

INTRODUCTORY WORKBOOK



THE VALUE LINE
INVESTMENT SURVEY®



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04/2005

WORKBOOK

The Value Line Investment Survey

This workbook has been designed primarily to help novice and intermediate investors understand the Value Line approach to evaluating companies. It contains information that Value Line thinks is most important for learning the investment process.

As you read the following pages, please refer to the sample report on Johnson & Johnson that appears on page 21 of this workbook. The report is dated March 4, 2005. You can find the date in the lower right hand corner next to the analyst's name. You will be asked to answer questions or complete statements. Whenever you see a blank line, please fill it in. Each blank line has a notation that corresponds to the correct responses shown at the end, on page 22. To analyze your performance, go to page 23. You may need a calculator to find some of the answers.

In each *Value Line* report there are a number of particularly important items, all explained in more detail below. These include the ***Timeliness, Safety, and Technical*** ranks (***item 2 on page 21***) in the upper left hand corner of each page; the large **stock price chart** at the top of the page (***item 13***); recent **stock price** and **financial forecasts** (***items 12, 16, and 30***) in several places; **balance sheet** and **income statement data** (***items 16 and 27***) in the center; **quarterly data** (***items 22 and 23***) in the lower left; and the **analyst's written commentary** (***item 18***) in the lower right. There is a great deal of other information as well.

To learn more about *The Value Line Investment Survey*, we recommend that you read the introductory material that is provided to all new subscribers.

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The Questions Start Here. Good Luck!

Across the top of the page are: the **company's name** (*item 1 in the report on Johnson & Johnson that appears on page 21 of this workbook*), followed by the **stock exchange** on which the stock is traded - usually the New York Stock Exchange (NYSE), American Stock Exchange (ASE), or NASDAQ (NDQ), and the **ticker symbol**, usually two to four letters used to identify a stock for trading purposes. Next comes the recent **stock price** (*item 6*).

1. Johnson & Johnson's stock is traded on the _____(1).

Its ticker symbol is _____(1a).

2. To the right of the recent price is the *Value Line* **price/earnings ratio** (*item 7*), often abbreviated as the **P/E ratio**. All price/earnings ratios are calculated by dividing the recent price of a stock by 12 months of share earnings. But there are some differences.

Value Line calculates the ratio by dividing the recent price of a stock by the sum of the past 6-month's earnings per share and *Value Line's* estimate of the next six month's estimated earnings per share. *Value Line* believes that the use of both past and future earnings provides the most realistic picture possible.

At the time this report was written, Johnson & Johnson's earnings for the past six months - the December 2004 and March 2005 quarters (*in item 23*) - equaled \$1.59 a share (\$.67+\$.92). *Value Line* was estimating that earnings in the next six months -the June and September 2005 quarters (*in item 23*) - would total \$1.76 a share (\$.91+\$.85).

With a recent stock price of 65.41 and 12 months earnings per share of \$3.35 (\$1.59 + \$1.76), what is the price/earnings ratio? _____(2)

- 3. The trailing price/earnings ratio (item 8)** is calculated by dividing the current price of a stock by the earnings per share actually reported for the past 12 months. This is the number used in most newspapers; the newspapers use reported earnings because those are the only numbers available to them since they do not make forecasts as *Value Line* does.

Johnson & Johnson's actual reported earnings in the past 12 months (the March, June, September, and December quarters of 2004) were \$3.10 a share (\$.83+\$0.82+\$0.78+\$0.67). What is the stock's trailing price/earnings ratio? _____(3)

- 4. The median price/earnings ratio (item 8)** is the middle value of a company's P/E ratios over the past 10 years, with certain statistical adjustments. **It shows the typical historical P/E of a stock.** (An investor cannot calculate a median P/E ratio without knowing the precise statistical adjustments *Value Line* uses.)

- 5. The relative P/E ratio (item 9)** of a stock compares the P/E of one stock with the P/E of all the stocks in the *Value Line* universe of approximately 1,700 stocks. Our calculation of the **relative P/E ratio** is made by dividing *Value Line's* P/E of this company (**item 7**) by the median P/E of all of the approximately 1,700 stocks included in *The Value Line Investment Survey*. (The median P/E of all stocks can be found each week on the front cover of the *Summary & Index* section.)

Value Line's calculated P/E for Johnson & Johnson, shown on the top of the page, is 19.5. The P/E of the *Value Line* universe of stocks at the time the Johnson & Johnson report was published was 18.4.

