

# QUICK STUDY GUIDE



*A Short Guide to Using*  
**THE VALUE LINE**  
**INVESTMENT SURVEY®**

## VALUE LINE PUBLICATIONS

The Value Line Investment Survey®  
The Value Line Investment Survey—Small & Mid Cap Edition®  
The Value Line 600®  
The Value Line Mutual Fund Survey®  
The Value Line No-Load Fund Advisor®  
The Value Line Options Survey®  
The Value Line Convertibles Survey®  
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# The Value Line Investment Survey

## A Quick Study Guide

The Value Line Investment Survey is a unique source of financial information designed to help investors make informed investment decisions that fit their individual goals and levels of risk. It is: (1) a proven forecaster of relative stock performance over the next six to 12 months; (2) a source of interpretative analysis on approximately 1,700 individual stocks and more than 90 industries; and (3) a source of historical information to help investors spot trends.

### I: Getting Started

As a subscriber, you will receive three parts of *The Investment Survey* each week. Part 1 is the *Summary & Index*, Part 2 is *Selection & Opinion* and Part 3 is *Ratings and Reports*. Below we will describe each section and discuss some of the ways to use them.

#### Part 1 - Summary & Index

Start with the *Summary & Index*. The front cover contains a Table of Contents, three important market statistics, and a list of all the industries we follow in alphabetical order with their industry rank relative to the other more than 90 industries next to the name of the industry. The page number is to the right. The market statistics are found in three boxes. The first box (a) has the median of estimated price/earnings ratios of all stocks with earnings covered in *The Value Line Investment Survey* (approximately 1,700). The second box (b) shows the median of estimated dividend yields (total dividends expected to be paid in the next 12 months divided by the recent price) of all dividend-paying stocks in *The Survey*. The third box (c) contains the estimated median price appreciation potential 3 to 5 years into the future for the approximately 1,700 stocks in *The Survey*, based on Value Line's hypothesized economic environment 3 to 5 years hence. By studying these statistics, a fairly good picture emerges of how the universe of Value Line stocks—which comprises approximately 90% of the market capitalization of all stocks traded in U.S. markets and is therefore quite representative of the stock market as a whole—is currently being evaluated.

The image shows the front cover of 'THE VALUE LINE Investment Survey'. At the top right, it says 'Part 1 Summary & Index' and 'June 8, 2005'. Below that is a 'TABLE OF SUMMARY & INDEX CONTENTS' with a 'Page Number' column. The main part of the cover features three large boxes labeled 'a', 'b', and 'c' containing market statistics:

- a** The Median of Estimated Price/Earnings Ratios of All Stocks with Earnings Covered in *The Value Line Investment Survey* (approximately 1,700): **18.0**
- b** The Median of Estimated Dividend Yields (Total Dividends Expected to be Paid in the Next 12 Months Divided by the Recent Price) of All Dividend-Paying Stocks in *The Survey*: **1.7%**
- c** The Estimated Median Price Appreciation Potential 3 to 5 Years into the Future for the Approximately 1,700 Stocks in *The Survey*, Based on Value Line's Hypothesized Economic Environment 3 to 5 Years Hence: **50%**

Below these statistics is a section titled 'ANALYSEES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER'. It lists various industries such as Airlines, Banks, Chemicals, Computers, etc., with their corresponding page numbers.

Summary & Index

Beginning on page 2, the *Summary & Index* also includes an alphabetical listing of all stocks in the publication with references to their location in Part 3, *Ratings & Reports*. If you are looking for a particular stock, look inside the *Summary & Index* section, which is updated each week to provide the most current data on all companies included in *The Value Line Investment Survey*.

To locate a report on an individual company, look for the page number just to the left of the company name. Then turn to that page in Part 3, *Ratings & Reports*, where the page number is shown in the top right hand corner.

