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Accounting Analysis

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ACCOUNTING ANALYSIS

By
Henrietta Long

A thesis submitted to the faculty of The University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

Oxford
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Approved by

Victoria Dickinson

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Advisor: Victoria Dickinson

W. Mark Wilder

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Reader: Dean W. Mark Wilder

Abstract

In my practicum class during my junior year at the University of Mississippi, I was able to work on ten cases discussing many different accounting topics. During the first semester of the course, the class conducted research on different cities around the US for accounting internships, we became excel certified, and we completed an interview with a professional that had experience in the business world. We also had the privilege of having highly acclaimed accounting firms come to the class and present on a variety of different accounting matters. Additionally, we watched a documentary about September 11th, 2001 and completed a case related to the financial impact of COVID on the Pfizer vaccine. The second semester of the class, we worked in groups of four or five students for the duration of the semester. We were challenged to pick a fortune 500 company to do an accounting analysis on. The last five cases of my thesis are the findings of our research. We researched Johnson & Johnson, a large and popular pharmaceutical industry company, and we analyzed the company from many different perspectives including the services of audit, tax, and advisory. We defended our presentations at the end of the semester in front of a panel of classmates, professors, and accounting professionals.

Table of Contents

Case #1

9/11 Case Study

Henrietta Long

September 15th, 2021

We watched the video titled “102 Minutes that Changed America” in class on September 8th, 2021. We have been asked to write about what we see and how it makes us feel. We are accounting majors, so typically we are visual learners. Visual learning is a learning style where the learner needs to see the information in order to process it. Accounting majors are usually visual learners because organizing financial statements requires visuals like financial information in order to put the information together into financial statements for firms. This video is comprised of only videos taken from locals on the street and the audio is only real life conversations that took place on that Tuesday morning on the streets, inside buildings, or over phones and radios. There is no other information given besides real facts. Being accounting majors, we have been asked to use these facts to basically step into the shoes of the locals of New York City, and write how the video made us feel.

I have learned from writing this case that when presented with only the cold hard facts of an event, the viewer develops their own opinions and feelings without bias from outside sources. The feelings that the video provokes in the viewer are brought forth from facts and not a sanitized documentary or news reporting of the event. I learned so much about the tragic event and critical facts that I have forgotten about 9/11 but that I should remember in order to honor those lost. I always seem to forget, or at least not realize, how many firefighters lost their lives climbing the towers in order to try and rescue the residents of the towers. This video and case led me to remember all of the victims, specifically the emergency officials, more intensely when the twenty year anniversary came around last Saturday. I felt like I had a new understanding of their pain. Also, I now have a greater appreciation for the life I have been given, after watching so many perish on what was supposed to be just a normal Tuesday morning in Manhattan.

I have grown up always knowing what historic event happened on September 11th, 2001. I do not remember first finding out about the event, which is kind of like not remembering meeting your own parents. I have just always known about the twin tower collapse and how tragic the day was for America. I was just over six months old at the time, and I was in day care with my older brother. My mom was working in the hospital up the street as a NICU nurse, and my dad was signing a check to the Coca Cola delivery truck after they had just dropped off an order at his restaurant in downtown Jackson. I am selfishly glad that I was so young on that day. I have talked to many older friends and family about where they were and how they felt on 9/11, and I am relieved to say I did not have to go through the tragic shock and terror that the day brought Americans.

That being said, I know the importance of continuing to learn about the events of 9/11 as well as the importance of taking time every year to honor and remember those lost and injured. I learn something new about the attack every year. While most high schools focus on 9/11 by studying documentaries and articles in early September, and I remember digging deep into poetry about 9/11 in my senior English Literature class, this year is the first year I have seen the video called “102 Minutes that Changed America”.

This video is made of many home videos of people watching the twin towers in ruin, and it allows the viewer to watch the event almost in real time. The video also contains some speech from phone calls, radio chats, news reports, and locals fleeing from the towers, as well as speech from locals watching the scene from afar. With almost dramatic irony, we, the viewers, watch the video knowing that both towers will soon be struck by the jets, and both towers will soon collapse in on themselves, taking down everyone inside. It is surreal to see how people reacted to the scene without knowing what was happening, because like I mentioned, I have always known what happened on 9/11, and I never thought about what was going through the locals' minds at each minute after 8:44am. This video allows the viewer to really get into a local watcher's shoes and see the tragedy from their perspective. A wave of sadness, sympathy, and hopelessness washed over me as I watched this video in class.

At first, the citizens of New York thought that the first jet crashed into the first tower by accident. Many came to the conclusion that the pilot must have had a heart attack. Now, if a plane crashed into a building in America, I think most people would assume there had been a terrorist attack. The horrific day has changed the way Americans view society. Once the second jet flew into the second building, the citizens started to panic much more. Many wondered if more planes were coming, and some even predicted a jet would come for Washington, DC next.

One of the worst parts about the attack and watching the video was that the second tower's residents were told to station in place instead of evacuate after the first tower was hit. The officials were using their best judgment, and they assumed evacuating would create too much traffic at the bottom of the towers for firefighters to get to people injured in the first tower. There were already hundreds of police, firefighters, other emergency officials, and portable news crews taking up space at the base of the towers. It is sound judgement to lower that amount of traffic if the first plane crash had been an accident, but the viewers of the video know that the decision was one of the worst decisions the officials could make. We know that the second tower was minutes away from being hit and that evacuating would have saved hundreds of lives.

I was shocked to find out that 25% of the 3000 people who passed away and the 6000 people who were injured had accounting degrees and another 25% had finance degrees. If I had been born thirty years before 2001, that very well could have been me in the twin towers that day. So many people enter the business world eager to land a prestigious corporate job at a high end firm, and so many of the most prestigious firms had offices located in the twin towers. Americans go to work every day trusting that they will be safe in their building. However, on this day in September, the city of New York was not safe. I feel lucky to feel safe in my city, because many New York residents no longer felt safe after this Tuesday morning.

People couldn't even call their loved ones near the area because the phone signals were cut off. Most people didn't even have cell phones to call people anyway twenty years ago. One bystander even said in the video "Does anyone have a cell phone?". Today it is understood that everyone has cell phones. Also, in this video, most people are either watching the destruction, trying to call their loved ones, talking to strangers on the street, taking videos with video cameras, or listening to the radio to get information on the towers. I think if this event had happened with today's technology, the video would capture all of the locals holding their phones up to the wreckage to gather the footage for themselves. Just like at concerts today, the skyline would be filled with iPhones videoing the scene, instead of the more personal and communicative experience we see in the video without today's technology.

There are multiple clips from the video of a person hanging out of one of the top floors of the building waving some type of flag. The viewers knew that the building he was in was on fire, and that he wouldn't be saved. Still, he hadn't given up, and he waved that flag until he fell out of the building, as one person's video camera recorded someone crying that he had fallen. Other videos capture radio communication of a woman inside one of the towers telling an emergency authority that there were people jumping out of the building. All of the videos that captured the actual footage of people jumping to their deaths left the locals stunned and crying in hopelessness. I would feel the exact same way if I were watching the jumpers that day. The fire inside the building must have been too hot, and the smoke inhalation must have been suffocating the victims to the point of jumping out of the building. Other jumpers may have just found the situation hopeless, and decided to take matters into their own hands by jumping. I hope I never have to be in a situation like that. It is a horrific scene to see people lose all hope and resort to jumping to their deaths.

The attack that happened on September 11th, 2001, made Americans scared to even hear a plane fly in the sky for weeks after that day. My dad remembers washing the dishes about a month later when he heard a plane fly over the house for the first time since 9/11. Things that Americans didn't even bat an eye at before like airplanes flying over their houses now made them absolutely terrified. I feel grateful that I was too young to experience that terror in the weeks following the event.

One of the most heart wrenching scenes in the video was when the towers collapsed, and the resulting smoke clouds were seen on camera. The smoke was opaque and moved much faster than the locals watching from blocks away, and it eventually reached the locals running as fast as they could away from the base of the towers. The cloud came fast at the locals and completely clouded windows and the video camera footage. People struggled to breathe in the smoke, and once the video footage was visible again, everyone and everything was covered in a thick layer of smoke dust. One policeman said "It looks like a nuclear war happened here" after seeing blocks of New York City covered with smoke. Emergency officials as well as locals were falling to their knees crying for water and fighting for a breath of fresh air. People suffered from the smoke effects long after that day, and some even developed lung cancer as a result of the high smoke inhalation. A few people died in the weeks after 9/11 because of the dire condition their lungs were in because of the thick smoke, and many more lost their hearing for weeks after because of how loud the collapses of the towers were.

The locals began to get very angry with the situation as they started to realize that the plane crashes were on purpose rather than on accident. Many began to voice their anger towards the terrorist attack by saying "we need to kill them" and "we need to go to war now". The victims and locals felt like justice needed to be served to the terrorists' countries. In the weeks following 9/11, the people of the country were devastated and angry seeking vengeance for the lost lives. I can only imagine the anger that the victims' friends and families must feel for the terrorists. The US government responded to the attacks with immediate action in the weeks following. Along with the restoration and rescue teams sent to New York City where the devastation took place, the government also began investigations and sought long-term action to protect the country. The US National Security policy learned many valuable lessons from the attacks, and responded with increased security in airports. I feel grateful for the amount of security we now have to ensure citizens' safety.

Accountants are visual learners. We like to see the facts and work from the facts to interpret our findings into data. This video is a great video for specifically accounting majors, because we can see for ourselves how the events of 9/11 actually played out. Rather than listening to someone else explain the day or watching a sanitized documentary control the experience, watching this video gives the cold hard facts and not much else. We listen to real people who were impacted by the twin tower collapse, we see real videos taken by locals watching from the street, and we hear real phone calls from the victims inside the towers communicating with the emergency officials. Given these cold hard facts, we can truly interpret what we see as unbiased information and sympathize with the locals and victims that were affected on that unforgettable day in September. After watching this video, I feel very grateful that I am safely studying as an accounting major at Ole Miss, but I also feel a responsibility to never forget about the victims and the horrific moments of September 11th, 2001.

Case #2

Design Your Life: Nashville, TN

Henrietta Long

October 6th, 2021

Nashville, Tennessee is a beautiful city with music, historical parks and museums, some of the best food in the United States, Vanderbilt University, a wide variety of sports events to attend, and so much more. Consequently, Nashville is the fastest growing city in Tennessee. I have always loved the city for its architecture and fun, musical energy. Currently, I am not completely sure that I want to live in Nashville for my internship in the Spring of 2023, but the city is definitely in my top three destinations after this research case.

In this case, we were put into groups based on our city preference. We were given a sheet of questions to research about our city. My group chose Nashville for different reasons, but we all came together to work on the powerpoint presentation and learn more about the capital city. I appreciated getting to meet my group members, because these are the people I will continue with in the Patterson School of Accountancy and maybe even will work with one day.

I really appreciated working on this case because I not only got to dig deeper into the exciting research about Nashville, but also, I was forced to look into the not-so-fun, more serious topics that are important when finding a place to live. I was surprised to see Nashville's crime rate is higher than the national average. I was also surprised to see how high the cost of living is in Nashville. While it's not as high as other cities like New York, a growing, booming city like Nashville carries higher rent rates than others.

I love the title of this case: "Design Your Life". The title made me stop and realize how important this decision will be for me. I am essentially, assuming all goes well, picking where I want to live for the first few years of my life right out of college. So much personal growth happens when a person steps into the real world out of college, and the city I will choose will greatly affect my quality of life and how I adjust to my new career. I plan on doing much more research like this on other cities, so I can know I am making the right decision for my future.

