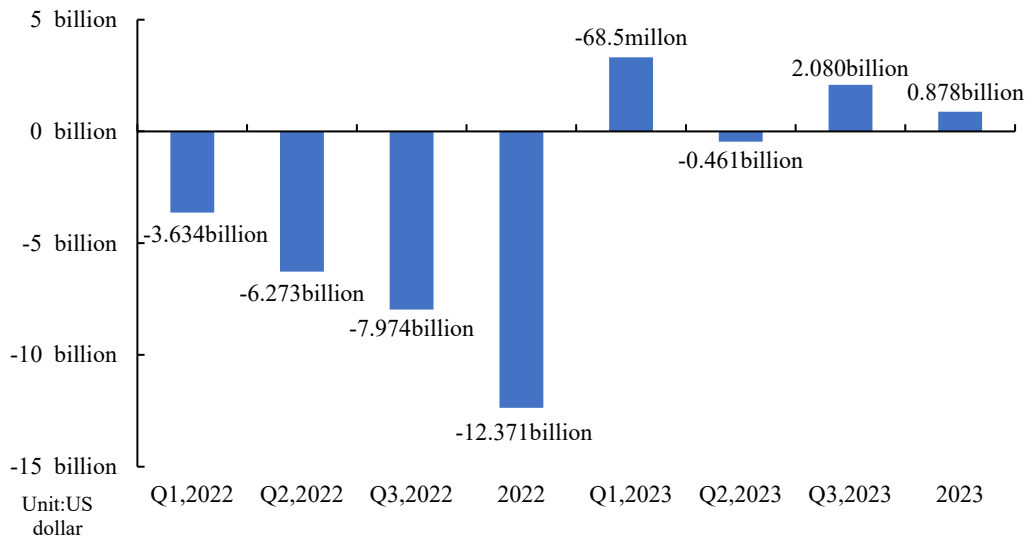


Figure 17 Trend chart of net cash flow generated from investment activities

### 5.3 Cash flow generated from financing activities

The net cash flow generated by financing activities is negative, indicating that J & J has made a large amount of capital expenditure or debt repayment during the period, which exceeds the funds raised through debt or equity financing, and J & J faces huge debts. J & J's solvency will be analyzed later.