In the far left column of the *Summary & Index* is a number that refers to recent Supplementary Reports, if any, which are included on the back pages of *Ratings & Reports*. If two stars (HH) appear in that column, it means that there is a Supplementary Report in the current Edition.

There are many columns in the *Summary & Index* with more information on each of the approximately 1,700 stocks we cover.

There is also a wealth of information in the stock screens toward the back of the *Summary & Index*, beginning on page 25.

These screens are a good place to start for anyone looking for investment ideas or help in forming a strategy. The screens are also useful for investors who want a list of stocks relevant to specific strategies they may have in mind.

## Part 2 - Selection & Opinion

*Selection & Opinion (S&O)* contains Value Line's latest economic and stock market commentary and investment advice, along with one or more pages of research on interesting stocks or industries, and a variety of pertinent economic and stock market statistics. It also includes three Model Portfolios stock portfolios (Stocks with Above-average Year-ahead Price Potential, for Income and Potential Price Appreciation, and Stocks with Long-term Price Growth Potential). If you spend time with *Selection & Opinion* each week, you should be able to get some valuable investment ideas and a good understanding of Value Line's outlook for the economy.

## Selection & Opinion

## Part 3 - Ratings & Reports

*Ratings & Reports* is the core of *The Value Line Investment Survey* with one-page reports on approximately 1,700 companies and one- or two-page reports on more than 90 industries. The company reports contain *Timeliness*, *Safety* and *Technical* ranks, our 3- to 5-year forecasts for stock prices, income and balance sheet data, as much as 17 years of historical data, and our analysts' commentaries. They also contain stock price charts; quarterly sales, earnings, and dividend information; and a variety of other very useful data. Each page in this section is updated every 13 weeks. When important, and often unforeseen, news occurs during these 13 week intervals, a Supplementary Report (appearing in the back section of *Ratings and Reports*) is published. If there is a Supplementary Report, its location will be shown in the far left hand column of the *Summary & Index*, near the company name. (Two stars — HH — indicate that the Supplementary Report is in the current week's issue.)

## Ratings & Reports

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Every week subscribers receive a new Issue of *Ratings & Reports* containing approximately 135 company reports grouped by industry and a smaller number of one- or two-page industry reports. The industry reports precede the reports on the companies in that same industry. Over the course of three months, revised reports are issued on all approximately 1,700 companies and more than 90 industries. (See page 5 for a sample Value Line stock report.)

## II: Planning an Investment Strategy

### Diversification

Most investors believe in owning a diversified portfolio of stocks, a strategy which Value Line strongly recommends. A properly diversified portfolio fluctuates less in its entirety than does an individual stock because the price variations of individual stocks tend to cancel each other out, with some moving up while others move down. It is also important to diversify not only among stocks, but also across industries.

***For most individual investors, a practical rule for diversifying is to hold not less than ten stocks in approximately equal dollar amounts in different and diverse industries.***

### Creating a Diversified Portfolio

A good way to start is to turn to the screen called *Timely Stocks In Timely Industries*, usually found on page 25 of the *Summary & Index*.

This screen not only lists the industries that Value Line currently ranks highest (based on our *Timeliness Ranking System*, discussed below), but also the stocks that have the highest *Timeliness* ranks within those industries.

Select eight or ten industries you think might be attractive from among those with the highest industry ranks. At this point, you may want to read our Industry pages listed on the front page of the *Summary & Index* to help you make a decision. Then select one or two of the stocks ranked highest for *Timeliness* within each industry. The pages in *Ratings & Reports* examine these stocks in great detail.

Many of the stock screens on the back pages of the *Summary & Index* can be useful in creating a diversified portfolio. For instance, if you are interested in stocks of companies with growing sales, cash flow, earnings, dividends, and book value, study the Highest Growth Stocks screen. To be included in this list, a company's annual growth of sales, cash flow, earnings, dividends and book value must together have averaged 13% or more over the past 10 years and be expected to average at least 13% in the coming 3-5 years. There are many screens of stocks in the back section of the *Summary & Index* which will help you form a diversified portfolio. The model portfolios in the *Selection & Opinion* section can also be used to obtain ideas for any investor's portfolio.