What is Johnson & Johnson's relative P/E ratio? _____(5)

Whenever a stock's relative P/E is more than 1, its own P/E is greater than that of the market. If its relative P/E is less than 1, its own P/E is less than that of the market.

Is Johnson & Johnson's P/E ratio greater or less than that of the market?

_____ (5a)

6. A dividend is a payment by a company to a shareholder. It is usually in cash, and the cash is usually paid quarterly.

The **dividend yield** (*item 11*) measures the expected cash dividend to be paid in the coming 12 months as a percent of the recent price of a stock. That is, the expected dividend is divided by the recent price of a stock to arrive at a figure that is shown as a %.

Johnson & Johnson's annual dividend in 2005 is expected to be \$1.22 a share (see the fourth line in the extensive statistical section (*item 16*) under the heading 2005). What is the stock's yield? _____ (6)

7. Timeliness (*in item 2*) is *Value Line's* prediction for the expected price performance of a stock over the coming 6 to 12 months **relative** to all other stocks in the *Value Line* universe of approximately 1,700 stocks. **Timeliness** ranks go from **1 (Highest) to 5 (Lowest)**.

At any one time, there is a normal distribution of ranks, so that there are:

100 stocks ranked 1 (Highest)

300 stocks ranked 2 (Above Average)

900 (approx.) stocks ranked 3 (Average)

300 stocks ranked 4 (Below Average)

100 stocks ranked 5 (Lowest)

Stocks with *Timeliness* ranks of 1 or 2 are likely to be above-average performers; those with ranks of 3 are likely to be average performers; those with ranks of 4 or 5 are likely to be below-average performers.

Johnson & Johnson's *Timeliness* rank is _____(7). That means that the stock's performance in the coming six to 12 months should be _____(7a).

8. The *Safety* rank (*in item 2*) measures the financial strength of a company and the price volatility of its stock relative to other companies and stocks in the *Value Line* universe. As with *Timeliness* ranks, *Safety* ranks go from 1 (Highest) to 5 (Lowest). *Safety* ranks of 1 or 2 are most suitable for conservative investors.

Johnson & Johnson's *Safety* rank is _____(8). Is this stock a good one for someone who wants to minimize risk? _____(8a)

9. The *Technical* rank (*in item 2*) uses a proprietary formula to predict short-term (3-6 months) future price returns of one stock relative to all others in the *Value Line* universe. This rank also goes from 1 (Highest) to 5 (Lowest).

What is Johnson & Johnson's *Technical* rank? _____(9) Does this mean that Johnson & Johnson's stock is most likely to be an above-average, average, or below-average performer in the coming three to six months? _____(9a)

10. Beta (in item 2) measures a stock's price sensitivity to fluctuations of the market as a whole, as measured by the New York Stock Exchange Index. If a stock's **Beta** is 1.00, the stock should move in concert with the general market. If its **Beta** is 1.50, its stock price is likely to be 50% more volatile than the market. In this case, if the stock market goes up 10%, the stock should go up 15% (50% more than the market). If the market goes down 10%, this stock should go down 15%.

If a stock's Beta is .80, the stock should be less volatile than the market. When the market goes up 10%, this stock should go up only 8%.

Is Johnson & Johnson's stock likely to be more volatile, less volatile, or about the same as the market? _____(10)

11. Value Line's 3- to 5-year Price Projections (item 30) are shown in the box below **Beta**. The projected 3- to 5-year share price range (indicated by the High and Low numbers) is also shown as the Target Price Range (**item 12**) in the upper right hand corner of the price chart, with a pair of broken lines.

Value Line is forecasting that the price of Johnson & Johnson's stock 3 to 5 years from now will trade in a range between _____(11) and _____(11a).

12. Below the Price Projections box is another box titled **Insider Decisions (item 29)**. This box shows decisions **to buy** stock, to exercise **options**, and **to sell** stock by "insiders" in the past nine months. It shows the number of transactions in each category each month. (Insiders are defined as officers and directors of a company, and we note that each transaction is counted separately. For instance, if an officer buys or sells stock in his company 3 times a month, the transactions are listed as 3.)

Have insiders bought stock in the past nine months? _____(12)

Have they exercised options? _____(12a)

Have they sold stock? _____(12b)

13. The **Institutional Decisions** box (*item 28*) shows the number of times institutions with more than \$100 million of assets under management bought or sold stock of this company during the past three quarters. It also shows the total number of shares of stock in this company held by these institutions at the end of each quarter.