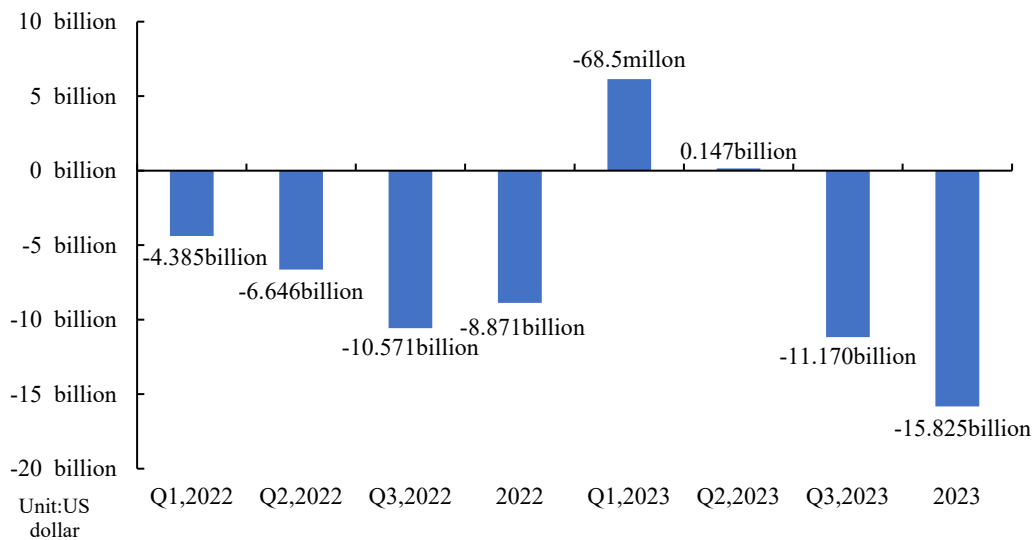


Figure 18 Trend chart of net cash flow generated from financing activities

## 6. Financial level

### 6.1 Profitability

Profitability refers to the ability of an enterprise to obtain profits, also known as the capital or capital appreciation ability of an enterprise, which usually is shown in the amount of enterprise income and its level in a certain period of time. The higher the profit margin, the stronger the profitability. For operators, through the analysis of profitability, we can find out the problems in the operation and management link. This paper selects sales gross profit rate, sales net profit rate, net return, total assets net profit rate for analysis. Since the previous sales gross profit margin and total assets net interest rate, do not do too much here.

See Figure 19- -Figure 20 below:

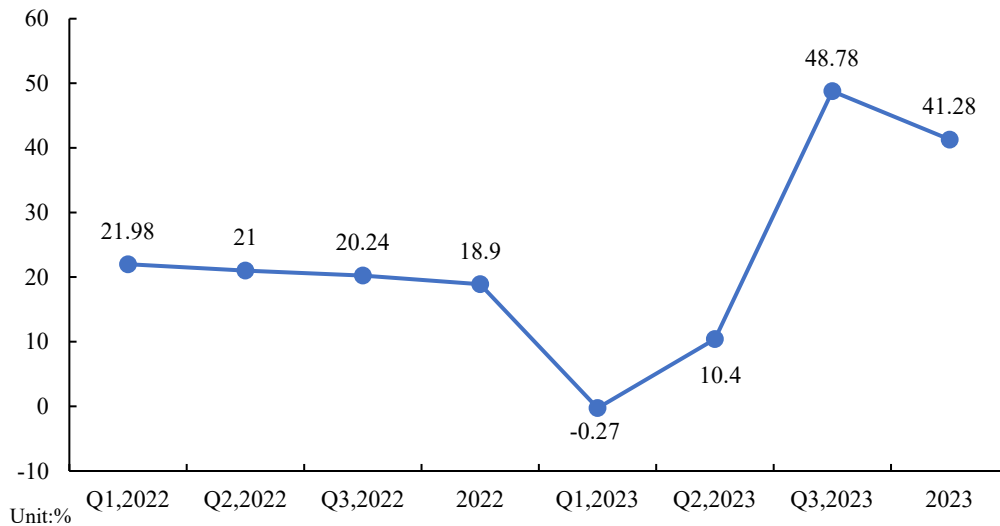


Figure 19 Sales net interest rate trend chart

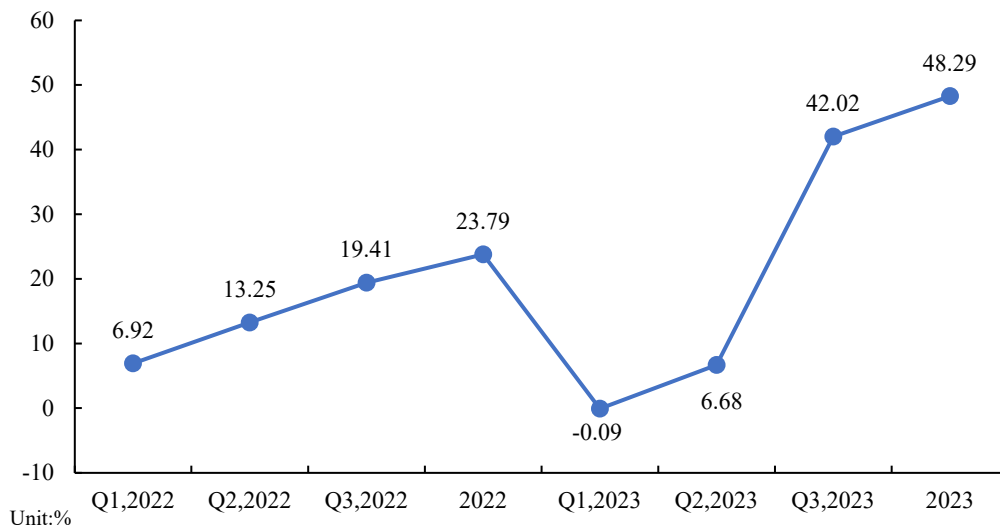


Figure 20 Average trend chart of return on equity

Johnson & Johnson's net margin on sales reflects the profit available per unit of goods sold. When sales grow, only net profit maintains the same or faster growth, net interest rate on sales can be stable. The higher the net interest rate on sales, the more profitable Johnson & J is. This reflects Johnson & Johnson's efficient operations and good financial position.

The ratio of net profit to shareholders 'equity, known as return on equity (ROE) or return on shareholder equity, measures the benefits of the company's use of its own capital. The higher the ratio, the more profitable the company brings to its shareholders. Based on current trends, it is reasonable to predict that J & J will maintain its profitability and capital use efficiency in the next few years.

## 6.2 Operating capacity

The operating capacity reflects the application efficiency of the enterprise assets, that is, the reduced use of the enterprise assets will lead to the more repeated turnover of the products, and then speed up the turnover speed, so as to improve the profitability of the enterprise. This indicates that the enterprise has a high operational capacity, and can effectively use its assets, so as to obtain more returns. This paper selects inventory turnover, current assets turnover and total assets turnover for analysis. Because the current asset turnover rate, here will not do too much detail. As shown in Figure 21- -Figure 22 below:

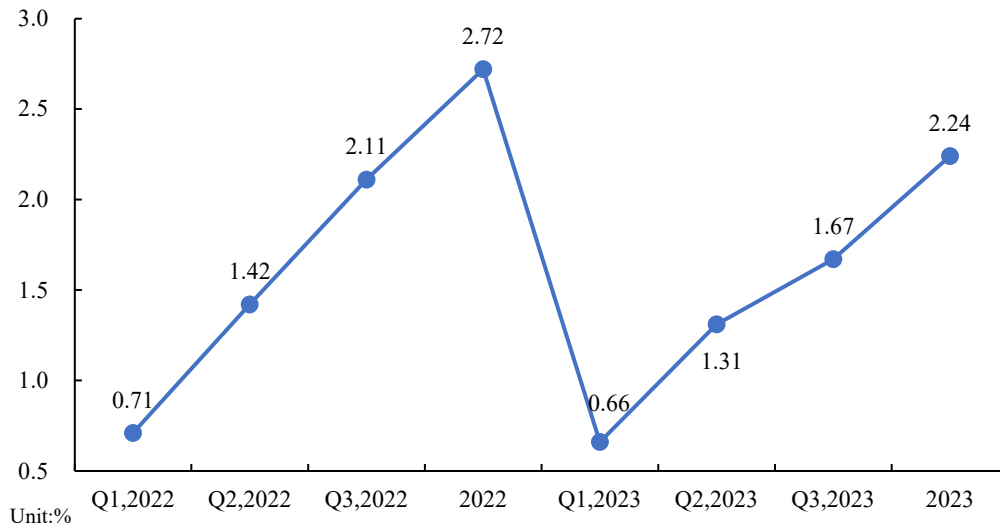


Figure 21 Sub-trend chart of inventory turnover rate

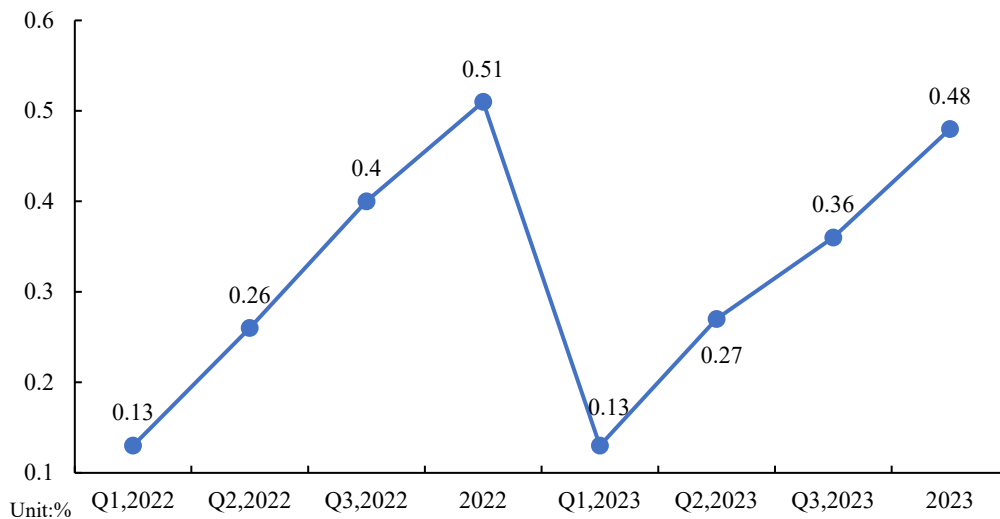


Figure 22 Total asset turnover rate chart

The slight downward trend of inventory turnover indicates that J & J's inventory management efficiency is low and more capital is occupied. And the total asset turnover rate also slightly decreased trend, the share of current assets decreased, the total asset turnover rate slowed down.

### 6.3 solvency

The solvency of an enterprise is a key factor to measure its operating health and financial robustness. There is a close connection between the profitability of an enterprise and its solvency, and the stronger the profitability, the stronger the solvency. This study uses the cash ratio and asset-liability ratio to analyze the solvency of Johnson & Johnson.

See Figure 23- -Figure 24 below:

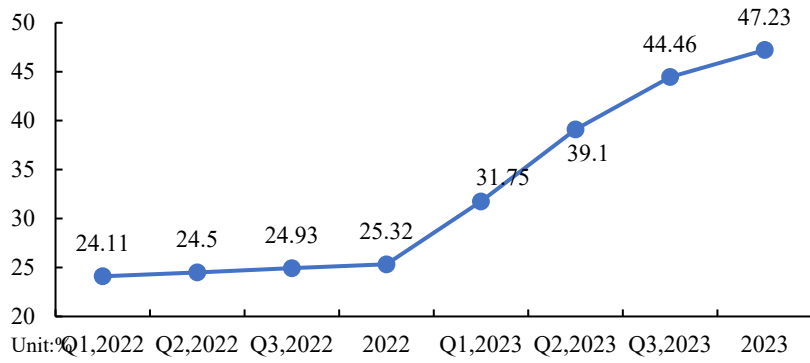


Figure 23 Trend chart of monetary capital current liabilities

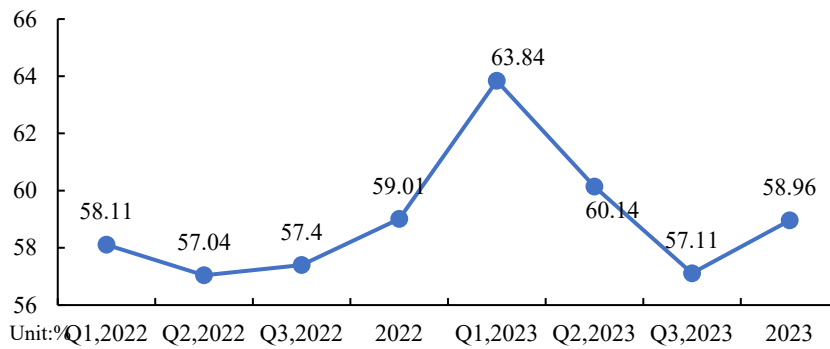


Figure 24 Trend chart of asset-liability ratio

Cash ratio, namely monetary capital current liabilities, is the total amount of assets that can be directly used to repay short-term debts in the current assets of enterprises, including cash, inventory, receivables and other assets with strong liquidity. It is one of the important indicators to measure the short-term solvency of enterprises. The higher the company's cash ratio, the stronger its ability to repay short-term debt, and the higher the protection of its creditors. However, the asset-liability ratio of Johnson & Johnson in the past two years is above 50%, indicating that Johnson & Johnson's long-term solvency has declined.