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## III: Choosing a Stock Using the Value Line Page

A sample Value Line report is included on page 5 of this guide, with references to the circled numbers below.

To start studying a stock, we suggest that you concentrate on various features found on every company page of *Ratings & Reports*. Begin by using the *Timeliness*, *Safety* and *Technical* ranks that appear in the upper left corner of each page ❶. Next, look at the analyst's commentary in the bottom half of each report ❷. Then look at our various forecasts for financial data. Estimated financial data is shown on the right side (bold italic print) of the Statistical Array ❸. Growth rates are in the *Annual Rates* box ❹. A stock's *Target Price Range* is in ❺, and 3- to 5-year stock price *Projections* are in ❻. Finally, go to the historical financial data appearing in the left side of the Statistical Array ❼. Illustrations and more detail follow.

### Value Line Ranks (see ❶ in the example on page 5)

#### **Timeliness**

The *Timeliness* rank is Value Line's measure of the expected price performance of a stock for the coming six to 12 months relative to our approximately 1,700 stock universe. Stocks ranked 1 (*Highest*) and 2 (*Above Average*) are likely to perform best relative to the approximately 1,700 stocks we follow. Stocks ranked 3 are likely to be average performers. Stocks ranked 4 (*Below Average*) and 5 (*Lowest*) are likely to underperform stocks ranked 1 through 3 in Value Line's universe.

<b>TIMELINESS</b>	<b>2</b>	Raised 5/28/04
<b>SAFETY</b>	<b>1</b>	New 7/27/90
<b>TECHNICAL</b>	<b>3</b>	Raised 4/8/05
<b>BETA</b>	.65	(1.00 = Market)

Ranks Box

At any one time, there are 100 stocks ranked 1; 300 ranked 2; approximately 900 ranked 3; 300 ranked 4; and 100 ranked 5.

Value Line has published *Timeliness* ranks for more than 40 years. Twice a year, in January and July, the results of the performance of the *Timeliness* ranks are published in *Selection & Opinion*. Overall, the results have been truly outstanding. Mark Hulbert, a *Forbes* and *New York Times* columnist who studies the performance of investment publications, has written that over a 20-year period, *The Value Line Investment Survey* "...is in first place for risk adjusted performance."

The most important factor in determining the *Timeliness* rank is earnings growth. Companies whose earnings growth over the past 10 years has been greater than their stocks' price appreciation tend to have high scores. In addition, the ranks take into account a stock's recent price performance relative to all approximately 1,700 stocks in the Value Line universe. A company's recent quarterly earnings performance and any recent earnings surprises caused because a company reported results that were significantly better or worse than expected are also factors. These are all combined to determine the *Timeliness* rank.

Just one word of caution. Stocks ranked 1 for *Timeliness* are often more volatile than the overall market and tend to have smaller capitalizations (the total value of a company's outstanding shares, calculated by multiplying the number of shares outstanding by the stock's price per share). Conservative investors may want to select stocks that also have high *Safety* ranks because they are more stable issues.

# Sample Value Line Stock Page

**JOHNSON & JOHNSON** NYSE-JNJ **RECENT PRICE 67.47** **P/E RATIO 19.6** (Trailing: 20.8 Median: 25.0) **RELATIVE P/E RATIO 1.09** **DIV'D YLD 2.0%** **VALUE LINE**



Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Price	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	14.10	15.94	17.45	18.90	23.70	23.70	23.70	23.70
Gain	.56	.65	.73	.85	.93	1.06	1.26	1.46	1.62	1.83	2.03	2.27	2.46	2.85	3.36	3.84	4.20	4.65	6.05	6.05	6.05	6.05
Return	.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	3.45	3.80	4.95	4.95	4.95	4.95
Div'd	.14	.16	.19	.22	.25	.28	.32	.37	.43	.49	.55	.62	.70	.80	.92	1.10	1.28	1.44	1.84	1.84	1.84	1.84
Decl'd	.28	.31	.37	.42	.38	.36	.48	.52	.54	.62	.59	.57	.71	.76	.73	.75	.75	.75	.90	.90	.90	.90
Spending	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	7.65	9.05	10.71	12.20	14.10	20.50	20.50	20.50	20.50
Book Value	2664.4	2664.4	2665.3	2621.6	2571.9	2572.0	2590.7	2665.0	2690.3	2688.1	2779.4	2781.9	3047.2	2968.3	2968.0	2971.0	2940.0	2915.0	2800.0	2800.0	2800.0	2800.0
Outst'g	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	18.1	18.1	20.0	20.0	20.0	20.0
P/E Ratio	1.17	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	.96	1.00	1.00	1.35	1.35	1.35	1.35
Yield	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%	1.9%	1.9%	1.9%	1.9%

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating Margin	34%	34%	34%	34%	34%	34%	34%	34%	35%	35%	35%	36%	35%	35%	34%	35%	37%	38%	37%	37%	37%	37%
Operating Profit	18842	21620	22629	23657	27471	29139	33004	36298	41862	47348	51315	55150	63252	63252	63252	63252	63252	63252	63252	63252	63252	63252
Income Tax Rate	27.6%	28.4%	27.8%	27.1%	27.5%	27.5%	28.2%	29.0%	30.2%	27.6%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Net Profit Margin	12.8%	13.4%	14.6%	15.5%	16.5%	17.8%	18.8%	19.3%	19.6%	19.3%	19.6%	19.3%	19.6%	19.3%	19.6%	19.3%	19.6%	19.3%	19.6%	19.3%	19.6%	19.3%
Return on Total Cap'l	22.3%	24.2%	24.9%	25.2%	22.9%	23.3%	22.5%	27.8%	27.4%	27.3%	26.0%	25.5%	27.8%	27.4%	27.3%	26.0%	25.5%	27.8%	27.4%	27.3%	26.0%	25.5%
Return on Shr. Equity	26.6%	26.6%	26.7%	27.1%	26.0%	25.5%	24.3%	30.0%	30.1%	29.2%	28.5%	27.5%	28.5%	27.5%	28.5%	27.5%	28.5%	27.5%	28.5%	27.5%	28.5%	27.5%
Retained to Com Eq	17.4%	17.7%	17.5%	17.5%	16.8%	16.4%	15.8%	19.5%	19.9%	19.0%	18.0%	16.5%	16.5%	19.9%	19.0%	18.0%	16.5%	16.5%	19.9%	19.0%	18.0%	16.5%
All Div's to Net Prof	34%	34%	34%	34%	34%	34%	34%	34%	35%	35%	35%	36%	35%	35%	34%	35%	37%	38%	37%	37%	37%	37%

**MARKET CAP: \$201 billion (Large Cap)**

**CURRENT POSITION (\$MILL)**

Item	2003	2004	4/3/05
Cash Assets	9523	12884	13650
Receivables	6574	6831	7336
Inventory (FIFO)	3588	3744	3814
Other	3310	3861	3966
Current Assets	22995	27320	28766
Accts Payable	4996	5227	4038
Debt Due	1363	280	318
Other	7089	8420	8625
Current Liab.	13448	13927	12981

**ANNUAL RATES**

Rate	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04
change (per sh)	9.5%	9.5%	9.0%
Sales	13.5%	13.0%	10.5%
"Cash Flow"	14.5%	15.0%	11.0%
Earnings	14.0%	14.0%	12.0%
Dividends	15.0%	12.0%	14.5%
Book Value			

**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). 2004 sales (operating income) by segment: Pharm., 47% (58%); Med. Device & Diag., 36% (31%); Consumer, 17% (11%). Int'l business, 41% of '04 sales; R&D, 11%. Has 109,900 empl.; 187,840 stockholders. Off/dir. own less than 1% (3/05 Proxy). Chrm. & CEO: William Weldon. Inc.: NJ. Addr.: One J&J Plaza, New Brunswick, NJ 08933. Tel.: 732-524-0400. Web: www.jnj.com.