Did the number of shares of Johnson & Johnson owned by institutions rise or fall in the most recent quarter? _____(13)

Now let's look at the **Stock Price Chart** (*item 13*) toward the top of each page.

14. The **high and low calendar year prices** of a stock are shown at the top of each chart (*item 10*). (A calendar year is January 1st through December 31st.) The years are identified at the bottom of the chart.

What was the price range of Johnson & Johnson's stock in 2004?

High _____(14) Low _____(14a)

15. In the chart, the **vertical bars** (*item 4*) represent the high/low monthly price ranges for a stock. Stock splits are also indicated (2-for-1, for example, in 2001).

How many stock splits has Johnson & Johnson had since 1996?

_____ (15)

16. The solid dark line in the chart is a “**Cash Flow**” **Line** (*item 5*), sometimes called the “**Value Line.**” One theory is that the price of a stock will tend to gravitate to this line. When the price of a stock gets above the line, the tendency over time will be for the price to go back down toward the line; when it gets below the line, there will be a tendency for the price to rise up to the line. (There are some stocks for which this theory has worked very well and others for which it hasn’t. An investor should look at the historical price pattern of each stock and make a judgment about whether or not the theory applies to a particular stock.)

Is Johnson & Johnson’s stock price now above or below the cash flow line?
_____ (16)

17. The dotted line toward the bottom of the chart shows the **Relative Strength** of a stock. It compares the price of a stock at any one time with the price of the *Value Line Arithmetic Index* (a good broad representation of the stock market, based on all of the nearly 1,700 stocks in *The Value Line Investment Survey*). If the **Relative Strength Line** is rising, the stock price is going up more than the market, if the line is falling, the stock price is going up less.

Has Johnson & Johnson’s stock been going up more, about the same, or less than the market recently? _____ (17)

18. The **Legends** box (*item 3*) contains a number of useful items. First, it explains what the solid line and the dotted line are. Then, it shows the “multiple” of cash flow per share (shown in the statistical section below) which is used to plot the “**Cash Flow**” **Line**. The multiple is a number determined by an analyst to develop a line that most closely matches the actual historical prices of a stock. The box also includes the dates of **stock splits**, indicates if there are **options** traded on a stock, and explains that the **shaded bar** indicates a recession.

Are there options traded on Johnson & Johnson stock? _____ (18)

19. The **% Total Return** box (*item 14*) shows the historical total return of a stock (appreciation or depreciation plus any cash dividends) over the past 1, 3, and 5 years and also the total return of the *Value Line Arithmetic Index* over the same periods. The figures are not averaged or compounded.

What was the % total return of Johnson & Johnson's stock during the past year?
_____ (19)

What was the % total return of the *Value Line Arithmetic Index* during the past year? _____ (19a)

Did Johnson & Johnson's stock do better or worse than the *Value Line Index* over the past year? _____ (19b)

Did it do better or worse than the index over the past five years? _____ (19c)

20. The many columns of numbers in the center of the page are in what *Value Line* calls the **Statistical Array** (*item 16*). It is worth noting here that every time there is a stock split (2-for-1, 3-for-1, etc.) or a stock dividend (10%, 20%, etc.) all historical stock prices and per share data (sales per share, earnings per share, etc.) are adjusted for the stock splits and dividends. (In a 2-for-1 split, for example, all historical figures are divided by 2.) **Split adjustments are a universal practice** and are the primary reason why many of the numbers in one *Value Line* report may look quite different than those in an earlier report.

There are two basic sections to the **Statistical Array**. The numbers in the top portion are all **per share** data. The numbers in the lower portion are **total** (or gross) figures. Also, the numbers to the left (prior to 2004) are **historical**, the numbers to the right (in **bold**) are **projections**.

What were Johnson & Johnson's earnings per share in 2004? _____ (20)

What does Value Line expect Johnson & Johnson's earnings per share will be in 2008-10? _____(20a)

21. The **Statistical Array** contains a great many financial numbers and ratios. They are all generally commonly used items, and they are defined in the glossary of *How To Invest In Common Stocks*.

There is much very useful information in the **Statistical Array**. Broadly speaking, the data allow investors to examine trends in a company's business.

Have Johnson & Johnson's sales been rising over time? _____(21)

Have Johnson & Johnson's sales ever fallen from one year to the next during the past 10 years? _____(21a) If so, when? _____(21b)

Has Johnson & Johnson's Net Profit Margin (net profits after all expenses, including taxes, as a % of sales) been rising, falling, or staying level? _____(21c)

Has Johnson & Johnson's Return on Shareholders' Equity been rising, falling, or staying level? _____(21d)

22. Most of the total (gross) numbers in the **Statistical Array** are in millions of dollars (\$mill). The number 47348, for example, means \$47,348,000,000; 9311 means \$9,311,000,000.