Design Your Life - Nashville, TN

Henri Long, Will Bounds, Floyd Melton, Alec White

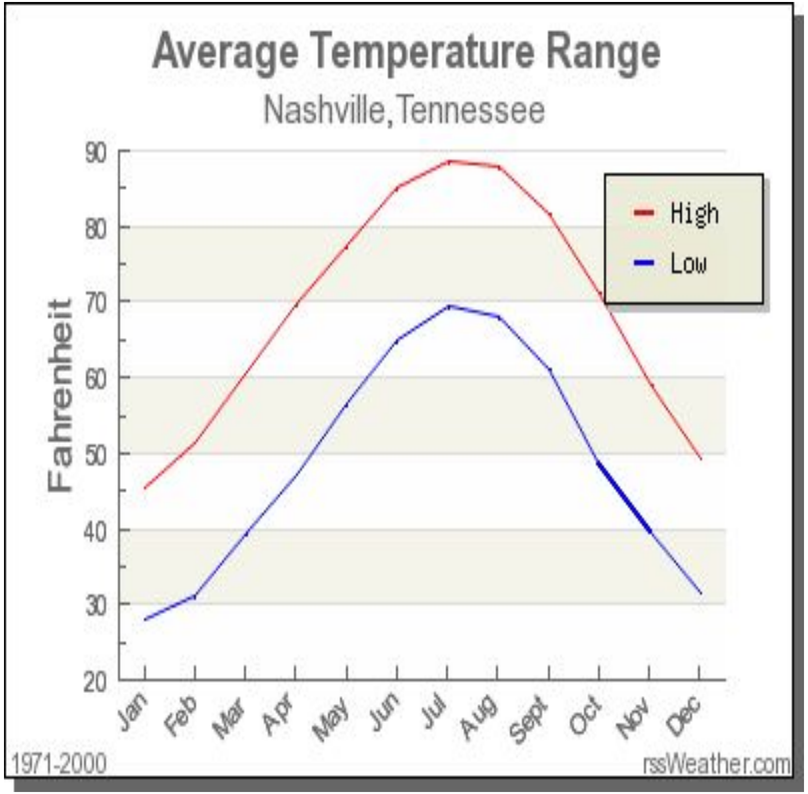
October 6, 2021

Geography & Scenery

- Middle Tennessee
- Located in the Central Basin - 2
- Elevation ranges from 385 ft to 1163 ft - 2
- Scenery - Cumberland River, Centennial Park, Parthenon, Broadway - 1
- Photo Credit - https://www.britannica.com/place/Nashville-Tennessee

Climate

- Temperate, with relatively cold winters and hot, muggy summers
  - On average coldest month is January (38F) and warmest is July (79F)
  - Thunderstorms can be quite frequent during the summer months
- Snowfall - pretty uncommon, usually once or twice a year (6 inches avg)
- Precipitation - Quite abundant (47.2 inches per year)
- Best time to visit- Spring and autumn to avoid muggy heat of the summer and cold of the winter
- Climate very similar to hometown climate
- Photo Credit - https://www.rssweather.com/climate/Tennessee/Nashville/



Industries

- Often referred to as the nation’s health care center
- Industry Breakdown - Educational services, health care - 22.4%, Retail Trade - 11.3%, Arts/Entertainment/Food services - 10.6%
- Five largest Corporate Headquarters

1. Vanderbilt University Medical Center
2. Nissan North America
3. HCA Healthcare Inc.
4. Saint Thomas Health
5. Randstad

Photo Credit - https://www.vumc.org/about/vanderbilt-university-medical-center

Transportation

- Car- The main transportation throughout the city. More than 28,000 parking spaces make it easy to bring a car downtown
- Buses- WeGo public transportation provides bus service in and out of downtown and throughout the city. All-day, unlimited-ride passes are available for $4.
- Taxi- search for Taxi for phone numbers and websites of local taxi companies.
- Uber and Lyft- available for Nashville
- Commuter Rail (train)- The Music City Star Commuter Rail has six stations along the route between Lebanon (east of town) and the destination station at Riverfront Park in downtown Nashville.

Credit: https://www.visitmusiccity.com/plan-a-trip-to-nashville/getting-around/travel-and-transportation-information

Traveling Back to Hometown

- Travel by car back home
- Fifty dollars for one full tank of gas.
- 6 hour drive southwest

Commuting to Work

- The average commute in Nashville is on par with the nation's average at around 25 minutes each way.
- Nearly 80% of residents drive their own vehicle, which is why congestion can be expected every weekday morning and evening.
- Only 10% of drivers carpool, and these drivers take full advantage of the HOV lanes.

Credit: https://www.nashvillesmls.com/drive-time-map.php

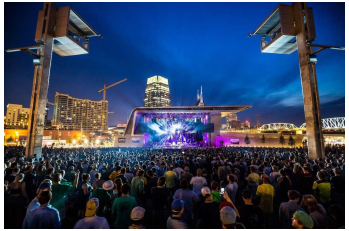
Organizations

- Religious- attend and participate in a local church around my neighborhood
    - Over 700 churches are in the area of Nashville
- Volunteer organizations
    - Hands on Nashville- organization that volunteers for many things around Nashville
    - United Way of Greater Nashville- help children and people in need around Davidson and surrounding counties
    - Habitat for Humanity- assist in repair and improving neighborhoods

Credit: https://greatnonprofits.org/city/nashville/TN
https://theculturetrip.com/north-america/usa/tennessee/articles/the-most-beautiful-churches-in-nashville/

Things to do

- Nashville has many professional sports teams for locals to join together at the stadiums and cheer on their athletes. The Nashville Predators are a National Hockey league team. The Nashville Sounds is a minor league baseball team. The Tennessee Titans located in Nashville is a National Football League team. Nashville even has a pro Australian football team called the Nashville Kangaroos. Nashville is also home to Vanderbilt University, a very prestigious, private research university that has many college athletics to watch.
- Nashville is known for its music industry specifically country, bluegrass, rock, pop and many more genres of music. Although you could probably see a live band or artist on every street in Nashville, the city is also known for the many auditoriums like and stadiums where there are concerts just about every week. The question is never, “Will this artist come to Nashville?”, but rather “When will this artist come to Nashville?”.
- Aside from sports and music, there is still an abundance of things to do in Nashville. You can rent bikes, Segways, or kayaks; go on helicopter, golf cart, or horse and carriage tours; take line dancing classes; and take walks at a number of parks with a popular one being Centennial Park. The Broadway Strip is a famous tourist friendly street in Nashville where you can go out with friends and hear a lot of country music.
- Nashville is known for its hot chicken, but the restaurant and food options are endless. From home-cooking style restaurants to fast-food chains to vegan or vegetarian spots, you will never run out of options for good food in Nashville. When dining out in Nashville, the average cost per person is around $13.



Crime Scene

Nashville's crime rate has been higher than the national crime rate for the past few years. Nashville is found to have higher crime rates than comparable metropolitan cities. The crime rate for 2020 was 606.6 for every 100,000 residents, and the likelihood to be a victim of a violent or property crime is 5.26%. Property crime like burglary, theft, and motor vehicle theft are the more common crimes in Nashville.

The top five most dangerous neighborhoods in Nashville are West Meade, Salemtown, Heron Walk, Glen Cliff, and Haynes Area. Avoiding these areas and looking into the safer neighborhoods would be wise when moving to Nashville.

There was a Christmas morning bombing in Nashville in 2020, frightening many locals and potential residents of Nashville.

Healthcare & School Districts

Nashville has a vast selection of excellent medical centers and hospitals. Some big hospitals in Nashville are Vanderbilt University Hospital, St. Thomas Hospital, and Saint Thomas at midtown. There is also a children's Hospital at TriStar Centennial.

Nashville has multiple highly renowned public and private schools for children elementary through high school. Williamson county schools and Sumner county schools are currently the top two school districts in Nashville. The top rated private schools in Nashville are Montgomery Bell Academy, University School of Nashville, and Harpeth Hall School. These private schools cost around $30,000 in tuition per year. However, there are other private schools that are still excellently rated with the average tuition of private schools in Tennessee being around $10,000 per year.

Rent

Rent in Nashville will be around $877 a person for a two bedroom apartment in a safe neighborhood. It is financially smarter to live with roommates. An apartment for rent right no in Nashville called Avana Bellevue costs around $1650 total with two bedrooms, two bathrooms, and 1,141 square footage. The building amenities include Building amenities a fitness center, patio, barbecue, pet area, shared laundry, and a swimming pool. There are also parking garages available for residents. The unit has a washer and dryer hookup, ceiling fans, and a fireplace. The unit is one mile from shopping, dining, and entertainment in Bellevue place shopping center. (zillow.com)

Everyday Conveniences and Inconveniences

- Very drivable city
- Plenty of grocery stores, both in Nashville and the surrounding suburbs
- Laundry
  - Most apartment complexes will either have a laundry facility or a washer and dryer in every unit
- Pets
  - Nashville has multiple pet friendly parks
  - Apartments will vary on whether or not they allow pets
  - Boarding/daycare for pets is really only necessary if they are very young (puppies)

- Cars are recommended over the public transportation system
- Occasional bad traffic
- The city can get a little rowdy at times
- Growing tourism industry

Taxes (Based on a salary of $55,000)

- Federal Income Tax
  - 22% (Unmarried Individuals), $12,100 annually, $1,009 monthly
- State Income Tax and Local Income Tax
  - N/A, TN has no income tax on salaries and wages
- Property Tax
  - N/A, renting not owning

Nashville Monthly Budget ($60,000 annual salary)

Total: $60,000 ($5,000 a month)

- Income Tax: **$1,100**
- Health Insurance: **$537** (according to ehealthinsurance.com, assuming we are no longer on parents insurance policy)
- Car Insurance (State Farm, full coverage): **$96** (bankrate.com)
- Car Note: **$397** (for used car according to lendingtree.com)
- Rent: **$877** (for 2 bedroom apartment according to apartmentlist.com)
- Utilities: **$180** (numbeo.com)
- Internet: **$70** (numbeo.com)
- Savings: **$780** (20% of paycheck less income tax)
- Groceries: **$250**
- Gas: **$150**
- Dinner, Entertainment, Etc.: **$200**
- Clothes: **$100**
- Phone Bill: **$80** (Verizon, nerdwallet.com)
- Miscellaneous: **$183**

Some numbers are averages found online. Some items are estimations. Therefore, there is room for fluctuation for items such as rent, insurance, car note, utilities, etc.

Credit for "Things to do": https://www.nashvillespinedr.com/professional-sports-in-nashville/ https://www.visitmusiccity.com/things-to-do-in-nashville/music-entertainment
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Credit for "Healthcare and School districts": https://www.nashvillesmls.com/blog/how-good-is-the-health-care-in-nashville.html

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Credit for "Rent": https://www.zillow.com/b/avana-bellevue-nashville-tn-5Xhxj4/#mmlb-26

Case #3

Excel Verification

Henrietta Long
October 14th, 2021

Corporate Finance Institute®

801-750 West Pender Street Vancouver BC V6C 2T8

The Board of Directors of the
Corporate Finance Institute® have conferred on

henrietta long

who has pursued studies and completed all
the requirements for the certificate of

Excel Crash Course - Spreadsheet Formulas for Finance

National Registry of CPE Sponsors Number: 139079
Instructional Delivery Method: QAS Self Study
Finance: 3.0 credits.

In accordance with the standards of the National Registry of CPE Sponsors,
CPE credits have been granted based on a 50-minute hour.

VERIFIED CFI™ CERTIFICATE

Certificate number
180816227

Tim Vipond
Chair of the Board

Scott Powell
Director

Lisa Dorian
Director

Oct 14, 2021

Case #4

Financial Impact of COVID-19 on Pfizer

Henrietta Long

October 27th, 2021

In this case, we looked at six different aspects of the Covid-19 pandemic concerning the vaccine and its rollout. Specifically, we focused on the company Pfizer and how it changed its business operations to meet the initial challenges of the pandemic and then evolve into one of the major suppliers of vaccines in the United States. We looked closely into the company's financial statements and management comments to find how the company operated internally and then searched the internet to find external reporting on the company's activities. As part of this case, we used multiple search engines to see if there were major differences in the reporting of the pandemic and the more specifically the vaccine rollout.

Throughout this case, we learned how to read through financial statements and draw conclusions based on the numbers and trends. To round out our views, we also looked at business analysis from both internal managers and external reporters to make sense of why the numbers changed during the pandemic. Next, we looked into the efficacy of alternative treatments for Covid and if any research-backed their claims. This led us to alternative treatments being created by pharmaceutical to augment their vaccines. Our next major area of research involved search engines and the results they gave when researching Pfizer and its activities. Most engines we used provided reliable sources, but the content of the results did have some differences.

Lobbying activities were also a focus of this case. We looked into not only the net spend of the company's lobbyist efforts but also what changes they advocated for. We found most lobbyists from pharmaceutical companies focused on the CDC and FDA to influence their public endorsements of certain drugs. Finally, we looked into vaccine mandates, specifically the presidential executive order requiring all federal employees to be vaccinated. Our research into these various topics broadened our understanding of the vaccine's development and how its many aspects have affected the citizens of the United States.

Pfizer Financial Statements

Pfizer has been impacted in many ways due to the Covid-19 pandemic. Like all companies, both their financial and operational activities have been affected while trying to adapt to a new business landscape. Pfizer's initial challenge was to figure out how to operate its offices and manufacturing facilities while protecting its workforce. Most employees from the office buildings were able to work remotely, but manufacturing facilities took time to adapt to new restrictions on their workforce. The company was impacted twice in regard to supply chain management. It had to ensure its suppliers could continue to deliver raw resources in a timely manner, and it had to ensure its facilities could deliver products to its customers. The financial statements show an increase in costs surrounding both incoming and outgoing logistics due to the challenges of the pandemic.