**Johnson & Johnson's largest acquisition to date will probably close in about three months.** Guidant stockholders approved the \$25 billion deal in late April. Permission is still required of U.S. and European regulators, but we think the merger will occur in the latter part of the September period. At that time, investors in Guidant will receive stock and cash worth \$76 for each of their shares. The acquirer will in turn get a lucrative and rapidly expanding cardiac rhythm management business. J&J will also get bioerodable polymer and stents program, which should enhance its own long-term competitive stance in the nascent, highly profitable drug-eluting stents market. The purchase also eliminates a potential competitor that could have exerted substantial pricing and margin pressures in the stents arena. Modest earnings dilution is likely this year and next, but the addition should be accretive in the subsequent years. (Note: Guidant will be excluded from our figures until the merger actually closes.) **Bottom-line deceleration is likely in the near term, but double-digit percentage gains still seem probable in**

**2005 and 2006.** J&J's Medical Devices & Diagnostics and Consumer segments continue to perform well, with revenues expanding 16.0% and 11.4% in the first quarter, to \$4.8 billion and \$2.3 billion, respectively; they grew by 13.2% and 12.1% in 2004. Sales of pharmaceuticals slowed to only 7.0%, however; growth last year was 13.4%. The company's largest business (\$5.8 billion in the March period) was hurt by pressures from branded and generic products, a situation that's likely to persist over the next two years. Generics threaten *Duragesic*, *Concerta*, and *Ultracet*, while flagship *Procril* and *Remicade* will be squeezed by branded rivals. That said, share net was up 17% in 2005's first quarter (topping our estimate by \$0.05), buoyed by the MD&D segment. We look for share profits to rise 11% (to \$3.45) in 2005 and 10% (\$3.80) next year. **These top-quality shares look good for the year ahead, as well as out to 2008-2010.** They are timely. Current valuations and a consistently increasing dividend payout, meantime, offer the potential for solid total returns over the long haul.

*George Rho* June 3, 2005

Fiscal Year Ends	2002	2003	2004	2005	2006	Full Fiscal Year	
Quarterly Sales (\$ mil.) <sup>A</sup>	8743	9073	9079	9403	9403	36298	
Mar.Per	9831	10322	10455	11254	11254	41862	
Jun.Per	11559	11484	11553	12752	12752	47348	
Sep.Per	12832	12575	12500	13408	13408	51315	
Dec.Per	13750	13550	13400	14450	14450	55150	
Fiscal Year Ends	2002	2003	2004	2005	2006	Full Fiscal Year	
Earnings Per Share <sup>AB</sup>	.59	.60	.60	.44	.44	2.23	
Mar.Per	.69	.70	.69	.62	.62	2.70	
Jun.Per	.83	.82	.78	.67	.67	3.10	
Sep.Per	.97	.91	.86	.71	.71	3.45	
Dec.Per	1.02	1.01	.96	.81	.81	3.80	
Calendar	2001	2002	2003	2004	2005	2006	Full Year
Quarterly Dividends Paid <sup>C</sup>	.16	.18	.18	.18	.18	.18	.70
Mar.31	.18	.205	.205	.205	.205	.205	.80
Jun.30	.20	.24	.24	.24	.24	.24	.92
Sep.30	.24	.285	.285	.285	.285	.285	1.10
Dec.31	.285	.33					

(A) Year ends on last Sunday of December. (B) Primary earnings through '96, diluted thereafter. Excludes nonrecurring gains/(losses): '90, '95; '92, '23e; '98, '22e; '99, '2e; '01, ('7e). (C) Dividends historically paid mid-March, June, Sept., Dec. (D) Div'd reinvestment plan available. (E) Incl. intang.: In '02, ('7e); '03: Q2, (30e); '04, (26e) Next earnings report due mid-July. (F) Dividends historically paid mid-March, June, Sept., Dec. (G) Div'd reinvestment plan available. (H) Incl. intang.: In '04, \$12.4 billion, \$4.17/sh. (E) In mill., adj. for stock splits.