What were Johnson & Johnson's sales in 2004? _____(22)

What was Johnson & Johnson's net profit in 2004? _____(22a)

23. The **Capital Structure** Box (*item 26*) shows a variety of things, including the total amount of **Debt Outstanding; Long-term Debt;** the number of **common shares** outstanding; and **Market Capitalization.**

Market Capitalization is the dollar value of common stock outstanding. It is calculated by multiplying the **number of shares** outstanding by the **price of the** stock.

The two numbers multiplied to calculate the **Market Capitalization** of Johnson & Johnson are _____(23) and _____(23a).

By the definitions used in *The Value Line Investment Survey*:

A Large Capitalization Issue = \$5 billion or more

A Mid Capitalization Issue = \$1 billion to \$5 billion

A Small Capitalization Issue = less than \$1 billion

Is the **Market Capitalization** of Johnson & Johnson, Large, Mid, or Small?
_____(23b)

24. Johnson & Johnson's current assets and current liabilities (items scheduled to be converted into cash or to be paid within one year) are shown in the section called the **Current Position** (*item 25*). It shows current assets, which include cash, receivables, and inventories, and current liabilities, which include accounts payable and debt due within one year.

How much did Johnson & Johnson have invested in inventory on 9/26/04?
_____(24) What was the total of its Current Assets? _____(24a)
Current Liabilities? _____(24b)

25. The **Annual Rates** box (*item 24*) shows annual compound rates of change of a company's **sales, cash flow, earnings, dividends, and book value** over the past **10** and **5 years** and for **5 years** into the future.

In each case, the growth rates are calculated from a base which is the average of 3 years to an ending period which is also the average of 3 years. For example, a ten-year growth rate is calculated from a base of 1992-1994 to a base of 2002-2004.

Was Johnson & Johnson's sales growth in the past 5 years, faster, slower, or the same as its sales growth over the past 10 years? _____(25)

Does the analyst think sales growth is likely to be faster or slower in the next 5 years? _____(25a)

Was Johnson & Johnson's earnings growth in the past 5 years, faster, slower, or the same as its earnings growth over the past 10 years? _____(25b)

Does the analyst think earnings growth is likely to be faster, slower, or about even in the next 5 years? _____(25c)

26. The **Business Summary** (*item 17*) includes: a condensed summary of a company's operations, showing important products, markets, etc.; any shareholders owning more than 5% of the stock, including ESOPs (Employee Stock Ownership Plans); a company's address, telephone number, and Internet address; and other relevant information.

How much of Johnson & Johnson's sales are international? _____(26)

27. The Analyst's Commentary (item 18), the lengthy text in the lower right portion of each report, is thought by many investors to be the most important item on the page. This is where a Security Analyst describes the outlook he/she sees for a company in the coming years, and, usually, provides reasons for the forecasts.

After reading the commentary about Johnson & Johnson, do you think the analyst is suggesting the 3- to 5-year earnings outlook for Johnson & Johnson is positive or negative? _____(27)

28. Quarterly Sales, Earnings, and Dividend Data (items 23 and 22) are shown in the lower left portion of each report. An examination of the trends in quarterly sales and earnings can often provide insights into changing conditions. As an example, look at **sales** in the most recently reported quarter (December) when they totaled \$12,752,000,000. Then look at **sales** in the December quarter a year earlier.

What was the % increase in **sales** from December 2003 to December 2004?
_____(28)

Now compare **sales** in the latest September quarter with those in the September quarter a year before.

What was the year-to-year % increase in **sales** in that period?_____(28a)

Was the year-to-year % increase in sales in the December quarter more or less than the year-to-year % increase in the September quarter? _____(28b)

Were **earnings per share** in the latest reported quarter (December) higher than those in the similar period a year earlier (December)? _____(28c)

What was the year-to-year quarterly percent change in earnings?_____(28d)

29. Johnson & Johnson has had what appears to be a policy of regularly increasing its dividends. It has increased the dividend at approximately the same time in each of the past five years.

What is the quarter (March, June, September, December) when it increased the dividend? _____(29)

30. The heading over the fourth column of numbers in the **Quarterly Sales** and **Earnings Per Share** boxes shows when a company's **fiscal year ends**.