The sales of Pfizer saw a lot of changes due to the pandemic. Initially, the demand for general hospital equipment and general use medications increased as the health industry tried to supply itself for the increase in patients. At the same time, demand for many of its products began to decrease due to people no longer visiting their doctors on a regular basis. Managers of the company also attributed the increase in unemployment to the struggling sales of some of the less essential products. Everything changed for the company after its Covid-19 vaccine was proven effective. The company experienced a massive increase in sales and many operational resources were diverted to support increased manufacturing of the vaccine. Pfizer also claims that its foreign sales have and will continue to increase due to the positive association it has received for exporting its vaccines to countries overseas. It expects other vaccines that prevent respiratory diseases will also continue to increase in demand as people are becoming hyper-aware of these viruses.

Pfizer according to the Internet

Based on the Google search engine, articles reporting Pfizer's increased profits are displayed prominently. These articles sometimes also mention that other companies decided not to fully mark up their vaccine while Pfizer has profited immensely from their vaccine. The articles tend to use numbers from revenues without taking operation or research costs into account in order to inflate the numbers in their headlines. Similarly, Duckduckgo also displays articles that tout Pfizer's increase in sales due to the vaccine. Unlike Google, this search engine has a larger quantity of articles that dive into the technical challenges of creating and distributing the vaccine. There are also a few articles criticizing Pfizer, but most of these sources are not very reliable and tend to be a tabloid-style news outlets.

All of these search engines tend to prominently display reliable sources such as Forbes, CNBC, and the New York Times. They also tend to present headlines related to business profits or sales first followed by an actual look into the company's operations. The focus on business is consistent across platforms in the first initial searches. Articles about U.S. policy regarding the pandemic also begin to appear further down due to its tangential relationship to the vaccine. These articles don't focus on Pfizer specifically but mention the vaccine in relation to its rollout to the population and how it has changed infection and hospitalization numbers.

Covid Treatments

Many drugs and treatments have been touted as a cure for Covid-19. Most of them either treat the symptoms of the virus or don't actually provide any noticeable benefit. All of them have little or no research that directly connects them to the Covid-19 virus. The scramble to find an effective treatment has led many to claim that they have found the "magical pill". These are a few of the more well-known treatments that some claimed to be effective against the Covid-19 virus.

Ivermectin is a parasitical drug that has proved effective to prevent and treat parasites. The drug has very little research into human reactions as it has mainly been used in animals. In most cases, the data gathered on Ivermectin has shown negative results in humans that took the drug for an extended period of time. This risk is magnified when humans have taken doses designed to be used in large animals such as horses and cows. There is currently still no data that supports the claim that this drug is an effective treatment for Covid-19.

Another drug that has risen to fame as a Covid treatment is Hydroxychloroquine. This drug has been extremely effective in treating malaria and other autoimmune diseases. There is some research that suggests the drug can be effective in some people who have been infected with Covid-19; however, this sample size is not large enough to prove that Hydroxychloroquine is effective in mitigating the pandemic. Despite some limited successes, there is no government or medical organization that recommends this treatment method. In addition, using this drug for Covid patients has been called wasteful as it is desperately needed in countries where thousands of people die from malaria due to a lack of supply of this life-saving drug.

Reactions to Potential Treatments

All of these alternative treatments have been rejected by the wider scientific community. The various vaccines remain the only widely accepted way to prevent the Covid-19 virus. This endorsement has been backed up by a multitude of studies conducted by both the companies that created them and the governments that have endorsed them. The medical research community supports these studies and agrees with the methods used to conduct them. Still, many companies are searching for treatments that can be used in conjunction with vaccines to fight the virus.

Many pharmaceutical companies are now trying to create treatments to fight the Covid-19 virus in addition to their vaccines which aim to prevent infections. Pfizer specifically is working on clinical studies for a treatment that may be able to inhibit the virus. This new treatment uses information discovered while developing the vaccine and aims to fight the virus when it has already infected a person. The company will still recommend the vaccine in addition to this new treatment as prevention is still more effective than treatment. The vaccine will also be cheaper for consumers as it is unclear if the government will pay for Covid-19 treatments when it has already committed to paying for a vaccine for the entire population.

The Covid-19 Treatment Guidelines Panel still does not recommend most treatments that have claimed to treat Covid-19. One exception accepted by both this panel and the FDA is Remdesivir. This drug has been approved to treat people above the age of 12 who have been infected by the virus. This drug was created by a joint effort between multiple pharmaceutical companies which aimed to turn the ineffective treatments, some of which are mentioned in the previous section, and turn into drugs that can effectively fight Covid-19.

Influence of Lobbyists

Given the enormity of the contracts being offered by governments around the world to both invent and produce Covid-19 vaccines, it is no surprise that many companies have evolved and expanded their lobbying efforts in order to influence the decisions of their targeted government. These lobbyists aimed to influence the issuance of government contracts, approval by government regulators, and endorsements of public officials. The potential financial benefits of these activities are so great that many pharmaceutical companies have publicly increased the amount of money they spend to influence government officials.

Pfizer specifically increased their lobbying efforts by over two million dollars between 2019 and 2020. This is the most money the company has spent on lobbying since 2009 when they were aiming to gain favor as a supplier for Obamacare. Most of this money in 2020 was spent trying to influence the CDC and FDA which are the trusted authorities when it comes to recommending drug treatments in the United States. This money also makes Pfizer the second-highest spender in terms of lobbying by the healthcare industry.

Most lobbying efforts have focused on drug pricing, vaccine and treatment approval, and patent protection. These areas are critical for pharmaceutical companies as these concerns directly correlate to the profits each company can extract from this pandemic. For the most part, it appears that government officials have “agreed” with the views of these lobbyists; although, it is unclear if these opinions were heavily influenced by the corporate lobbyists or if the government simply reached these conclusions on their own.

Vaccine Mandates

During the 2020 presidential election, both candidates claimed they would not mandate vaccines to any portion of the United States population. After the emergence of the delta variant, however, the president has now signed executive orders to mandate both masks and vaccines for widespread portions of people living and working in the United States. Specifically, all federal employees are required to be vaccinated in order to continue working for the government.

In the executive order, the President talks about ensuring the health and safety of federal employees and separately encourages all people to be vaccinated if they are able to do so. He also quotes the CDC and FDA to claim that the vaccine is the only proven, safe method of preventing death from the Covid-19 virus. President Biden also appeals to those who fall under this mandate to embrace the vaccine in order to ensure the health and safety of their families and neighbors. The President hopes that these ongoing prevention methods will noticeably decrease the infection and death rates of Covid-19 and ensure that employees of the federal government have taken all available steps to stay healthy during this pandemic.

These orders have not been implemented without controversy and many groups of federal workers are resisting the vaccine mandates. These debates have been very public and both sides are using the media to try and convince people of their position. There have not been many legal challenges, so the fight to avoid the mandate has mainly been raged in the arena of public opinion. Both sides have presented their arguments, but it doesn’t look like many exceptions will be created for people who do not wish to be vaccinated.

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Case #5

Interview Case: Mark Melvin

Henrietta Long

November 19th, 2021

Mark Melvin is my very good friend Lily's father. I have known Mr. Melvin for about seven years, but he is somewhat quiet and does not talk about himself often. He is a very welcoming person when it comes to engaging in small talk, talking about his daughter, or discussing religion because he is a very religious man. Nonetheless, he never spoke about his career with his daughter, and if I was ever at my friend's house and would ask him about his career, he became very closed off. I'm not sure why he does not like to talk about his work, but if I were to guess, I think he prefers to talk about fun stuff rather than his office job. I also believe that he repossess cars very frequently entering many dangerous situations with angry people, so he does not like to tell to his daughter about the dangers of his job and worry her. For these reasons, I was fairly intimidated to approach Mr. Melvin about interviewing him on his career.

I called Mr. Melvin this past weekend, and I was surprised to hear him be very excited for the interview. He told me he tries not to talk about himself or his work in everyday life because there is already a lot of greed and narcissism in the business and finance world, and he tries not to add to it. Nevertheless, he was honored to be interviewed and wanted to help me in any way he could.

I learned a lot about the business and finance fields, and about Mr. Melvin as a person. He told me about his struggles balancing a career with the priorities that mean the most to him, and his struggles with learning disabilities. Because I was intimidated by Mr. Melvin when it came to career talk, I imagined the interview would be uncomfortable and awkward, but it was actually very enlightening and pleasant. Consequently, I discovered that people are not always the way they seem. The interview surprised me and forced me to get out of my comfort zone, which is practice I need, according to Mr. Melvin, to succeed in a business career.

Mark Melvin grew up in Laurel, Mississippi as the youngest child in a loving family with two older sisters and one older brother. All have graduated from Ole Miss with at least a bachelor's degree. His brother is a doctor, his first sister is a television producer, and his second sister is a lawyer and judge. Melvin's father and grandfather owned a law firm for many years called Melvin & Melvin, and an Ole Miss business law class actually studies a case of theirs from years ago. To say the family has been successful in their careers is an understatement. Mark Melvin is a finance professional who owns a finance company in Madison, Mississippi called First Gear Finance. His specialty is car financing and specifically repossessing cars. Melvin repossesses the cars of individuals who fail to pay their car note. Melvin's parents have always been his biggest supporters, encouraging him in all his social and business endeavors for as long as Melvin can remember. His parents are both still living in Laurel, Mississippi at the age of 90 years old.

Melvin explains his childhood as "pretty normal but with horses." He said he grew up in a normal neighborhood, but he grew up with horses at his house. His family had a stable in their average sized backyard, and Melvin would ride his horses to school, swim practice, and just about anywhere he needed to go in Laurel, Mississippi. As strange as that seems, it was "Not too strange for Laurel back in the day" Melvin said.

Melvin was never the best test taker in middle and high school. Melvin was diagnosed with dyslexia at a young age and had visual and auditory difficulties. He describes his disabilities by saying "If you asked me a question on a test, I could tell you the answer, but when it was written on paper and in a test setting, my brain would not function right." Melvin's teachers worked with him through this disability, but what go hime through high school and college was his very strong work ethic. He managed to graduate high school with decent grades but had to put in much more work than the average student to fulfill his academic duties.

In contrast, Melvin's brothers and sisters excelled in the classroom and earned many academic awards, and he simply could not. Although school was not his strong suit, Melvin wanted to be the best at something. He had a very strong work ethic, and he said "putting in work was my strong suit." Melvin loved practicing enough to see results and because of this determination to work hard and succeed, Melvin took up sports, specifically swim.

In the water swimming, Melvin could be the best, and he found his worth in his athletic accomplishments. Melvin was the captain of his high school swim team, and he swam about 15 hours every week in high school. "What comes with swimming that much is a very big appetite" Melvin explained. This avid swimmer would eat 20 Krystal burgers right after an intense swim meet to nourish his well performed body, and then Melvin would ride home from the swim meet on his horse. "Those were simpler times, and some of the best days of my life" Melvin explained as he fondly looked back on his childhood.

Even though Melvin loved swimming, he did not continue this sport into college. Despite the face that he no longer swims competitively, he has continued to stay active by swimming in the summers and skiing in the winters. He is very outdoorsy and loves to camp and hike as well. He stays athletic today and enjoys a healthier life style than eating 20 Krystal burgers in one sitting. Melvin occasionally fasts, religiously and for health reasons, and runs every morning.

Melvin and his siblings were pretty close in age, and they all were in Oxford going to college, whether they were in undergraduate or graduate school, around the same years. To financially support four college students, his father bought a large stake in a McDonald's that had just opened in Oxford. Melvin said this investment had very high returns and paid for all of their college tuitions.

When Melvin started college at Ole Miss, he had no idea what he wanted to do with his life. Melvin said "My parents would have supported any path I chose, but I just could not seem to enjoy any field of study for my first few years in Oxford." He was miss-guided, and he was battling a complex of acceptance by others. He suggested that he made many mistakes in college trying to be loved by everyone. "Honestly, college was a nightmare for me" Melvin explained. He originally majored in engineering but simply could not succeed because of his learning disabilities. Melvin began to take his studies more seriously in his junior year of college. He switched his major to finance because he knew he would be able to do a lot with a career in business and finance. After many long nights of studying, "more than the average student had to," he claims, Melvin earned a bachelors degree with a double major in banking finance and managerial finance.

Out of college, Melvin worked for GMAC which was the "largest corporation in the world" he said at that time in 1987, and he started out as a stockroom clerk. He then worked for the financing arm of General Motors for a couple years in Memphis, and then he was transferred to Jackson, Mississippi. He specialized in car financing, and he began to repossess cars often. He said he likes hunting down people to take their cars if they fail to pay their car note, but it can be very dangerous at times. He said he began to be recognized by people as the car repossessor in Memphis, so he started wearing hats to disguise himself a little. Now Melvin wears hats everywhere he goes except church. After working for GMAC, he settled down, got married, and had his only daughter Lily in 2001. Melvin then started working on his own to open finance divisions for banks and other companies. Melvin said that he learned so much about the finance and business world in the beginning years of his career, and that he loved learning through experience rather than in a classroom. He also learned that it was very difficult for him to balance his career with his family and daughter at times. He decided to draw a line and prioritize his family and, as Melvin put it,“the things that mattered most.”