#### 6.4 Development capacity

Development ability refers to the indicators of the future development trend and growth ability of an enterprise, including the growth rate of operating income, net profit growth rate, the growth of shareholders' equity, etc. Development ability reflects the business growth and expansion potential of the enterprise, and is an important embodiment of the sustainable development and profitability of the enterprise. By analyzing the development capacity indicators, the growth potential and business performance of enterprises can be understood, providing reference for investors and creditors. This paper analyzes Johnson & Johnson through the year-on-year growth rate of total assets and business revenue. See Figure 25- -Figure 26 below:

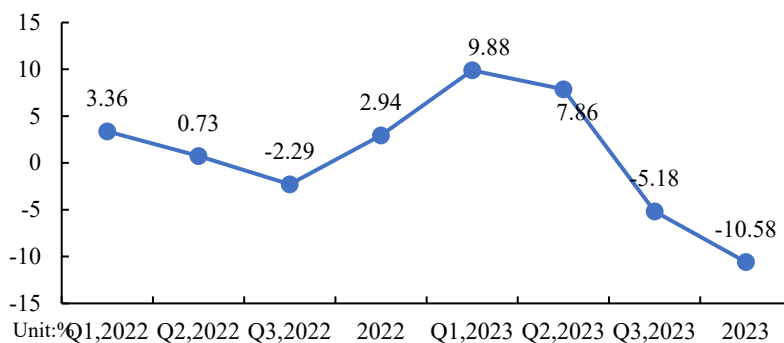


Figure 25 Trend chart of the year-on-year growth rate of total assets

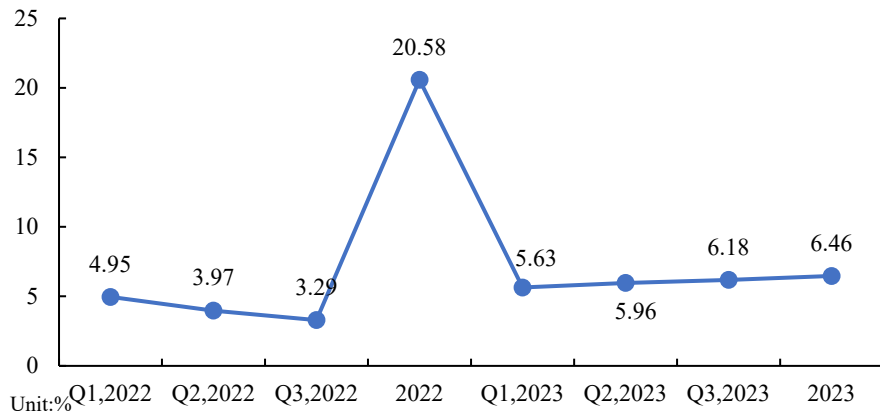


Figure 26 Trend chart of the year-on-year growth rate of operating revenue

The table shows that the year-on-year growth rate is negative, indicating that J & J needs to adjust as soon as possible to restore it to a reasonable level. Although the company's operating income is still growing, but the growth rate is not as high as the same period, it can be seen that the market development prospects are still in line with the expected range. Johnson & Johnson still has a very good development future.