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

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## Safety

The *Safety* rank is a measure of the total risk of one stock compared to all others in our approximately 1,700 stock universe. As with *Timeliness*, Value Line ranks each stock from 1 (Highest) to 5 (Lowest). However, unlike *Timeliness*, the number of stocks in each category from 1 to 5 may vary. The *Safety* rank is derived from two measurements (weighted equally) found in the lower right hand corner of each page ②: a Company's Financial Strength and a Stock's Price Stability. Financial Strength is a measure of a company's financial condition, and is reported on a scale of A++ (highest) to C (lowest). The largest companies with the strongest balance sheets get the highest scores. Price Stability is based on a ranking of the standard deviation (a measure of volatility) of weekly percent changes in the price of a company's own stock over the last five years, and is reported on a scale of 100 (highest) to 5 (lowest) in increments of 5. Generally speaking, stocks with *Safety* ranks of 1 and 2 are most suitable for conservative investors.

<b>Company's Financial Strength</b>	A++
<b>Stock's Price Stability</b>	100
<b>Price Growth Persistence</b>	90
<b>Earnings Predictability</b>	100

Financial/Stock Price Data

A stock's Price Growth Persistence and a company's Earnings Predictability are also included in the box above, but do not factor into the *Safety* rank. However, they are useful statistics. Price Growth Persistence is a measure of the consistency of relative stock price growth over the past 10 years. Earnings Predictability is a measure of the reliability of an earnings forecast.

## Technical

The *Technical* rank is primarily a predictor of a stock's short term (three to six months) relative price change. It is based on a proprietary model which examines 10 relative price trends for a particular stock over different periods in the past year. It also takes into account the price volatility of each stock. The *Technical* ranks also range from 1 (Highest) to 5 (Lowest). At any one time, about 100 stocks are ranked 1; 300 ranked 2; 900 ranked 3; 300 ranked 4; and 100 ranked 5.

## Beta

*Beta* is a measure of the volatility of a stock relative to the overall stock market and is calculated by Value Line. While it is not a rank, we do consider it important.

## Industry Timeliness

Value Line also publishes *Industry* ranks which show the *Timeliness* of each industry. The *Industry* ranks indicate how Value Line believes the prices of stocks within 90 or more industries will perform relative to each other. These ranks are updated weekly and published on the front cover and on page 24 of the Summary & Index. They also appear at the top of each Industry Report in *Ratings & Reports*. The *Industry* rank is calculated by averaging the *Timeliness* ranks of each of the stocks assigned a *Timeliness* rank in a particular industry.



## Analyst's Commentary (see 2 on page 5)

Next, look at the analyst's written commentary in the lower half of the page. Many readers think this is the most important section of the page. In the commentary, the analyst discusses his/her expectations for the future. There are times when the raw numbers don't tell the full story. The analyst uses the commentary to explain why the forecast is what it is. The commentary is also particularly useful when a change in trend is occurring or about to occur. As an example, a stock may have a poor *Timeliness* rank but the analyst thinks earnings could turn around in the future. In this case, the analyst may use the commentary to explain why he/she thinks conditions are likely to get better, thus giving the subscriber insight into what is happening and why.