Melvin’s most challenging and difficult hurdle so far has been opening his own business to give more time to his family. In November 2014 he started his own car financing company called First Gear, because he wanted to be at home for his daughter. “It was a slow start, and I had some tough times, but I would do it over and over again for my family” Melvin stated.

Melvin said his life has been rewarding in and outside of his work. He loves talking to people about Christianity, whether those people are his clients or people in his social life. He believes his purpose is to spread joy and kindness anywhere he can. Melvin is very involved in his daughter’s life and has enjoyed watching her grow up and attend his alma mater. He is most proud of his daughter, his faith in Christianity, the successful finance business he has created, and his side job of photography. His favorite vacation was in 1995 when he went to Switzerland with his father on a hiking trip. The Swiss Alps helped Melvin reexamine everything about his life. He got into photography after this trip because he discovered his passion of photographing nature. Now Melvin is very serious about photography as well as his finance business. Melvin said he does not have a bucket list because he likes to live in the moment.

Melvin’s advice for a 21 year old in college is to “think about what you like to do, analyze yourself, and figure out what you do not like. Ask yourself what do your friends go to you for. Make a career out of that. Do not think about the money or acknowledgement. Get on that path, and it will figure itself out." He encouraged self reflection often and getting out of one's comfort zone frequently. "The business world will leave you behind if you don't adapt and try new things often," Melvin claimed as a challenge of his generation. He had to adapt to changing technologies throughout his career. Melvin wishes that he would have taken more risks in the early stages of his career and been more fearless. He would tell his 21 year old self to get into more uncomfortable situations because that is where the most learning is done in the business world.

A challenge for every generation, but specifically the current generation of Ole Miss students, is narcissism and taking blessings for granted, according to Melvin. He said, "Especially in the finance world, it is easy to feel lost in the career. With finance comes money which comes greed. People can be more focused on making money than taking care of the customer." He said at first when he was young he had a tendency to go along with his superiors, but then he started to gain more experience and knowledge and started to "do things differently." His goal now is to always help the customer in any way he can. Mark stated that a superior will most likely benefit from their employee treating the customer well and keeping them happy, so that should be a big goal of a professional in a business career. Melvin believes that in order to "look at yourself in the mirror everyday and like what you see, you have to treat people with kindness and how you would want to be treated". He said this is an aspect of every career path. "I sometimes had to leave jobs because what they asked me to do went against my integrity as a professional. You can always find something else pretty fast. Never be afraid to do that" are some wise words Melvin ended with.

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Case #6

Johnson & Johnson

Company Overview

Week One

February 9th, 2022

For week one, our group was tasked with researching our chosen company, Johnson & Johnson, a large pharmaceutical company that has made headlines from the advent of the Covid-19 pandemic. We were to provide a full company overview, detailing base information we gathered as well as a list of the company's numerous subsidiaries and threats. Contained below is Johnson & Johnson's initial research overview; from this foundation, our group will expand our knowledge of the company throughout the semester leading up to our end of semester presentation.

Based in New Brunswick, New Jersey, Johnson and Johnson (NYSE ticker JNJ) has a net worth of around $450 billion dollars. At its core, JNJ provides products related to human health and well-being. With around 134,500 employees, the company engages in research and development as well as manufacture and sale for their three business segments: consumer health, pharmaceuticals, and medical devices.[1] In 2021, the most recent calendar year, JNJ reported sales of approximately 93.8 billion dollars. When those sales are broken down among the three primary service lines, 15.5 percent, 55.5 percent, and 29 percent of total sales are split between the consumer health, pharmaceutical, and medical devices sectors respectively.[2] These three key segments are broken down in the following paragraphs.

The consumer health segment is composed of baby and oral care, skin beauty, over-the-counter products, women's health, and wound care.[3] As shown previously, the consumer health

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1 Inline XBRL Viewer

2 https://www-mergentarchives-com.umiss.idm.oclc.org/viewReport.php?rtype=annualReports&documentID=2673644&companyName=Johnson%20%26%20Johnson%20%20&reportType=1&country=United%20States

3 Inline XBRL Viewer

segment of JNJ generates the least amount of revenue. This observation is not an anomaly, as consumer health has generated the least amount of revenue each year for the last decade.[4] What is perhaps most interesting about this business line is that JNJ is planning on splitting its consumer health division off from the pharmaceutical and medical devices sectors. JNJ claims that this move will help streamline and simplify its core processes while helping segments establish more precise goals; however, while these benefits were certainly intended, another motivation could come from the negative press the consumer health segment has garnered. JNJ's consumer health segment is experiencing criticism and litigation for the safety risks of its talc-based baby powder, and, recently, the company has recalled some aerosol sunscreen products out of fear they contain a cancer-causing material.[5] These negatives are also listed in the "threats" section as well. Separating this sector from the others might keep its worsening public image from poisoning other facets of the company.

The two larger revenue generating sectors are pharmaceuticals and medical devices. These divisions will remain a part of the parent company when JNJ completes its splitting off transition in late 2023.[6] The subcategories included in pharmaceuticals are immunology, infectious diseases, neuroscience, oncology, pulmonary hypertension, and cardiovascular and metabolic diseases. Included in the medical devices business line of JNJ are prescription drugs, vaccines, and other new and developed technologies like robotics and artificial intelligence.

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[4] • Johnson & Johnson: revenue by segment | Statista

[5] Will Johnsohnson Be a Better Buy After Spinning Off Its Consumer Business? | The Motley Foolon & J

[6] J&J plans to split into two companies, separating consumer products and pharmaceutical businesses (cnbc.com)

Of course, no analysis of JNJ can be complete without detailing its Covid-19 vaccine. The company created a one-dose Covid-19 vaccine released March of 2021 which now has proved to have an 85% efficiency rate in those 18 years or older.

1. News Articles

Looking through various current news articles, we learned that most of the news regarding J&J is linked to COVID-19 and their vaccines; however, their most popular products are still band-aids, Tylenol, and baby powder. A big headliner is how effective the J&J vaccine is and how it is going to continue to develop. Another topic in the news cycle is about the recent change to split the company into two companies.[7] This division would separate pharmaceutical and medical devices from consumer health. The company has decided to do this to allow for more growth and allocation to these areas. Johnson & Johnson stock increased after the announcement, likely because stockholders of the company will now own a share of each part of the company - essentially, they will own stocks in two publicly traded companies.

Recently, Johnson and Johnson had gotten a lot of attention from their Covid-19 vaccine. In February 2021, the United States Food and Drug Administration granted emergency authorization of J&J's vaccine.[8] The company made the vaccine not-for-profit in efforts to combat the ongoing global pandemic. Their vaccine is said to be 67 percent effective in preventing moderate to severe Covid-19 cases 14 days after vaccination. Additionally, what makes the J&J vaccine different is that it only has one dose as opposed to others which require two doses for full vaccination.

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[7] https://www.cnbc.com/2021/11/12/jj-shares-jump-after-ceo-says-health-giant-plans-to-break-up-in-wsj-report.html

[8] https://www.drugwatch.com/manufacturers/johnson-and-johnson/

Johnson and Johnson have faced some controversy with their vaccine. A handful of cases arose of women across the country reporting cases of severe blood clots after receiving the J&J vaccine. One case of a 19-year-old, Emma, has just been able to walk recently after undergoing five surgeries and overcoming four strokes due to the J&J vaccine.[9] The family is optimistic about the future, but disappointed that J&J have not reached out or given any type of financial support.

Despite various controversies, Johnson and Johnson is one of the most successful pharmaceutical companies. On the J&J website, they make sure to market their goals and missions. They have several articles that outline their equity and diversity agendas, how they want to improve their sustainability especially in healthcare, and the various awards that they have won for their research. The company has also promoted themselves and employees that have spots on various Fortune 500 lists.[10] It makes sense that a company would only promote the triumphs instead of their problems, so it is good to keep this in mind when viewing the current events of JNJ and where the information is coming from.

2. Subsidiaries

Johnson & Johnson conducts business in virtually all countries of the world with the primary focus on products related to human health and well-being. As a result of the company's massive size and international influence, JNJ has over 250 subsidiary companies.[11] And, given that JNJ classifies its business processes into the three operating sectors stated previously, we

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9 https://www.8newsnow.com/news/local-news/now-i-can-walk-19-year-old-las-vegan-recovering-from-j-j-vaccine-side-effects-nearly-10-months-later/

10 https://www.jnj.com/latest-news

11 https://www.sec.gov/Archives/edgar/data/200406/000119312512075565/d281803dex21.htm

saw it best to distinguish the subsidiaries along these three segments above with the addition of a "miscellaneous" segment. The Miscellaneous segment includes investments, holdings, marketing, land management, sales, trading, audit standards, and asset management.

Consumer Health	**Pharmaceutical**	**Medical Devices**	**Miscellaneous**
Beijing Dabao Cosmetics Co., Ltd., China	Cilag, Switzerland	Berna Biotech Korea Co., Korea	Apsis, France
Ethicon, Europe/US	Ethnor Farmaceutica, Venezuela	Biosense Webster Ltd., Israel	Berna Rhein B.V., Netherlands
GMED Healthcare BVBA, Belgium	Janssen, Europe/US	Cordis, Europe/US	EES Holdings, Mexico
J-C Health Care Ltd., Israel	McNeil, Europe/US	Crucell, Europe/US	FMS, Switzerland
Vania Expansion, France	OMJ Pharmaceuticals, Europe/US	DePuy, Europe/US	High Wycombe Property Management Limited, United Kingdom
Neutrogena Corporation, Delaware	Omrix Biopharmaceuticals, Israel/US	Lifescan, Europe/US	J.C. General Services CVBA, Belgium
Wellness & Prevention, Inc., Michigan	Ortho-Clinical Diagnostics, Inc., Europe/US/Japan	Medos, Switzerland	JHC Nederland B.V., Netherlands
	Tasmanian Alkaloid Pty. Ltd., Australia	Mentor Worldwide LLC, Netherlands/US	JJC Acquisition Company B.V., Worldwide
	Tibotec-Virco Comm. VA, Belgium	OBTECH Medical Sarl, Switzerland	J&J Investment Ltd., Worldwide
	Xian-Janssen Pharmaceutical Ltd., China	Acclarent, Inc., Delaware	J&J Consumer Holdings, Worldwide

	ALZA Corporation, Delaware/California	Animas Corporation, Delaware	J&J Financial Services, Worldwide
	Centocor Biologies, LLC, Pennsylvania	Codman & Shurtleff, Inc., New Jersey	Latham International Investment Company, Ireland
	Crescendo Pharmaceuticals Corporation, Delaware	Cougar Biotechnology, Inc., Delaware	Turnbuckle Investment Company, Ireland
	JOM Pharmaceutical Services, Inc., Delaware	Diabetes Diagnostics, Inc., Delaware	CNA Development LLC, Delaware
	Noramco, Inc., Georgia	Micrus Endovascular LLC, Delaware	ISO Holding Corp., Delaware
	Patriot Pharmaceuticals, LLC, Pennsylvania	Nitinol Development Corporation, California	J&J Holdings Inc., Nevada
	Scios Inc., Delaware	SterilMed, Inc., Minnesota	JNJ International Investment LLC, Delaware
		SurgRX, Inc., Delaware	Micro Typing Systems, Inc., Florida
		Therakos, Inc., Florida	Middlesex Assurance Company Limited, Vermont
		Therapeutic Discovery Corporation, Delaware	Refresh Holding, In., Delaware
		Veridex, LLC, Delaware	Rutan Realty LLC, New Jersey

3. Potential Threats:

After looking at Johnson & Johnson's annual reports, subsidiaries, and external articles we were able to pinpoint several threats to the company.[12] One of these threats is lawsuits. At first glance, it might seem that most of the lawsuits are coming from COVID-19 related vaccines and other medical procedures, but there have been many lawsuits regarding the consumer health segment of the company.

Johnson and Johnson have faced many lawsuits with their talc products with over 20,000 filed suits. The claimants believe the talc baby powder caused cancer, and the talc-based powder has been discontinued in North America. Recently, the company settled in a lawsuit to pay Native American tribes for opioid problems.[13] This settlement will get critical resources to tribal communities to help with the opioid addiction crisis.