When does Johnson & Johnson's fiscal year end? _____(30)

31. The **footnotes (item 21)** at the bottom of each page explain a lot, including: the way earnings are reported - **basic** or **diluted**; **unusual gains** or **losses**; the availability of **DRIPs** (Dividend Reinvestment Plans, in which companies make it easy for shareholders to reinvest their dividends in more stock); **dividend payment dates**; and special explanations, as necessary.

When is Johnson & Johnson expected to pay its next dividend? _____(31)

Does Johnson & Johnson have a DRIP? _____(31a)

32. A variety of unique **ratings** (*item 20*) are shown in the box in the lower right of each report. Each of these items is defined briefly below and in more detail in *How To Invest In Common Stocks*. **Financial Strength** ratings, which measure the financial condition of a company, range from a high of A++ to a low of C. A **Stock's Price Stability, Price Growth Persistence, and Earnings Predictability** ratings go from a high of 100 to a low of 5. **Price Stability** measures the variability of the price of a stock over time, **Price Growth Persistence** is a measure of stock price growth over time, and **Earnings Predictability** measures the expected reliability of earnings forecasts.

In which category(ies) does Johnson & Johnson score at the very top?

----- (32)

Notes

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1. **Company name**, followed by the Stock Exchange where traded (NYSE = New York; ASE = American; NDQ = NASDAQ; TO = Toronto) and stock ticker symbol.
 2. **Value Line's Ranks**—the rank for Timeliness; the rank for Safety; the Technical rank. Beta, the stock's sensitivity to fluctuations of the market as a whole, is included here but is not a rank.
 3. The **Legends** box contains the "cash flow" multiple, the amounts and dates of recent stock splits and an indication if options on the stock are traded.
 4. **Monthly price ranges** of the stock—plotted on a ratio (logarithmic) grid to show percentage changes in true proportion. For example, a ratio chart equalizes the move of a \$10 stock that rises to \$11 with that of a \$100 stock that rises to \$110. Both have advanced 10% and over the same space on a ratio grid.
 5. The **"cash flow" line**—reported earnings plus depreciation ("cash flow") multiplied by a number selected to correlate the stock's 3- to 5-year projected target price, with "cash flow" projected out to 2005-2006.
 6. **Recent price**—see page 2 of the *Summary & Index* for the date, just under "Index to Stocks."
 7. **P/E ratio**—the recent price divided by the latest six months' earnings per share plus earnings estimated for the next six months.
 8. **Trailing and median P/E**—the first is the recent price divided by the sum of reported earnings for the past 4 quarters; the second is an average of the price/earnings ratios over the past 10 years.
 9. **Relative P/E ratio**—the stock's current P/E divided by the median P/E for all stocks under Value Line review.
 10. The stock's **highest** and **lowest** price of the calendar year.
 11. **Dividend yield**—cash dividends estimated to be declared in the next 12 months divided by the recent price.
 12. **Target Price Range**, estimated. The range is placed in the upper right hand portion of the price chart and is also shown in the "2008-10 Projections" box on the upper left side of the page.
 13. **Stock Price Chart**, including monthly stock price ranges and a variety of other data.
 14. **The % Total Return** shows the price appreciation and dividends of a stock and the Value Line Arithmetic Composite Index for the past 1, 3, and 5 years.
 15. **The percent of shares traded monthly**—the number of shares traded each month as a % of the total outstanding.
 16. **Statistical Array**—historical financial data appears in regular type.
 17. **Business Data**—a brief description of the company's business and major products along with other important data.
 18. **Analyst's Commentary**—an approximately 350-word report on recent developments and prospects—issued every three months on a preset schedule.
 19. **The expected date of receipt** by subscribers. *The Survey* is mailed on a schedule that aims for receipt by every subscriber on Friday afternoon.
 20. Value Line's Indexes of **Financial Strength, Stock's Price Stability, Price Growth Persistence, and Earnings Predictability**.
 21. **Footnotes** explain a number of things, such as the way earnings are reported, whether basic or diluted.
 22. **Quarterly dividends paid** are actual payments. The total of dividends paid in four quarters may not equal the figure shown in the annual series on dividends declared in the Statistical Array. (Sometimes a dividend declared at the end of the year will be paid in the first quarter of the following year.)
 23. **Quarterly sales** are shown on a gross basis. **Quarterly earnings** on a per-share basis. (**Estimates are in bold type**.)
 24. **Annual rates of change** (on a compound per-share basis). Actual for each of the past 5 and 10 years, estimated for the next 3 to 5 years.
 25. **Current position**—total current assets and total current liabilities, and their detail.
 26. **The capital structure** as of the indicated recent date showing, among other things, the \$ amount and % of capital in long-term debt, preferred stock, and common stock; the number of times that total interest charges were earned.
 27. **Statistical Array**—Value Line estimates appearing in the area on the right side are in ***bold italics***
 28. **Decisions made by the biggest institutions**—the number of times institutions with more than \$100 million of assets under management bought or sold stock during the past three quarters and the total number of shares held by those institutions at the end of each quarter.
 29. **The record of insider decisions**—the number of times officers and directors bought or sold stock or exercised options during the past 9 months.
 30. **The projected stock price returns** to 2008-10. The total expected % gain/loss before dividends and the Annual Total Return (% compounded including dividends).
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Sample Value Line Stock Page

