



J&J Bulls Accumulate into Key Legal Decision

Ticker/Price: JNJ (\$131.80)

Analysis:

J&J (JNJ) buyer of 1500 September \$132/\$121 bull risk reversals for \$2.28 today and later 1,000 October ITM \$115 calls bought for \$16.90 in a stock replacement. Today's activity follows buyers in the March \$130 calls on 8-2 and buyers in the October \$135 calls over 4,500 on 7-24, a spot where more than 9,000 sit in OI. The October \$140 calls have over 10,000 in OI from buyers in mid-July while the November \$135 calls also with buyers on 7-18. Shares are consolidating in a multi-week range under \$132.50 with a move higher targeting a low-volume gap from earnings back to \$138.50. On a longer-term view, JNJ is back at weekly trend support from the 2018 lows with a big monthly flag forming under \$150.

The \$349B company trades 14.4X earnings, 4.29X sales, and 40.4X FCF with a 2.9% yield. JNJ sees mid-single digit EPS growth accelerating into FY21 while revenues higher by nearly 5% from flat in 2019. JNJ is expected to receive a decision in Oklahoma on Monday in a trial over their role in the opioid crisis. Analysts have an average target for shares of \$148.50. Mizuho out on 7-17 with an interesting note highlighting JNJ as a possible buyer of Otezla from BMY/CELG as they look to divest the asset. The firm thinks the assets could go for \$5B to \$10B. Credit Suisse starting at Outperform on 7-10 with a \$156 PT. The firm sees key drivers including continued growth in Immunology, driven by Stelera and Tremfya, sustainable growth in Oncology driven by Imbruvica, Darzelex and Erleada, an attractive pipeline of filings in the 2019-2023 timeframe with greater than \$1B potential each, and growth and cash flows in Medical Devices and Consumer. Short interest is 0.6%. Hedge Fund ownership rose 2.7% in Q2. Fisher Asset Management, AQR, and Mairs and Power notable holders. JNJ saw insider buying on 6-11 when a director bought 3000 shares at \$139.68, a more than \$419K investment. In December, more than \$450K in stock was bought by three different individuals.

Hawk Vision:



Hawk's Perspective: JNJ is obviously an event-driven trade in the near term but setting up well back near support and one which has a lot of long-term strengths beyond their time in the court room.

Confidence Ranking: \$\$