A huge threat to every big company is competition. One of Johnson and Johnson's biggest threats has been the pharmaceutical company Pfizer.[14] The two companies have been competitors long before the pandemic as they both hold large market shares in the health industry. Since the pandemic, the competition has only increased. The Johnson and Johnson vaccine has around 85% efficiency, while Pfizer has around 95% efficiency. Additionally, the Pfizer vaccine is FDA approved for those 16 years or older while Johnson and Johnson is FDA authorized through Emergency Use Authorization for those 18 years or older, but it is not approved yet. The Johnson and Johnson vaccine was released later than the Pfizer vaccine, and it went through much more backlash after a few cases of blood clotting side effects were reported,

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12 https://pestleanalysis.com/johnson-and-johnson-swot-analysis/#What_are_the_biggest_threats_to_Johnson_and_Johnson

13 https://www.washingtonpost.com/health/2022/02/01/opioid-settlement-native-american-tribes/

14 https://whatcompetitors.com/johnson-and-johnson-competitors/

so the vaccine was recalled. Also, Pfizer is in the lead on the international front with the vaccine; the Pfizer vaccine has been distributed to 165 countries while the Johnson and Johnson vaccine has made it to 106 countries.

Along with lawsuits and competition, there are government regulations which are a threat to the company's revenues. There is a ceiling on how much pharmaceutical companies can charge for their products. Also, countries across the globe price drugs very differently. As an international company, staying compliant is a constant challenge. Additionally, surgery deferrals have been a recent threat to the company. Surgery deferrals fall under the segment of medical devices within J&J. Over the last several years, this category has decreased in sales. From 2019 to 2020, there was an 11.6[15] percent decrease as reported in the Johnson & Johnson 2020 annual report. They are attributing a decrease in this category because of COVID-19. While there has been a decrease, it is still the second largest profitable segment within the company.

The company is also a victim of corporate espionage. Johnson and Johnson is ranked #1 on the pharmaceutical industry list for nine years in a row. For their pharmaceuticals, they invest heavily in research and development. This intellectual property has become more and more vulnerable for corporate espionage and some hackers linked to North Korea were recently discovered trying to steal information on the vaccine.

JNJ constantly pursues the research and development of new products to fit the changing needs of consumer healthcare. New products released in the last 5 years accounted for 25 percent of its 2020 sales. Patent expiration and corporate competition only increase these needs. The company also has some charges that can be costly for the future. Johnson and Johnson recently

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[15] 2020 Johnson & Johnson Annual Report

halted the development of drug Bermekimab[16] which was being tested for a skin disease treatment. In 2019, the company struck a $750 million deal to purchase all rights from XBiotech Inc for this drug, which was already in Phase 2 development, but the company announced this month that it had to record a non-cash impairment charge of $610 million.

Overall, we learned a lot about Johnson and Johnson. Going into this assignment, we knew the basics about the company and some of the news regarding COVID-19, but as we dived deeper, there was much more information we had no idea of. One of the biggest things we learned was about the future of the company and how the consumer health segment is going to diverge from the other two segments. Additionally, taking a closer look at the financials and projections of the company gave us insight into what topics we want to focus on in the coming weeks.

16 https://www.reuters.com/business/healthcare-pharmaceuticals/jj-record-impairment-charge-610-mln-2022-02-02/#:~:text=The%20drug%2C%20bermekimab%2C%20is%20a,availability%20of%20additional%20efficacy%20data.

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Case #7

Johnson & Johnson

Audit Phase

Week Two

February 16th, 2022

For this week's case study, we were assigned to audit Johnson & Johnson. Our audit of the company began with us looking up J&J's recent 10-K and other financial statements to assess each account. The goal of this was to take a closer look at each individual account and figure out the materiality to better determine the risks associated with it not being properly audited. We then proceeded to pick three of the J&J's potential riskiest accounts. With these accounts we further summarized the risks associated, looked at the internal controls for that specific process, found the best tests of transactions to audit, and recommended how to use data analytics to better audit the account in the future. Johnson & Johnson is clearly a well-established company and makes sure to follow SEC guidelines when it comes to their auditing process. Having us investigate the auditing process gives us a better understanding of what to focus on to help ensure that the current and future shareholders are informed as best as they can be.

To investigate the riskiness of each account we studied the existence, completeness, and valuation of each account as well as the internal control structure and data analytics to improve the auditing process. Each of these components are important to look at because they will show how a company could misinform people looking at their financial statements. Existence shows that whatever is being stated on the financial statements is correct. Without the true existence of the account, it can skew things such as the current ratio, debt ratio, turnover ratio, etc. Completeness verifies that each item that should be included in the period is accounted for. This makes sure that account amounts are in the correct period and with the correct number. Valuation is a common procedure to determine the correct value of the asset, liability, or owner’s equity account. If accounts are not valued correctly, it can again misinterpret the information being given to shareholders. One way to verify these accounts is to check the internal controls of a company.

Johnson & Johnson have many internal controls to try and prevent risk. With the increase in technology, data analytics can be used to speed up and create a more accurate process of auditing. Overall, auditing gives us the opportunity to explore and share knowledge with current and potential shareholders so that everyone can benefit from the performance of Johnson & Johnson.

Johnson & Johnson's inventory could be at risk for existence, completeness, and valuation. Regarding existence, Johnson & Johnson could mistakenly not include inventory on consignment on their balance sheet. An example of this could be their vaccines that the company is producing and sending out to various pharmacies around the nation. If Johnson & Johnson fail to include this inventory on their balance sheet, then their inventory would be grossly misstated. Another problem that could arise with inventory is that the sale of inventory might not always be recognized in the correct period. This would cause a problem with completeness. Lastly, valuation should not be a large problem for Johnson & Johnson's inventories. They are currently stated at the lower of cost or net realizable value determined by FIFO method. If Johnson & Johnson remain consistent with that basis of evaluation, their balance sheet should show an accurate representation of their inventory. Some critical auditing controls for inventories that could be put in place would be documentation and reconciliation of accounts. Those two internal controls would ensure that inventory on consignment would be included in Johnson & Johnson's inventory and that the sale of that inventory would be recognized in the correct period. Several substantive testing measures could be put in place to ensure that these mistakes would be caught. Flow documentation would ensure that goods on consignment would be included in Johnson & Johnson's inventory. Cut-off tests would make sure that all sales of inventories would be included in the correct period. Data analytics and automatic robot processing would play a huge role in making sure that problems associated with inventory do not occur. Johnson & Johnson could implement an automated system that assigns all sales of inventory to a period whenever said sales occur. In terms of not including goods on consignment in inventory, that would be more of a human error that a computer program may or may not pick up on.

As the largest asset or liability account on J&J's most recent balance sheet, J&J's intangible assets account must be monitored closely. Given the nature of the pharmaceutical industry, it is no surprise the intangible assets account is so large. J&J consistently faces challenges regarding the development and defense of their patents, as competitors try to undermine J&J's intellectual property rights. The company even admits this issue as one of its major risk factors.[1] It is also a bigger challenge for the company to acknowledge the expiration of its patents, which could lead to future revenue and market losses as similar products or technologies are used by competitors. Due to these factors, intangible asset values may be subject to large year-by-year fluctuation. Additionally, J&J includes a multitude of items as intangible assets. From evaluating each of its existing patents to monitoring the value of the company's purchased in-process research and development, mistakes can lead to the account's inflation. These mistakes can be related to an intangible asset's existence, completeness, and valuation, further testifying to the account's complexity.

There can also be disputes with patents that end up in courts due to copyright claims by one party over the other. As it can be seen Advanced Medical Optics, which was acquired by J&J in 2017 sued Alcon, claiming it violated multiple patents on laser eye surgery technology and

1 Inline XBRL Viewer (sec.gov)

then filed an amended complaint that Alcon had stolen copyrighted computer code[2]. Johnson & Johnson have filed many such lawsuits against Alcon and court proceedings are currently underway in the United States, Germany, and United Kingdom. There was progress made in Germany, where the Hamburg Regional Court upheld a suit brought by Alcon, which means that Johnson & Johnson subsidiary AMO will not be able to sell[3] some of its ophthalmic surgery products in Germany and this is the first decision in many court proceedings looking at patents for laser technology.

The largest discrepancy between the two most recent balance sheet statements from the intangible assets section came from "purchased in-process research and development." In particular, J&J acquired six billion dollar's worth of in-process R&D from Momenta Pharmaceuticals, accounting for most of the increase. J&J's intangible assets are analyzed once annually in the fourth fiscal quarter. From this, one could identify a loophole in which a company's intangible assets are acquisitioned after the annual intangible asset evaluation date, leading to these new assets not being properly accounted for. Of course, this oversight could lead to incompletion and improper values embedded in the largest asset section of the balance sheet. With regards to internal controls, perhaps J&J can request that the company they are acquisitioning audit their intangible assets pre-acquisition, eliminating risk they gain inflated asset amounts. Also, given the massive size of the intangible assets section in the balance sheet, higher-up accountants with more detailed knowledge of the company are probably the proper workers to authorize the value amounts given to these assets.

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[2] https://www.juve-patent.com/news-and-stories/cases/first-stage-success-for-alcon-in-eye-surgery-case/

[3] https://www.juve-patent.com/news-and-stories/cases/first-stage-success-for-alcon-in-eye-surgery-case/

Another account that could be risky for Johnson & Johnson is their accounts payable. Completeness is the most relevant assertion in the audit of accounts payable. Understating the accounts payable balance would distort the balance sheet and make Johnson & Johnson look more profitable than it is to please shareholders. Because the company's inventory account could be misstated, the inventory purchased on credit would then cause their accounts payable to be understated. Obligation to pay controls would be useful for J&J to verify the accuracy of purchase invoices. These controls might include purchase order approvals and invoice approvals. Other internal controls useful for accounts payable are data entry controls and payment entry controls. Data entry controls require invoices to be recorded before and after approval to verify all invoices are recorded and no duplicates are recorded. Payment entry controls are a crucial step in ensuring accounts payable is not understated. These controls include segregation of duties, tracking check numbers, and securing check storage. To make sure the account is not misstated, the auditor can perform substantive tests like confirmation of balances with outside parties and physical verification of inventory purchased on credit. J&J can also take a sample of payable accounts and reconcile them to supplier's statements. They can also compare supplier statements with year-end accounts payable balances to ensure completeness. Performing cut off tests is another substantive testing application to confirm that transaction dates and payments match. Data analytics allows auditors to extract and visualize a wide range of financial information as well as non-financial information. Data analytic techniques like pulling supplier data, inventory reports, shipment arrival records, and purchase records would efficiently and effectively help auditors test the balance of accounts payable of Johnson & Johnson. Auditors need to verify that the accounts payable for Johnson & Johnson is correct and not understated to correctly present the profitability of the company.

After reviewing Johnson & Johnson from an auditing standpoint, our group was able to learn much more about the company. After looking closer at Johnson & Johnson's balance sheet and income statement as well as their 10-K, we were able to identify possible scenarios that would leave the company vulnerable to risk. We agreed on what we thought were three of the potentially most risky accounts and were able to dive into how each account could be manipulated to misinform shareholders. Our group also learned more about the concepts of existence, completeness, and valuation as well as internal controls and substantive testing. This case opened our eyes to what a real auditing experience is like and gave us brief insight into rigorous auditing procedures. This information will allow us to do better in our future internships along with providing an in-depth and accurate report of Johnson & Johnson during the case study presentation.

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Case #8

Johnson & Johnson

Tax Phase

Week Three

February 23rd, 2022

For the third week of our company's case study investigation, we were assigned to look into different tax strategies that our company could employ. We were given various accounting firm websites regarding current tax planning topics as a starting off point. After thoroughly going through those websites and doing our own research of tax strategies that could positively impact Johnson & Johnson's tax planning, we found two tax strategies that would help lower expected corporate tax rates. The purpose of this week's assignment was to find the importance of tax planning strategies because it helps the finances of the company and allows them to hopefully keep as much money as possible in their own records. With a company as large as Johnson & Johnson, tax planning is important because there are lots of corporate taxes that need to be paid. And with a large income, a large portion of that could go to taxes that they are mandated to pay. Diving into these tax strategies and justifying why Johnson & Johnson would benefit from using them gave us a better understanding of tax planning in general and how to implement it.

As a preface to our proposed tax strategies, we must analyze Johnson & Johnson in both its current and future form. One of Johnson & Johnson's three business lines, consumer health, is set to split away within the next two years. Of course, this decision possesses tax ramifications that we will have to interpret from the lens of the two remaining business lines, pharmaceuticals and medical devices.

"Reverse" planning results with an acceleration of income in order to plan for future years tax rates to increase. Johnson & Johnson would benefit from this tax strategy because the corporate tax rate right now is 21 percent, and it will most likely increase to 26.5 percent after the proposed increase under the House Ways and Means tax plan. Reporting more income now would cause income to be taxed at a lower rate than if reported in later years. The "reverse" planning strategy would include Johnson & Johnson implementing “reverse” tax accounting method changes, which aims to expedite income and defer deductions. The company would also need to accelerate taxable gain as soon as possible in order to profit the most from the gain. This type of planning would allow for the company to decrease its deferred tax liability. Johnson & Johnson can elect out of bonus depreciation in order to take advantage of “reverse” planning. Electing out of bonus depreciation will increase their taxable income and defer the depreciation deduction on fixed assets into future years when the tax rate is higher. This consideration would not require a Form 3115 to be filed. However, other considerations like cost segregation studies, electing out of the accelerated prepaid deduction, and recognition of loan fees would require a Form 3115 to be filled out. This form reports a change in accounting methods to the IRS. Reverse planning would be a short-term tax strategy because once the corporate income tax rate is increased to 26.5 percent in a few years, the accounting methods would need to change back to the traditional tax accounting method, deferring income and accelerating deductions.