123456789101112

JOHNSON & JOHNSON

NYSE:JNJ

RECENT PRICE **65.41**

P/E RATIO **19.5** (Trailing: 21.1; Median: 25.0)

RELATIVE P/E RATIO **1.06**

DIV'D YLD **1.9%**

VALUE LINE

TIMELINESS 2 Raised 5/28/04	High: 14.1	23.1	27.0	33.7	44.9	53.4	53.0	61.0	65.9	59.1	64.3	66.9		Target Price 2008	2009	2010
SAFETY 1 New 7/27/90	Low: 9.0	13.4	20.8	24.3	31.7	38.5	33.1	40.3	41.4	48.1	49.3	61.2				
TECHNICAL 4 Lowered 3/4/05	LEGENDS															
BETA .65 (1.00 = Market) 15.0 x "Cash Flow" p sh - - - - - Relative Price Strength 2-for-1 split 6/92 2-for-1 split 6/96 2-for-1 split 6/01 Options: Yes Shaded area indicates recession															

2008-10 PROJECTIONS Price High 105 Low 85 Gain (+60%) Return (+30%) 14% 9%	Ann'l Total Return 2008: 14% 2009: 9% 2010: 9%	Insider Decisions A M J J A S O N D to Buy 0 0 0 0 0 0 0 0 0 0 to Sell 1 2 0 0 2 2 1 2 1 Options to Sell 2 1 0 0 2 1 1 1 1	Institutional Decisions 102004 202004 302004 to Buy 698 627 601 to Sell 530 586 597 Hld's(000) 18093071 8514671 866426	Percent shares traded 9 6 3	% TOT. RETURN 1/05 THIS STOCK VS. ARITH. INDEX 1 yr. 23.5 9.4 3 yr. 18.3 40.1 5 yr. 63.8 75.4
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1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	VALUE LINE PUB., INC.	08-10
3.66	4.22	4.67	5.25	5.50	6.12	7.27	8.11	8.41	8.80	9.88	10.47	10.83	12.23	13.42	16.00	17.30	18.80	Sales per sh ^A	23.40
.66	.65	.73	.85	.93	1.06	1.26	1.46	1.62	1.83	2.03	2.27	2.46	2.85	3.19	3.85	4.20	4.60	"Cash Flow" per sh	5.90
.41	.48	.55	.62	.69	.78	.93	1.09	1.21	1.34	1.49	1.70	1.91	2.23	2.70	3.10	3.40	3.75	Earnings per sh ^B	4.75
.14	.16	.19	.22	.25	.28	.32	.37	.43	.49	.55	.62	.70	.80	.92	1.10	1.22	1.34	Div'ds Decl'd per sh ^C	1.70
.28	.31	.37	.42	.38	.36	.48	.52	.54	.62	.59	.57	.71	.73	.75	.80	.80	.80	Cap'l Spending per sh	1.00
1.56	1.84	2.11	1.97	2.17	2.77	3.49	4.07	4.59	5.06	5.83	6.76	7.95	7.85	8.61	10.90	12.45	14.40	Book Value per sh ^D	21.00
2664.4	2664.6	2665.3	2621.6	2571.9	2572.0	2590.7	2665.0	2690.3	2688.1	2779.4	2781.9	3047.2	2968.3	3119.8	2960.0	2925.0	2900.0	Common Shs Outst'g ^E	2800.0
15.4	16.5	20.5	20.0	15.4	14.8	18.5	22.4	24.9	28.1	31.6	26.4	27.2	25.9	19.4	18.1	17.5	17.5	Bold figures are Value Line estimates	20.0
1.77	1.23	1.31	1.21	.91	.97	1.24	1.40	1.44	1.46	1.80	1.72	1.39	1.41	1.11	.94	.94	.94	Relative P/E Ratio	1.35
2.2%	2.1%	1.7%	1.8%	2.4%	2.4%	1.9%	1.5%	1.4%	1.3%	1.2%	1.4%	1.3%	1.4%	1.8%	2.0%	2.0%	2.0%	Avg Ann'l Div'd Yield	1.8%

