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REVENUE AND COST DRIVERS

**About the company**

Johnson & Johnson and its subsidiaries (the Company) have approximately 131,900 employees worldwide engaged in the research and development, manufacture, and sale of a broad range of products in the healthcare field. Johnson & Johnson is a holding company, with operating companies conducting business in virtually all countries of the world. The Company’s primary focus is products related to human health and well-being. Johnson & Johnson was incorporated in the State of New Jersey in 1887.

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| **Revenue drivers** |
| The revenue of the company can be divided into two categories: |
| * Innovative medicine: The Innovative Medicine segment is focused on the following therapeutic areas, including Immunology, Infectious diseases, Neuroscience, Oncology, Pulmonary Hypertension, and Cardiovascular and Metabolic diseases. Products in this segment are distributed directly to retailers, wholesalers, distributors, hospitals and healthcare professionals for prescription use.
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| * MedTech: The MedTech segment includes a broad portfolio of products used in the Orthopaedic, Surgery, Interventional Solutions and Vision fields. These products are distributed to wholesalers, hospitals and retailers, and used principally in the professional fields by physicians, nurses, hospitals, eye care professionals and clinics.

Below is a chart that provides the revenue drivers of the company: |

Cost drivers

The main cost drivers of the company are:

* Research and development: Companies operating within the healthcare sector often incur significant research and development (R&D) expenditures. These expenses primarily focus on the development of novel pharmaceutical products, including prescription drugs, and advancements in medical treatments and therapies for various diseases. These are rather fixed costs as they are not directly related to the sales of existing products.
* Raw materials and inventory: Pharmaceutical companies maintain inventory of various components essential for production, including raw materials, consumables, and spare parts. These are variable costs, and it depends on the demand of the prescription drug and the raw materials available.
* Storage cost: Due to the specific requirements for storing medical equipment and drugs, pharmaceutical companies incur significant storage costs. These are variable cost and depend on the production requirements of the company.
* Marketing and sales: Pharmaceutical companies invest heavily in marketing and sales activities to reach their target audiences. These are help in increasing the sales of the company.
* Employees: Employees form a big part of any pharmaceutical company. They play a vital role in all the important activities of the company from research and development to marketing and sales.

**Company performance**

We will comment of the company’s performance in the FY 2023 comparing it with its performance in FY 2022.

The total sales of the company have increased by approximately 6.5% in the FY 2023 as compared to FY 2022. The sales of each segment have contributed to this increase with the innovative medicine sales increasing by 4.2% and the MedTech increasing by 10.8% as compared to the previous year.

Below are the graphs of the breakup of the sales under each segment and total sales based on geography for the FY 2023 :

The research and development expenses of the company increased by around 6.7% as compared to FY 2022 amounting to $15,085 million, which is approximately 17.7% of sales, in line with the previous year. The cost of good sold increased by 8% amounting to $26,553 due to increased sales and also increased inventory cost. The Marketing and sales expenses also increased by 6% which is in line with the increase in revenue.

**Company performance vs Peer**

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Based on the provided graph, Johnson & Johnson demonstrably stands out as a market leader in the pharma industry. This is evidenced by its comprehensive outperformance in key financial metrics such as revenue, and net income compared to its competitors.