With the consumer health segment of Johnson & Johnson leaving soon, our group thought it would be best to analyze specific tax strategies most attractive to the remaining two segments, pharmaceuticals and medical devices. In recent financial statements, the consumer health segment’s R&D expenditure is lower than the other two business lines; furthermore, consumer health’s R&D expenditures make up a smaller portion of relative sales for the segment than the pharmaceuticals and medical devices segments respectively. Simply put, R&D is not as important for consumer health as it is for pharmaceuticals and medical devices. As a result, as consumer health departs from Johnson & Johnson’s main operating business, R&D operations will have a larger impact on the corporation's balance sheet. Johnson & Johnson spends billions of dollars annually on R&D at increasing rates in Europe and the United States, and this growth does not appear to be slowing down. To illustrate, J&J is considering filing for 14 new drugs by 2025. R&D tax planning for a company is so vital because the United States and many other countries around the world offer tax credits to companies based on their R&D account status. To stay relevant, Johnson & Johnson must maximize the tax benefits coming from R&D.

To be specific, the R&D tax credit can give you a roughly 14 to 20 cent tax credit for every qualified dollar spent on R&D, depending on the circumstance. This proportion might be small, but the importance of R&D at Johnson & Johnson necessitates intentional tax planning to maximize the achievable benefits from American law. A first step to maximize the credit will be identifying what can be considered expenditures for R&D. Almost all research expenses in an activity qualifying as R&D can be considered a qualifying expense, as well as wages paid to employees related to the activity and the cost of supplies and computing related to the research. Johnson & Johnson should initially maximize their R&D listed expenses through these qualifying expenditures. Next, Johnson & Johnson should analyze the locations in which their research operations are being conducted. Thirty-six American states possess certain tax credits for qualifying R&D expenditures. Johnson & Johnson should be prudent in recognizing which states offer the best tax benefits with respect to R&D and utilize that information when deciding where they should conduct their research. Of course, with nearly half of their revenue coming from international sources, Johnson & Johnson certainly conducts research in many other countries. Johnson & Johnson should be aware of each country's specific tax credit environment relating to R&D, as the United States does not include R&D expenditures outside the country as applicable expenses for a tax credit from the United States government. Johnson & Johnson risks paying substantially higher taxes than necessary if the company does not properly pay attention to these regulations.

To help conceptualize this strategy in rudimentary numerical terms, Johnson & Johnson's R&D expense increased by roughly 11.1 percent year-by-year between 2019 and 2021, with 2021's expense at a staggering $14.714 billion. If this number continues to increase at this rate, the projected expense for the next three years would be $16.347, $18.162, and $20.178 billion respectively. Of course, some of this projected R&D expense entails R&D related to the soon-departing consumer health segment; however, the consumer health segment only makes up roughly five percent of the annual R&D expense, so this segment's departure will have minimal impact on future R&D expenditure amounts. Even if only half of those expenses are qualifying expenses under American law, Johnson & Johnson stands to receive a substantial 14 to 20 percent tax credit if they are prudent in classifying their expenses.

So, to project across the three future years above, the R&D tax credit would be 20 percent of those projected values, or $3.270, $3.632, and $ 4.036 billion respectively. Keep in mind these numbers could very well be less than expected in the later years as the consumer health segment leaves the main company. Furthermore, even if half of the R&D expense does not qualify for the credit due to locational or situational factors related to the R&D department, the credit would remain in the billions of dollars category. Johnson & Johnson has a huge incentive to be responsible for its tax planning with its R&D.

For further emphasis, the notion of a tax credit itself is enough to raise special attention to the classification of R&D expenditures. Unlike a deduction, which reduces your taxable income for a given period, a credit is a dollar-for-dollar subtraction from taxes due, meaning tax credits wield significantly higher tax benefits than deductions. The R&D tax credit has the potential to be the strongest tool a research-oriented company like Johnson & Johnson has in minimizing the taxes they have to pay in both the short and long term.

When we were first introduced to this week's case study it was a bit overwhelming. None of us knew too much regarding tax strategies, especially tax strategies for such a large and successful company. Through our research with the links provided to us and additional research, we learned about a handful of tax strategies and how to apply them. We decided to go with “reverse” planning and R&D tax credits as our two strategies to apply to Johnson & Johnson. It was interesting to discover how much a tax strategy can impact a company’s financials. We continued to learn more about Johnson & Johnson as well as the ins and outs of their financials. This information will help us perform better in our future internships and while presenting our case in front of the panel.

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Case #9

Johnson & Johnson

Advisory Phase

Week Four

March 2nd, 2022

For this week's assigned case study, we were tasked with advising our company, Johnson & Johnson (J&J). As part of our advising of J&J, we are assigned to figure out which strategy they pursue, use Excel to make charts that display various accounts and their amounts (revenue, assets, operating income, etc.), reevaluate their two biggest threats, and finally compute the company's return on assets, profit margin, and asset turnover for future years. Each of these aspects allowed us to take a further look at J&J and see trends and patterns in their company. For the strategy aspect, we are aware that J&J is a massive company with three different business segments, so it was challenging to decide on one specific strategy, therefore, we opted for a mixed strategy. It was also interesting to look at the company's figures and see the trends in the past and how those could be projected into the future. Contained below are our findings, research, and recommendations for J&J.

1. Strategy

J&J uses a mixed strategy of cost leadership and product differentiation with their three business segments: consumer health, pharmaceuticals, and medical devices. The consumer health segment concentrates on cost leadership by having the competitive advantage of lower costs of products in the consumer health industry, while the pharmaceuticals and medical devices segments use more of a product differentiation strategy by having products that are unique from others in their industry. For example, the J&J COVID-19 vaccine was a one dose vaccine which differentiated the pharmaceutical from others in the market at the time. The consumer health segment, which has the lowest revenue of the three segments, is separating from pharmaceuticals and medical devices in the next few years. Johnson & Johnson's product differentiation strategy includes research and development (R&D) especially in Europe where there are more research and development credits available than the United States and then produce new products and better technologies like they are planning on making 14 drugs they plan on making and they plan on becoming a 60 million a year drug maker by 2025.

2. Excel Values

When comparing some of the financial data from the past five years, there were a couple of trends that we noticed. We tracked data from financial statements from the year 2015 to the year 2020. During that time, J&J's revenue and cost of goods sold (COGS) steadily increased. The reason behind this trend is because J&J had grown exponentially over the past five years, especially with the introduction of their COVID-19 vaccine. Johnson &Johnson's selling, general, and administrative expenses (SG&A) have remained rather constant over the past five years. Johnson &Johnson's operating income has steadily decreased over the past five years. A reason for this could be the increasing cost of research and development. Johnson &Johnson's assets and liabilities have both grown over the past years. However, their liabilities have grown much quicker than their assets having a 79 percent increase to asset's 31 percent increase. Johnson &Johnson's return on assets, profit margin, and asset turnover has consistently gone down from 2015 to 2020. This data supports our claim of J&J pursuing product differentiation because of the large expenses that have been made to ensure unique products. Cost of goods sold as well as research and development expenses have increased while operating income has been decreasing.

(in millions)	2015	2016	2017	2018	2019	2020
Revenue	70074	71890	76450	81581	82059	82584
COGS	21536	21685	25354	27091	27556	28427
Selling, General and Administrative Expense	21203	19945	21420	22540	22178	22084
Operating Income	19748	20529	18607	19004	17646	16698
Assets	133411	141208	157303	152954	157728	174894
Liabilites	62261	70790	97143	93202	98257	111616
Return on Assets	15%	15%	12%	12%	11%	10%
Dupont Decomposition:						
Profit Margin	28%	29%	24%	23%	22%	20%
Asset Turnover	53%	51%	49%	53%	52%	47%

3. Threats

One of J&J's largest threats are litigation liabilities. A large pharmaceutical company like J&J is constantly under the risk of being held liable if a medication is deemed to be toxic or ineffective. Most litigation the company faces runs through their consumer health segment. Fortunately, that segment of the company is planning on leaving J&J's main corporate operations within the next 18 to 24 months, forming their own company. To minimize legal expenses and liabilities from future events, J&J can expedite consumer health's exodus from the company.

Of course, a potential fear of this plan is that it would be too quick of a transition; J&J might be negatively impacted by a rushed exit. However, the consumer health segment makes up the smallest portion of revenue among the three main business lines, as well as accounting for a tiny fraction of the company's R&D expenditures. Consumer health, while important, is not an all-encompassing feature of the company; J&J should be able to speed up its exit without harsh ramifications.

To tackle this project, the barriers to consumer health's departure must first be understood. Employee representative bodies, J&J's Board of Directors (BOD) approval, and regulatory and governmental requirements stand in the way of the exit. To solve this, J&J can make it clear within the company the benefits of the split for their employees, prioritizing the resolution of any reservations employees may have. By being proactive on this front, J&J can avoid making later concessions in negotiations with employee bodies, as employees would also be in favor of the split. For the BOD, J&J should make clear to them the hefty litigation risks the company faces if consumer health fails to leave the company's main operations. For each day consumer health remains an integral part of J&J's main operations, the company faces increased financial and reputational risks. Helping the BOD understand the importance of this measure would expedite consumer health's departure, and possibly create new initiatives spurring the business line's exit. The final roadblock would be possible regulatory restrictions preventing consumer health from leaving quickly. The only way to bypass this barrier is to be consistently transparent with the IRS and other regulatory bodies. Full transparency and punctuality will only aid the exit of consumer health.

It would be expected that in the short term, J&J's expenses would increase. In-company marketing to employees about the move as well as prioritizing the exit by way of management and regulatory standards will undoubtedly incur costs, reducing short term operating income. Additionally, since an entire segment of the company is departing, it is expected to see a proportional decrease in assets, SG&A, COGS, and revenues. However, we find that in the long-term, J&J will become a more stable company, as the liability threat inherent in consumer health will no longer be tied to the main company's operations. This should result in much lower expenses and liabilities in later years, more than making up for the increased expenditures initiating the exit.

Another threat that J&J faces as the largest pharmaceutical company in the world is corporate espionage. Especially with their pharmaceutical and medical device segments, the company invests heavily into research and development, creating vast amounts of intellectual property that can be stolen by hackers or employees inside the company. A way to lessen this threat could be to conduct more thorough employee background checks, implement more employee monitoring software, and put into place more internal controls to prevent the intellectual property of the company from being stolen. Choosing to execute these protections would increase expenses in the next few years because of the price of costly software and labor hours in general to take the time to implement the protections. While revenues would most likely not change, the added expenses would lead to a decrease in operating income. COGS, SG&A, assets, and liabilities would probably not change over the next few years, but if the company does not take these protective measures, assets could decrease with the loss of intellectual property. This intellectual property, if lost, could in turn also decrease revenue if the protective measures are not put in place.

4. ROA, Profit Margin, and Asset Turnover

After implementing our plans to reduce the amount of damage that these potential threats may face, we can predict how J&J's financial statements would look in the coming years. When consumer health leaves, we find that return on assets and profit margin would likely decrease short-term, as the expected loss from the exit would be ranging from $500 million to $1 billion dollars. This estimate would likely be even higher if the company was to speed up the transition away from consumer health.

However, in later years, return on assets and profit margin would undoubtedly increase, even from the numbers seen in years prior to the initiative to remove consumer health. This is due to the nature of the consumer health business line relative to the other two lines, pharmaceuticals and medical devices. Consumer health sells many customer-oriented over-the-counter products while the other segments rely on product differentiation and higher cost services and medications. With consumer health leaving, we can expect asset turnover to naturally decrease as basic products like baby powder and band-aids are no longer offered by the company. This would give rise to a more specialized product style, yielding higher return on assets and profit margins between the two business lines that already create the most revenue. As a result, we find it plausible that return on asset and profit margin values initially stay stagnant in the next one to two years, but eventually increase to around 13 and 25 percent respectively, with asset turnover dipping to 45 percent in later years.

We believe that if J&J takes the proper steps to prevent corporate espionage, then their return on assets, profit margin, and asset turnover will stay on their current track and will not deviate.