## 7. DuPont analysis

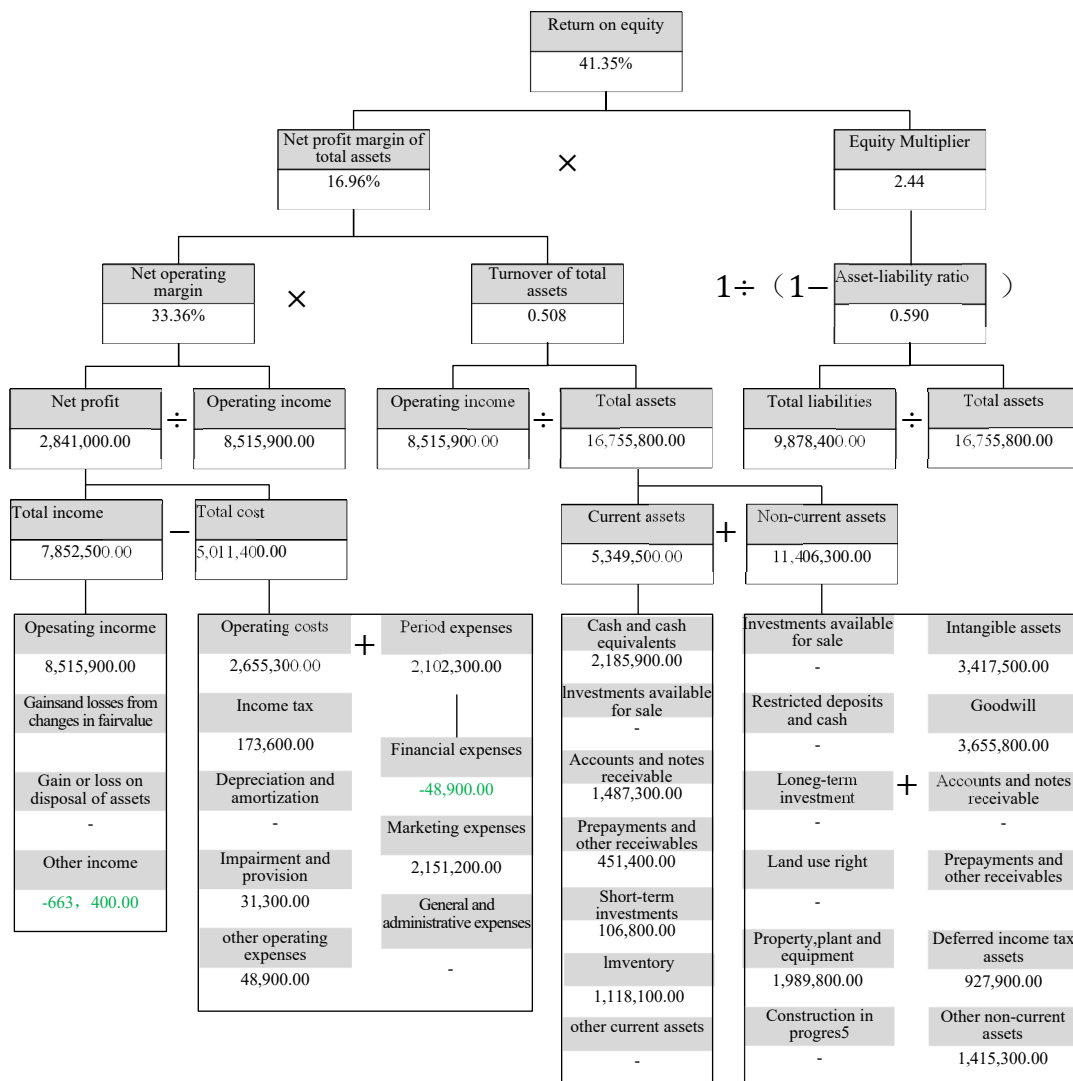


Figure 27. DuPont analysis 1:2023

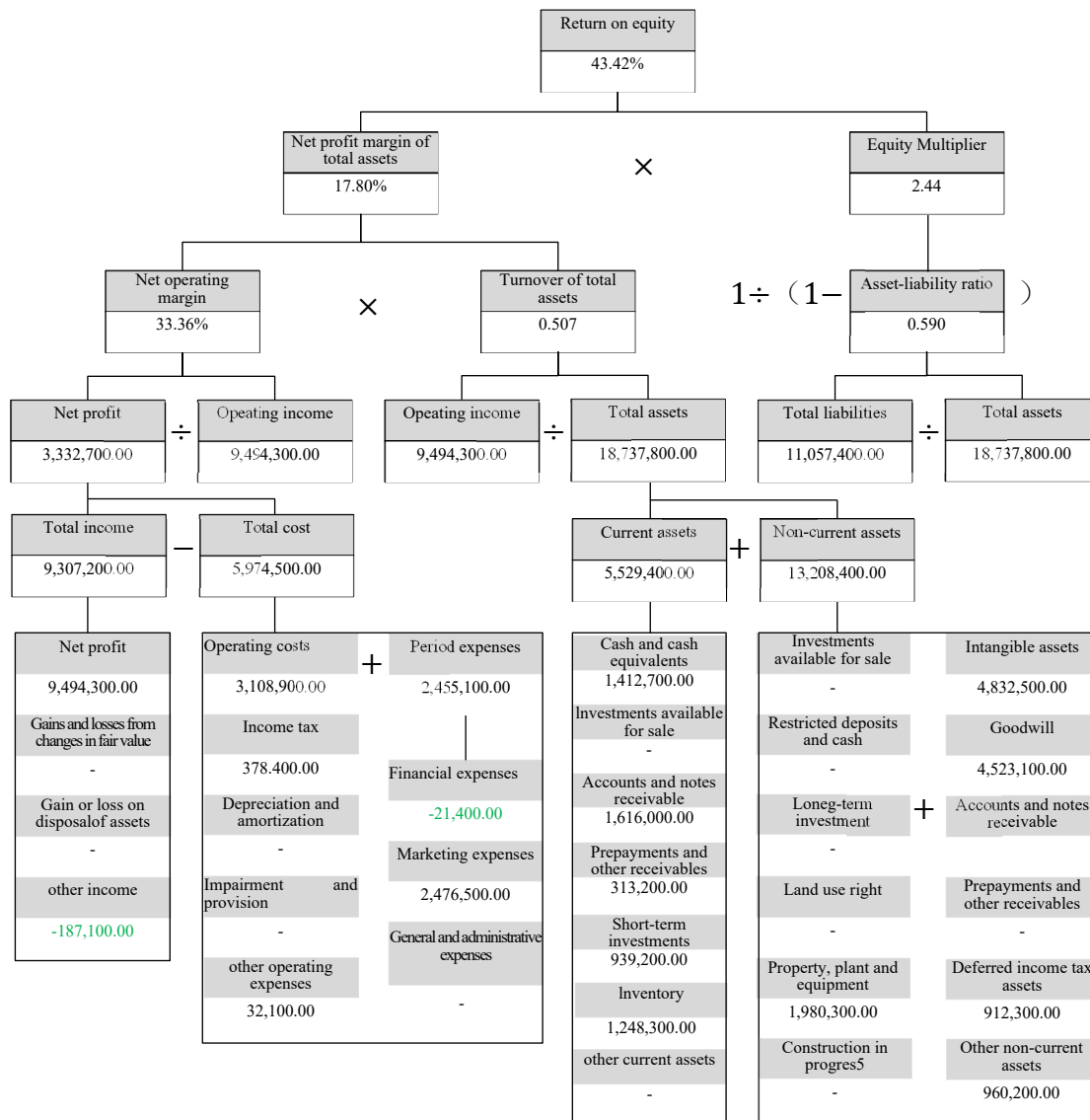


Figure 28. DuPont analysis 2:2022

Through the DuPont analysis of Johnson & Johnson in the past two years, we found that ROE has a downward trend. The asset-liability ratio in these two years has not changed, but the operating net interest rate has decreased significantly, and the net interest rate and operating income have been reduced. Although the total cost has been reduced, the total income has also decreased. J & J to increase ROE needs to increase revenue and reduce debt. The safety and health of products is an urgent problem for J & J. If it cannot pass the quality, the future development of Johnson & Johnson will be very bumpy. When the safety of the product is guaranteed, some unnecessary lawsuits and huge compensation can be exempted.