**Johnson & Johnson's largest acquisition to date will probably close in about three months.** Guidant stockholders approved the \$2.5 billion deal in late April. Permission is still required of U.S. and European regulators, but we think the merger will occur in the latter part of the September period. At that time, investors in Guidant will receive stock and cash worth \$76 for each of their shares. The acquirer will in turn get a lucrative and rapidly expanding cardiac rhythm management business. J&J will also get a bioerodable polymer and stents program, which should enhance its own long-term competitive stance in the nascent, highly profitable drug-eluting stents market. The purchase also eliminates a potential competitor that could have exerted substantial pricing and margin pressures in the stents arena. Modest earnings dilution is likely this year and next, but the addition should be accretive in the subsequent years. (Note: Guidant will be excluded from our figures until the merger actually closes.) **Bottom-line deceleration is likely in the near term, but double-digit percentage gains still seem probable in 2005 and 2006.** J&J's Medical Devices & Diagnostics and Consumer segments continue to perform well, with revenues expanding 16.0% and 11.4% in the first quarter, to \$4.8 billion and \$2.3 billion, respectively; they grew by 13.2% and 12.1% in 2004. Sales of pharmaceuticals slowed to only 7.0%, however; growth last year was 13.4%. The company's largest business (\$5.8 billion in the March period) was hurt by pressures from branded and generic products, a situation that's likely to persist over the next two years. Generics threaten *Duragesic*, *Concerta*, and *Ultracet*, while flagship *Procrit/Eprex* and *Remicade* will be squeezed by branded rivals. That said, share net was up 17% in 2005's first quarter (topping our estimate by \$0.05), buoyed by the MD&D segment. We look for share profits to rise 11% (to \$3.45) in 2005 and 10% (\$3.80) next year. **These top-quality shares look good for the year ahead, as well as out to 2008-2010.** They are timely. Current valuations and a consistently increasing dividend payout, meantime, offer the potential for solid total returns over the long haul.

George Rho June 3, 2005

## Analyst's Commentary

## Value Line's Financial Data (see 3 and 4 on page 5)

In the Statistical Array in the center of the report (where most of the numbers are), Value Line provides both historical data and financial projections.

## Financial Estimates (see 3 on page 5)

The estimates of sales, earnings, net profit margins, income tax rates, and so forth are all derived from spread sheets maintained on every company and printed in **bold italics**. The numbers are based on an analyst's latest thinking about where a company may be in the future. Our analysts regularly review their projections and discuss them with a company's management. Afterwards, they make whatever adjustments they believe are warranted.

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	* VALUE LINE P.B. R. (6-10)
3.86	4.22	4.67	5.25	5.50	6.12	7.27	8.41	8.88	10.47	10.83	12.23	14.10	15.94	17.45	18.80	19.80	20.70	Sales per sh
36	35	33	35	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
41	48	55	62	69	78	83	108	121	136	148	170	191	223	270	330	405	480	"Cash Flow" per sh
34	16	19	22	25	28	32	37	43	48	55	65	70	80	92	110	128	144	Div/Debt's per sh
1.50	1.84	2.11	1.97	2.17	2.77	3.48	4.07	4.59	5.06	5.83	6.78	7.95	7.85	9.05	10.71	12.20	14.10	Book Value per sh
284.4	284.4	288.3	282.1	287.3	297.2	298.7	288.3	288.1	279.4	279.1	307.2	288.3	288.0	287.0	284.7	284.7	284.7	Common Shs Outst
15.1	15.5	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1
1.17	1.23	1.31	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21	1.21
2.25	2.15	1.70	1.85	2.45	2.45	1.95	1.95	1.45	1.25	1.25	1.45	1.75	1.45	1.85	2.05	2.05	2.05	2.05
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1882	1920	2029	2067	2101	2019	2004	2026	4162	4748	5151	5511	5811	6111	6411	6711	7011	7311	7611
23.2%	24.6%	25.1%	26.6%	27.0%	27.4%	28.8%	31.2%	31.3%	31.6%	32.0%	32.4%	32.8%	33.2%	33.6%	34.0%	34.4%	34.8%	35.2%
85.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%	27.8%
12.0%	13.4%	14.8%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
22.3%	24.2%	24.9%	25.2%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%
17.5%	17.7%	17.5%	17.5%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%	18.8%
34%	34%	34%	34%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

## Statistical Array

## Historical Financial Data (see 4 on page 5)

Many investors like to use the Statistical Array to do their own analysis. They, in particular, use the historical data in the center of each report to see how a company has been doing over a long time frame. It's worth pointing out that while all of the data are important, different readers find different data items to be most useful.