Conclusion

Overall, our group discovered many insights on our company. We determined that J&J currently pursues a combination of product differentiation and cost leadership strategies between the three business lines. We also compared various accounts from financial statements from over the past five years. We looked at assets, liabilities, cost of goods sold, operating income, SG&A, and revenues. We also reevaluated what we thought to be J&J's two largest threats. We decided that their two largest threats were litigation risk from their consumer health sector and corporate espionage, as J&J is the largest pharmaceutical company in the world. We tried to create action plans for J&J to implement to help prevent these problems from arising. We used these action plans to recompute J&J's return on assets, profit margin, and asset turnover. During the process of completing this case study our group has gotten a small sense of what it is like to professionally advise a major publicly traded client.

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Case #10

Johnson & Johnson

Risk Phase

Week Five

March 30th, 2022

For this week's case study, the goal was to assess our company, Johnson & Johnson's (J&J), biggest risks. We researched J&J's greatest operational, macroeconomic, and cybersecurity risks. After figuring out which was the greatest risk in each category, we had to find the source of them and what actions we could take to mitigate those risks. With a large and international pharmaceutical company such as J&J, there are many risks that could jeopardize the company so narrowing it down to one per category was an initial challenge. The purpose of this week's case was to see the potential and largest risks in hopes of learning how to better control and prevent them.

Perhaps the largest risk a pharmaceutical company like J&J faces is the constant defense and development of intellectual property. In order to stay competitive in the industry, J&J must be able to acquire, develop, and defend patents and other property in order to create and sell products. The impact of patent expirations would result in revenue and market share losses. These losses are also expected to have stronger influence in the coming years, as consumer health is expected to depart from the main operations of the company. The other divisions, pharmaceuticals and medical devices, are much more dependent on R&D expenses and patent protection, while consumer health is focused on less specialized over-the-counter products like Band-Aids. It is reasonable to expect the research-oriented side of J&J to become more important as the general consumer-oriented division, consumer health, leaves the company.

J&J will be facing a wave of patent expirations in the next five years. Drugs such as Stelara and Rilpivirine will lose their patent for the drug in 2023 and Rilpivirine, Remicade, and Tremfya will in 2024 to 2028. The Remicade drug later lost its patent because it was found "unpatentable under the doctrine of obviousness-type double patenting" by the United States

Court of Appeals for the Federal Circuit. Simply put, J&J's struggle to manage and develop patents is an indefinite one. In order to continue as a pharmaceutical hegemon and prevent competitors from copying their products, they must devote time and resources to the defense of their intellectual property.

A seemingly simple way to achieve this goal is through the hiring process. J&J must continuously recruit top-tier intellectual talent to preserve their status in the pharmaceutical industry. Of course, hiring excellent personnel is easier said than done. The pharmaceutical hiring market is competitive, and J&J must be able to manage and motivate its employees effectively. To complete this task, J&J can listen to the ethical and social concerns of its employees while ensuring moral integrity in the workplace. By satisfying employee demands related to environmental, social, governance (ESG) issues, J&J can enhance their reputation and attract high-end talent.

Another threat the company faces are the ongoing risks of operating internationally. Nearly half of J&J's revenue comes from international sources, so the company faces revenue and reputational losses from their actions abroad if they are not careful. As a result of operating internationally, J&J stays compliant with numerous different laws and economic structures relative to the company they operate in. To stay up to date, J&J undoubtedly incurs many expenses to avoid major losses, as well as making strides to ensure their products are allowed in every country they operate in. As an example, J&J's Covid vaccine has fought to establish itself in the European Union (EU). In November of 2021, the EU rejected 60 million doses of the vaccine due to contamination fears, resulting in the supply being discarded. Avoiding a loss such as this with all products marketed internationally would require strict vigilance on J&J's front, undoubtedly incurring costs.

Another risk inherent in operating internationally are the reputational impacts of the countries they operate in. J&J faces the dilemma of working to satisfy the demands of the country they operate in while simultaneously preventing other countries and populations from being angry in marketing to those countries. This concept is not a foreign one, as large organizations in film and athletics have been criticized recently for concessions made to other countries in pursuit of profit, seemingly undeterred by possible human rights violations in those countries.

With reference to J&J, the company recently cut their sale of personal care products in Russia amid concerns of the ongoing war in Ukraine. In this type of situation, J&J must be careful to manage their reputation while preventing their company's operations from being compromised. If the company fails to find the sweet spot on that spectrum, J&J stands to lose their integrity, financial stability, or both. A way to manage this risk is by staying up to date with current events and consistently applying ethical judgment. By staying consistent and transparent with their values, J&J can avoid major losses, even if "the right thing" results in short-term dips in income.

J&J is a global company with over 125,000 employees. The company is located in over 60 countries with around 250 subsidiaries. This vast number of operations leads the company to incur supply chain risks with the recent supply chain crisis of backlogs across major supply chain hubs and international ports. The pandemic caused a shortage in workers which led to a large reduction in production capacity globally. The supply chain crisis has yet to be solved partly because of the “bullwhip” effect where companies order a surplus of items than the demand anticipates which leads to over-ordering. To avoid the “bullwhip” effect of the supply chain crisis, J&J needs to make sure they present accurate information regarding retail demand. This accuracy will prevent overcorrection for these supply chain disruptions while still allowing the company to meet their changes in demand. As stated previously, the company announced that it will be suspending its sale of personal care products in Russia and that it would stop doing clinical trials in Russia. This could have a further impact on the supply chain because J&J is one of the top pharmaceutical companies and it will be impacted by this. It will most likely lead to other companies entering its market and more revenue losses which are already complicated due to supply chain changes.

A corporation as large as J&J faces many cybersecurity risks every day. In fact, they experience around 15.5 billion cybersecurity incidents each day. Most of these incidents are minor and are not cause for concern. However, in J&J’s eyes it only takes one major incident to occur for the company to lose money and customers. J&J has four ways that they are approaching the fight against cybersecurity. These four tactics are “baking security into the DNA of every product, having strict oversight of the entire security process, listening to researchers, and working to educate regulators.” J&J has started to make sure that the solutions they develop have security built in. They also have consolidated their cybersecurity and research and development (R&D) teams into a single group to work more efficiently. J&J has also taken more of a strict, hands-on approach to their own security. This has led them to scrutinize more over third-party vendors and service providers. They have also started to complete security assessments on every aspect of their manufacturing and distribution. J&J’s security team regularly attends cybersecurity conferences with the goal of learning more about attack techniques and their own vulnerabilities. Lastly, J&J works closely with cybersecurity regulators to create common best practices. As a group we have identified a cybersecurity threat that we believe J&J may be at risk for. We believe that J&J could be hacked by a major anonymous organization that would cripple their manufacturing and distribution capabilities. This organization or organizations may hold J&J's network hostage and would not give control back to them unless a ransom was paid. This happens to smaller companies more around the world, but a large organization is also at risk. J&J's tactics they already have in place are great for preventing such attacks, but we believe that they should be investing more. If J&J's systems were to be crippled for even a couple of days, that would equate to millions of dollars of lost revenue. One way that we believe that J&J should protect themselves is to invest in more training for their employees. Employees are often the source of secret information for hackers whether they are aware of it or not. Training employees on how to be fluent with cybersecurity threats would decrease J&J's liability significantly.

After determining the greatest operational, macroeconomic, and cybersecurity risks for J&J it helped us better understand the internal and external controls of the company and how to prevent the risks in general. We learned how many possible risks there can be for such a huge company. The initial narrowing down of the greatest risks was our first challenge and then finding the sources of those risks and how we think those risks could be mitigated was an insightful process. It gave us a new perspective on how to think like a J&J to solve these issues. We discovered the major risks in each of the three categories listed above and which ones have the most impact on the company. Through our research we feel like we got a better understanding of the types of risks J&J must deal with and how they mitigate those risks. This was a great learning experience and case study to be able to add to our case exhibition coming up. It allows us to have a better understanding of J&J as a whole and how they could go about dealing with these risks.

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Executive Summary

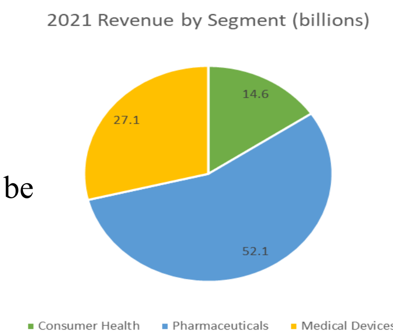
Overview

- J&J operates through three business lines: Consumer Health, Pharmaceuticals, and Medical Devices. The Consumer Health segment is going to diverge from the other two segments by 2023.
- J&J operates internationally, increasing exposure but creating additional threats.

Audit

Three accounts with associated risks regarding audit

- Inventory: The large distribution of vaccines internationally threatens an inventory account misstatement.
- Intangible Assets: J&J's large R&D segment and patent development catalyzes risk associated with this account.
- Accounts Payable: Because the inventory account could be misstated, the inventory purchased on credit would then cause their accounts payable to be understated.



Tax

Tax strategies that would help lower expected corporate tax rates:

- Reverse Planning with acceleration of income
  - The future corporate tax rate could increase to 26.5 percent
  - Elect out of bonus depreciation
- R&D Tax Credit
  - J&J will file for 14 new drugs by 2025.
  - R&D tax credit can give roughly 14 to 20 cent tax credit for every qualified dollar spent on R&D (circumstantial).
  - Moving R&D to Connecticut allows more significant spending to qualify as for the R&D tax credit benefits.

Advisory

Researched their strategy and threats facing the company:

- Strategy
  - Mixed strategy of cost leadership and product differentiation by having lower costs of their products but also R&D for new products.
- Threats
  - Litigation liabilities - J&J is under risk of being held liable if their medication is deemed to be ineffective.
  - Corporate Espionage - J&J's extensive intellectual property must be well protected.

COURTESY: JOHNSON & JOHNSON

Risks

- Operational Risk: We decided that the greatest operational risk for J&J is the constant creation and defense of intellectual property.
- Macroeconomic Risk: J&J is an international company and with that comes many risks. Specifically, supply chain management can cause a ripple effect if not managed properly.
- Cybersecurity Risk: Daily cybersecurity incidents are a constant risk for J&J; a small breach could lead to big repercussions.

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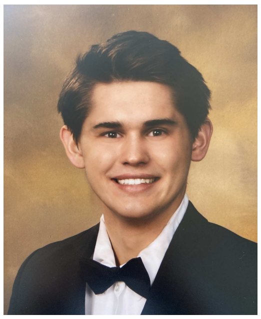

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Johnson & Johnson

Will Bounds, Henrietta Long, Erin Morgan, Cameron Richardson, & Gurpreet Singh

Presentation Overview

- Company Overview
- Our group set out to analyze Johnson and Johnson (J&J) along the major accounting service lines
    - Tax
    - Advisory
    - Risk Advisory
    - Audit
- Question & Answer
- Thank You

J&J Company Overview

01 **Consumer Health**

- Handles consumer-oriented products
- Over-the-counter products, oral care, women’s health
- Anticipated exit from the company by late 2023

02 **Pharmaceuticals**

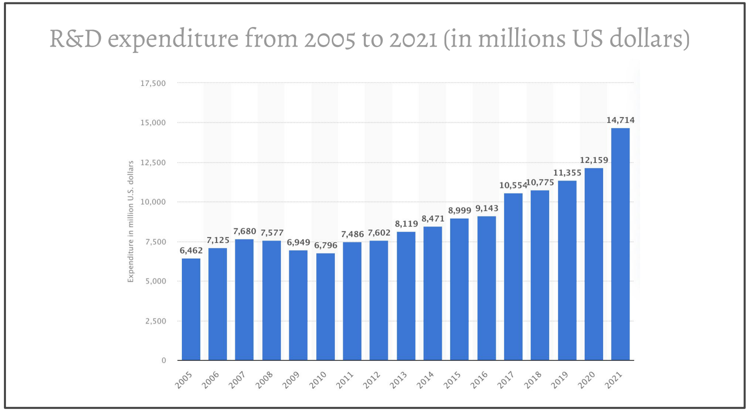
- Highest revenue business line
- infectious diseases, neuroscience, and cardiovascular diseases

03 **Medical Devices**

- Experienced largest 2021 growth
- Orthopedics, surgery, vision

Tax

- Analyzed possible tax strategies the company could implement in future years
- Accelerating (**not** deferring) Taxable Income
  - Impact of probable legislation
- Research and Development (R&D) Tax Credit
  - Especially important for a research-intensive pharmaceutical company



Advisory

- J&J's Mixed Competitive Strategy
  - Cost Leadership vs. Product Differentiation
  - Impact of consumer health's exodus
- Threats
  - Litigation liabilities
  - Corporate Espionage