CAPITAL STRUCTURE as of 9/26/04

Total Debt \$3,415 mill. Due in 5 Yrs \$500.0 mill.
 LT Debt \$2,961 mill. LT Interest \$174.0 mill.
 (9% of Cap'l)

Leases, Uncapitalized Annual rentals \$143.0 mill.

Pension Assets-12/02 \$6,050 mill. Oblig. \$7,680 mill.
 Pfd Stock None

Common Stock 2,967,726,203 shs. as of 10/24/04

MARKET CAP: \$194 billion (Large Cap)

CURRENT POSITION	2002	2003	9/26/04	2002	2003	9/26/04
Cash Assets	7475	9523	13094	27.6%	28.4%	27.8%
Receivables	5399	6574	6939	28.2%	27.8%	27.1%
Inventory (FIFO)	3303	3588	3669	12.8%	13.4%	14.6%
Other	3089	3310	3114	13.4%	14.6%	15.5%
Current Assets	19266	22995	26876	15.3%	15.3%	16.5%
Acc'ts Payable	3621	4996	3646	17.8%	17.8%	17.8%
Debt Due	2117	1363	454	18.8%	18.8%	18.8%
Other	5711	7089	8229	19.3%	19.7%	20.1%
Current Liab.	11449	13448	12329	20.1%	20.3%	20.3%

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '01-'03 of change (per sh)

Sales 9.0% 7.5% 9.5%
 "Cash Flow" 13.0% 11.5% 11.5%
 Earnings 14.0% 13.5% 12.0%
 Dividends 13.5% 13.5% 12.0%
 Book Value 14.5% 12.0% 16.0%

Fiscal Year Ends	QUARTERLY SALES (\$ mill.) ^A				Full Fiscal Year
	Mar.	Jun.	Sep.	Dec.	
2002	8743	9073	9079	9403	36298
2003	9831	10322	10455	11254	41862
2004	11559	11484	11553	12752	47348
2005	12575	12500	12300	13300	50675
2006	13400	13500	13250	14325	54475

Fiscal Year Ends	EARNINGS PER SHARE ^{AB}				Full Fiscal Year
	Mar.	Jun.	Sep.	Dec.	
2002	.59	.60	.60	.44	2.23
2003	.69	.70	.69	.57	2.65
2004	.83	.82	.78	.67	3.10
2005	.92	.91	.85	.72	3.40
2006	1.00	1.00	.95	.80	3.75

Calendar	QUARTERLY DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	.16	.18	.18	.18	.70
2002	.18	.205	.205	.205	.80
2003	.20	.24	.24	.24	.92
2004	.24	.285	.285	.285	1.10
2005	.285				

MARKET CAP: \$194 billion (Large Cap)

CURRENT POSITION 2002 2003 9/26/04

Cash Assets 7475 9523 13094
 Receivables 5399 6574 6939
 Inventory (FIFO) 3303 3588 3669
 Other 3089 3310 3114
 Current Assets 19266 22995 26876
 Acc'ts Payable 3621 4996 3646
 Debt Due 2117 1363 454
 Other 5711 7089 8229
 Current Liab. 11449 13448 12329

Business: Johnson & Johnson manufactures and sells health care products. Major lines by segment: Consumer (baby care, non-prescription drugs, sanitary protection, and skin care), Med. Device & Diag. (wound closures, minimally invasive surgical instruments, diagnostics, orthopedics, and contact lenses), and Pharmaceutical (contraceptives, psychiatric, anti-infective, and dermatological drugs). 2003 sales (operating income) by segment: Pharm., 47% (60%); Med. Device & Diag., 35% (28%); Consumer, 18% (12%). Int'l business, 40% of '03 sales; R&D, 11%. Has 109,100 empl.; 164,200 stockholders. Off/dir. own less than 1% (3/04 Proxy). Chrmn. & CEO: William Weldon, Inc. NJ. Addr. One J&J Plaza, New Brunswick, NJ 08933. Tel.: 732-524-0400. Web: www.jnj.com.