## 8. Summary and enlightenment

### 8.1 Summary

Johnson & Johnson, as one of the leading companies in the global pharmaceutical industry, has an important influence in the world. While the company's revenue has been growing for years and its business scope is broad, it is not performing the best compared to other companies in the industry. Therefore, in the future development, Johnson & Johnson will not only need to expand the scale, but also pay attention to improving the operating efficiency, because efficient operation is the key to promote the sustainable development of the company.

For the study of Johnson & Johnson's financial statements, this paper chose the sales gross margin, total assets net interest rate, inventory turnover, current assets turnover and total asset turnover and other indicators to analyze, and using duPont analysis, most, concluded: in the past two years, Johnson & Johnson's performance is flat, it is necessary to adjust the management to improve asset management efficiency and operating ability, so as to increase profit margins to enhance the ability of development.

Under the present situation of the fierce market competition, Johnson & Johnson face unprecedented business challenges, government regulation of the medical industry, at the same time, the company and its regional subsidiary facing legal proceedings not only brought huge costs, also caused damage to the company's reputation, such as Johnson & Johnson in 2018 baby bright powder lawsuit lead to huge compensation. Together, these factors have led to a slight decline in Johnson & Johnson's operating performance in recent years. Therefore, J & J needs to take measures to deal with these risks and improve the product quality and industry competitiveness to adapt to the changes in the market.

## **8.2 Revelation**

As a large multinational enterprise, Johnson & Johnson's operation and strategy in the global market are of great help to Chinese enterprises to the world

The first is to adhere to the compliance management. Johnson & Johnson operates globally and must comply with national laws and regulations. As Chinese enterprises develop in countries along the Belt and Road, they should also fully understand and abide by local laws and policies to ensure compliance and reduce operational risks. For example, Chinese companies need to pay attention to taxes, environmental protection, labor laws and other laws to avoid fines or business disruptions for violations.

Secondly, we should pay more attention to the brand construction. As J & J's doctrine says: pay attention to our customers: to our patients, doctors, nurses, parents and all those who use our products; pay attention to our employees, respect their dignity and value; pay attention to our society and world, actively support social development and promote human health; finally, if we follow these principles, shareholders will get reasonable returns. The reason why Johnson & Johnson has established a strong brand influence in the global market is the power of the spiritual culture of Johnson & Johnson Creed. Chinese companies also need to build their own corporate culture.

Then there is innovation-driven development. Johnson & Johnson continues to increase investment in research and development to promote product innovation. Chinese enterprises should also be innovation-driven in the international market, increase investment in research and development, and foster core competitiveness. For example, overseas research and development centers can be set up, cooperation with overseas scientific research institutions, and foreign advanced technologies can be introduced to enhance product innovation capabilities and competitiveness.

cooperation and mutual benefits. Johnson & Johnson establishes cooperative relations with local enterprises to achieve win-win development. In the international market, Chinese enterprises should also seek cooperation with local enterprises to jointly explore the market and achieve win-win results. For example, joint ventures can be established with local enterprises, supply chain cooperation and joint research and development to achieve resource sharing and win-win results.

It is also important for risk management. Johnson & Johnson faces various risks in the global market and establishes a sound risk management system to deal with them. Chinese enterprises should also strengthen risk management and guard against various risks in the international market. Risk assessment mechanism, emergency plan formulation and diversified investment can be established to reduce the impact of risks.

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