(in millions)		2015	2016	2017	2018	2019	2020
Revenue		$70,074.00	$71,890.00	$76,450.00	$81,581.00	$82,059.00	$82,584.00
COGS		$21,536.00	$21,685.00	$25,354.00	$27,091.00	$27,556.00	$28,427.00
SG&A		$21,203.00	$19,945.00	$21,420.00	$22,540.00	$22,178.00	$22,084.00
Operating Income		$19,748.00	$20,529.00	$18,607.00	$19,004.00	$17,646.00	$16,698.00
Assets		$133,411.00	$141,208.00	$157,303.00	$152,954.00	$157,728.00	$174,894.00
Liab.		$62,261.00	$70,790.00	$97,143.00	$93,202.00	$98,257.00	$111,616.00
RoA		15%	15%	12%	12%	11%	10%
Dupont Decomp.							
	Profit Margin	28%	29%	24%	23%	22%	20%
	Asset Turnover	0.53	0.51	0.49	0.53	0.52	0.47

Risk Advisory

- Operational Risk
    - Constant creation and defense of intellectual property
- Macroeconomic Risk
    - Working internationally and dealing with supply chain issues
- Cybersecurity Risk
    - Daily incidents that could jeopardize any aspect of the company

Approaching J&J - Audit

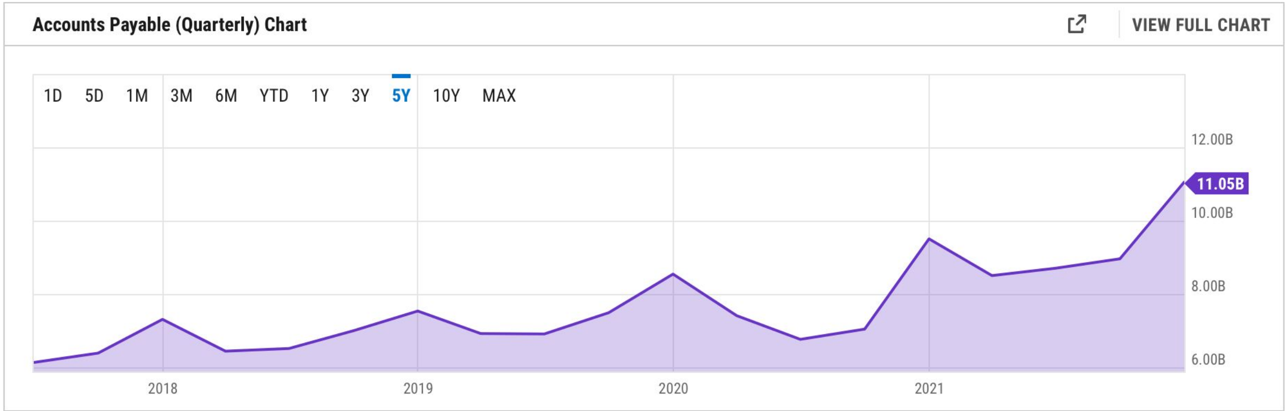
- However, from our analysis, the ideal service line for J&J is through audit
- The riskiest accounts for the company
  - Inventory
  - Intangible Assets
  - Accounts Payable

Audit- Inventory

- Possible inventory miscalculations from vaccine distribution
  - Consignment Goods
- The period inventory is recorded
- Supply chain issues with inventory backlogs
- Limited ability to manage inventory in situations with third parties, ex. Partnership with countries to distribute medical devices

Audit- Accounts Payable

- Completeness
- Obligation to pay controls
    - Purchase order approvals
    - Invoice approvals



Audit- Intangible Assets

- Largest Asset account on J&J’s balance sheet
- Constant movement from in-process R&D purchased from other companies
  - Possibly request the companies ensure a true valuation?
- Annual intangible asset tests for impairment in the 4th fiscal quarter

The company invested a record $15 billion in R&D last year, eclipsing its 2020

5. Intangible Assets and Goodwill

At the end of fiscal years 2020 and 2019, the gross and net amounts of intangible assets were:

(Dollars in Millions)	2020	2019
Intangible assets with definite lives:		
Patents and trademarks — gross	$39,990	36,634
Less accumulated amortization	17,618	13,154
Patents and trademarks — net	**$22,372**	**23,480**
Customer relationships and other intangibles — gross	$22,898	22,056
Less accumulated amortization	10,912	9,462
Customer relationships and other intangibles — net*	**$11,986**	**12,594**
Intangible assets with indefinite lives:		
Trademarks	$7,195	6,922
Purchased in-process research and development[(1)]	11,849	4,647
Total intangible assets with indefinite lives	**$19,044**	**11,569**
Total intangible assets — net	**$53,402**	**47,643**

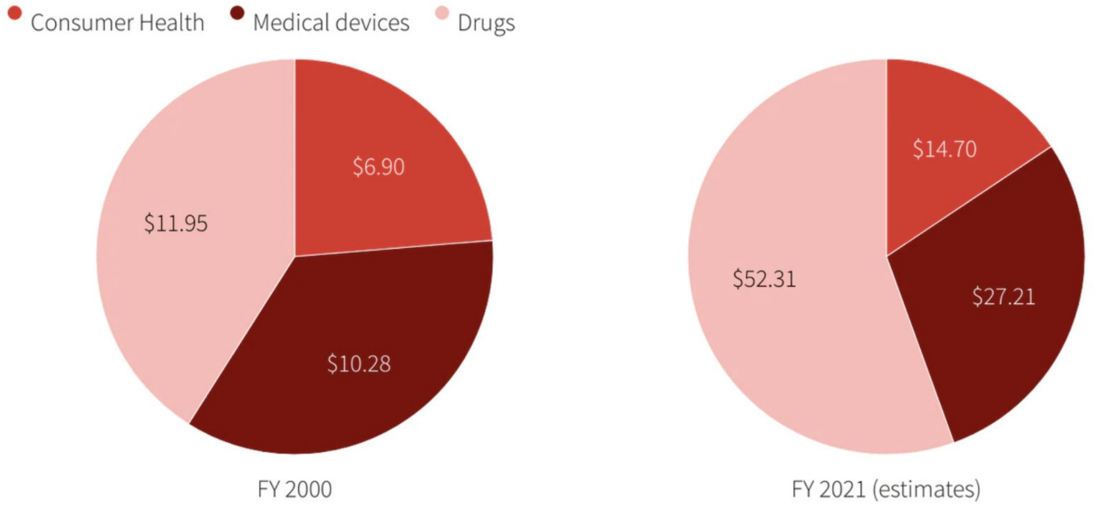
Question & Answer

Appendix

Consumer Segment Division	COVID - 19	SWOT	Ethics
Good Will	Impairment	Internal Controls	Lawsuits

Consumer Segment Division

- About 16 percent of sales
- Biggest growth driver
- Still will be a global leader
    - $1 billion mega brands
    - 20 brands over $150 million

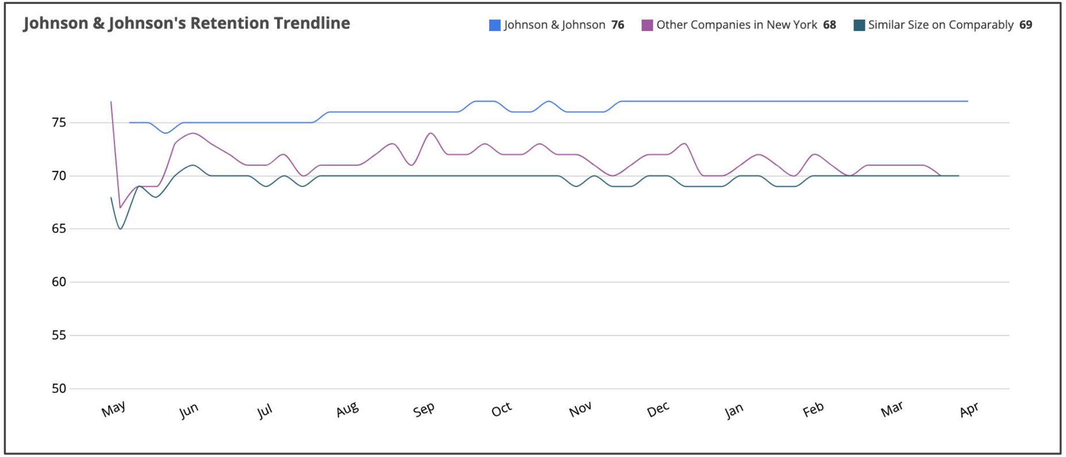


Note: All figures in billions
Source: J&J press releases, Refinitiv IBES estimates

Appendix

COVID - 19

- Pharmaceuticals: Investigational COVID-19 Vaccine
- Consumer Health: “Pantry Loading”
- Medical Devices: two thirds of the products were used in elective procedures
- Employee Retention Rate



Appendix

SWOT

Strengths
- Global Dominance
- Experience / R&D
- Extensive Portfolio

Weakness
- Potential lack of diversification
- Unethical operations
- Uneven revenue distribution

Opportunities
- Focus on emerging markets
- Mergers and acquisitions
- Lower cost products

Threats
- Lawsuits
- Government regulations
- Competition

Appendix

Good Will

- Consumer health’s departure will impact goodwill
  - Of course, it is difficult to estimate the impact

(Dollars in Millions)		Consumer Health	Pharmaceutical	Medical Devices	Total
Goodwill at December 30, 2018	$	8,670	9,063	12,720	30,453
Goodwill, related to acquisitions		1,188	75	2,018	3,281
Currency translation/other		(122)	31	(4)	(95)
Goodwill at December 29, 2019	$	9,736	9,169	14,734	33,639
Goodwill, related to acquisitions		—	1,222	238	1,460
Currency translation/other		600	618	76	1,294
Goodwill at January 3, 2021	$	10,336	11,009	15,048	36,393

Appendix

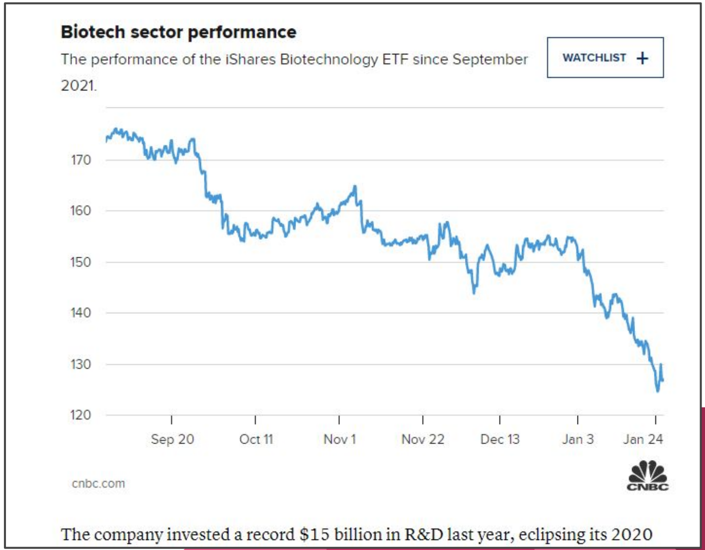
Internal Controls

- Inventory
  - Strengthen physical controls at vaccine warehouses
  - Confirm documentation and trace audit trail
- Accounts Payable
  - Purchase order and invoice approvals
  - Automation - safeguards and timestamps
- Intangible Assets
  - Reviewing in-process R&D of companies acquired
  - Ensure multiple upper-level associates review activity

Appendix

Impairment

- As stated previously, intangible assets are tested for impairment every fourth fiscal quarter
- High-value acquisitions
    - In-process R&D: $7.2 billion dollars purchased in 2020
- “Bullish” on 2022 acquisitions



[Appendix](#)

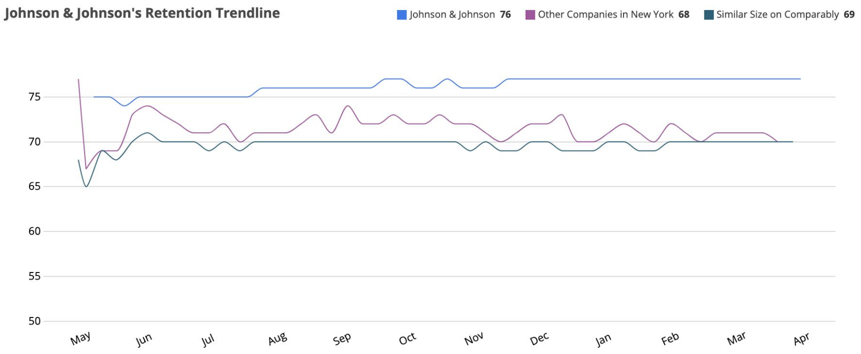
Ethics

"To maintain ethical and compliant conduct with the highest level of integrity, our comprehensive policies, procedures and compliance training help our employees and contingent workers navigate applicable laws, regulations and industry codes, as well as our own ethical standards."

Appendix

Lawsuits

- Lawsuit against the baby powder
- West Virginia lawsuit against J&J made opioid painkillers
- Defective Product Lawsuits
  - COVID-19 Vaccine
  - Baby Powder linked to Ovarian Cancer
- Auditors must prepare for contingent liabilities by making sure that the company is adequately insured and has enough assets to cover potential losses



Appendix

Thank You!