The numbers are probably most helpful in identifying trends. For example, look at sales per share to see if they have been rising for an extended period of time. Look at operating margins and net profit margins to see if they have been expanding, narrowing or staying flat. Also check the percentages near the bottom to see if the Return on Total Capital or the Return on Shareholders' Equity have been rising, falling or remaining about the same.

## Annual Rates Of Change (see ⑤ on page 5)

At this point, it may be helpful to look at the Annual Rates box in the left-hand column. This box shows the compound annual growth percentages for sales, cash flow, and other items for the past 5 and 10 years and also Value Line's projections of growth for each item for the coming 3 to 5 years. Trends are also important here. Check whether growth has been increasing or slowing and to see if Value Line's analyst thinks it will pick up or fall off in the future. (Specific estimates for various data items for the years 2008-2010 can be found in bold italicized type in the far right hand column of the Statistical Array.)

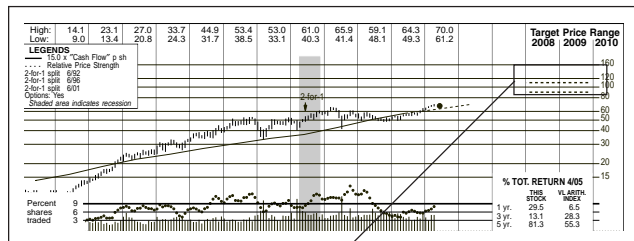
ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Sales	9.5%	9.5%	9.0%
"Cash Flow"	13.5%	13.0%	10.5%
Earnings	14.5%	15.0%	11.0%
Dividends	14.0%	14.0%	12.0%
Book Value	15.0%	12.0%	14.5%

Annual Rates Box

## Target Price Range and 3- to 5-year Projections (see ⑥ and ⑦ on page 5)

In the upper right-hand section of each report is a Target Price Range for each stock. This is the range in which the price is likely to fall during the period 3 to 5 years hence. The range is based on the analyst's projections in the period 3-5 years out for earnings per share multiplied by the estimated price/earnings ratio in the Statistical Array for the same period. The width of the high-low range depends on the stock's *Safety* rank. A stock with a high *Safety* rank has a narrower range, one with a low rank, a wider one.

In the left hand column of each report, there is also a box which contains 3- to 5-year Projections for a stock price. There you can see the potential high and low average prices we forecast, the % price changes we project, and the expected compound annual total returns (price appreciation plus dividends). To make these calculations, analysts compare the expected prices out 3 to 5 years into the future (as shown in the Target Price Range and Projections box) with the recent price shown at the top of the report.



Target Price Range (3 to 5 years)

Investors whose primary goal is long-term price appreciation should study the 3- to 5-year projections carefully and choose stocks with above-average appreciation potential. For comparative purposes, you can find the Estimated Median Price Appreciation Potential for all approximately 1,700 stocks on the front page of the *Summary & Index*.

2008-10 PROJECTIONS			
	Price	Gain	Ann'l Total Return
High	110	(+65%)	15%
Low	90	(+35%)	10%

3- to 5-year Projections

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For a more detailed explanation of ways to use *The Value Line Investment Survey*, please read *How to Invest in Common Stocks—The Complete Guide to Using The Value Line Investment Survey*. It also contains an enlarged glossary of investment terminology. This booklet is sent to new subscribers and is also available in the EDUCATION section of our web site ([www.valueline.com](http://www.valueline.com).)

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