Johnson & Johnson is set to make the largest acquisition in its history. Ending months of speculation, the company announced in late December that it had agreed to purchase Guidant for an estimated \$24 billion. For \$30.40 in cash and \$45.60 in its stock for each of the target's shares, the New Jersey-based acquirer will get a lucrative and rapidly expanding cardiac rhythm management business. J&J will also get Guidant's bioerodable polymer and stents program, which should enhance its long-term competitive stance in the nascent drug-eluting stents market. The purchase would also eliminate a potential competitor that could have exerted substantial pricing and margin pressures in the stents arena. Some product divestitures will probably be required by government regulators, but the deal should close in the third quarter. The addition is expected to shave a few pennies from earnings in 2005 and 2006. It should enhance the growth rate in the subsequent years. (Note: Guidant will be excluded from our figures until the merger actually closes.)

The diversified healthcare products behemoth continues to perform very well on its own. Indeed, it staged a broadbased top-line advance in 2004, with the Pharmaceutical, Medical Devices and Diagnostics, and Consumer segments posting gains of 13.4%, 13.2%, and 12.1%, respectively. Aggregate revenues were up 13.1%, which helped fuel a 17% expansion in share profits. Looking ahead, though, slumping *Procrit* sales, as well as impending launches of generic *Duragesic* and *Concerta*, strongly suggest that business activity won't be as dynamic in 2005. That said, we have added \$0.05 to our share-net estimate (to \$3.40), factoring in increased expectations for drug-eluting stent *Cypher*, a delay in *Duragesic* generics, and a slightly lower tax rate. In all, we look for revenues to increase 7% and for share profits to expand 10%. A comparable bottom-line gain seems likely next year.

This timely issue represents a core long-term holding. J&J's robust presence in a host of healthcare sectors is certainly attractive. So, too, is its potent financial position, as this gives management ample flexibility. We think the stock will yield solid total returns to late decade.

George Rho March 4, 2005

Company's Financial Strength A++
Stock's Price Stability 95
Price Growth Persistence 90
Earnings Predictability 100

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(A) Year ends on last Sunday of December. (B) Primary earnings through '96, diluted thereafter. Excludes nonrecurring gains/(losses): '90, 5e; '92, 23e; '98, 22e; '99, 2e; '01, (7e); '02, (7e); '03, Q2, (30e). Next earnings report due mid-Apr. (C) Dividends historically paid mid: March, June, Sept., Dec. (D) Div'd reinvestment plan available. (E) Incl. intang.: In '03. \$12.2 billion, \$3.91/sh. (F) In mill., adj. for stock splits.

20

Answers

- 1. New York Stock Exchange
- 1a. JNJ
- 2. 19.5
- 3. 21.1
- 5. 1.06
- 5a. Greater
- 6. 1.9%
- 7. 2
- 7a. Above Average
- 8. 1
- 8a. Yes
- 9. 4
- 9a. Below-Average
- 10. Less Volatile
- 11. 105
- 11a. 85
- 12. No
- 12a. Yes
- 12b. Yes
- 13. Rise
- 14. 64.3
- 14a. 49.3
- 15. One
- 16. Slightly Above
- 17. About the same
- 18. Yes
- 19. +23.5%
- 19a. +9.4%
- 19b. Better
- 19c. Worse
- 20. \$3.10
- 20a. \$4.75
- 21. Yes
- 21a. No
- 21b. —
- 21c. Rising
- 21d. Rising (in 2002 and 2003)
- 22. \$47,348,000,000 (or \$47.3 billion)
- 22a. \$9,311,000,000 (or \$9.3 billion)
- 23. 2,967,726,203
- 23a. 65.41
- 23b. Large
- 24. \$3,669,000,000
- 24a. \$26,816,000,000
- 24b. \$12,329,000,000
- 25. Slower
- 25a. Faster
- 25b. Slower
- 25c. Slower
- 26. 40%
- 27. Positive
- 28. 13.3%
- 28a. 10.5%
- 28b. More
- 28c. Yes
- 28d. 17.5%
- 29. June
- 30. December
- 31. June
- 31a. Yes
- 32. Earnings Predictability

To analyze your performance, see page 23.

Results/Performance

While the exercise of reading through the preceding text and filling in the blanks or answering the questions was not intended to be a test, but rather a guide to reading the Value Line page, there are some people who are always anxious to know how they performed. We suggest the following:

How Did You Do?

NUMBER WRONG

0-3

4-6

7-10

11 or more

EVALUATION

Expert

Very Good

Passed

You should probably restudy
the workbook



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