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Johnson & Johnson at Leerink Partners Global Biopharma Conference

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## CORPORATE PARTICIPANTS

**Joseph J. Wolk** *Johnson & Johnson - Executive VP & CFO*
**Raychel Kruper** *Johnson & Johnson - Senior Director, Investor Relations*

## CONFERENCE CALL PARTICIPANTS

**David Reed Risinger** *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

## PRESENTATION

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Okay. So we're going to get started here. Sorry, we're starting 2 minutes late. My apologies. So my name is Dave Risinger. If you don't know me, I cover diversified biopharmaceuticals for Leerink Partners. And it's very much my pleasure to welcome the CFO of J&J, Joe Wolk, who was kind enough to take the time to be with us here today; and also the Senior Director of IR, Raychel Kruper, who focuses on biopharma for the J&J team.

## QUESTIONS AND ANSWERS

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

So I figured I would start it off, Joe, by first of all, complementing you on the strong performance over the last several years since you were named CFO back in 2018 through the pandemic and beyond. And I was interested in -- obviously, J&J is a strong and very powerful company with a lot of levers. But the company's ability to manage through the difficult times and -- if you could reflect on that a little bit and also the application of lessons learned, i.e., how to operate much more efficiently and differently, which has enabled you to also put forward plans to continue to drive margin strength despite aggressive reinvestment in the business.

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Yes. So first of all, Dave, thanks for having us, and thanks to all of you for your interest in Johnson & Johnson. Thank you for the kind words. I would say I've been fortunate. It's really the team that's done a tremendous job with respect to the business performance over the last few years, which by any accounts, probably been some of the most turbulent in the history of business.

But as you've gone through those turbulent times, I would say the one thing that really resonated with me is it's really important to know who you are. If I go back to the days of the pandemic, it was almost about this time in 2020, where folks were pulling guidance, they were removing their dividend or at least reducing it. And I remember sitting with Alex Gorsky debating like, well, what do we do? Do we, as the world's largest healthcare company at the time, show up and say, "Boy, damned if we know," and just pull guidance. We thought that would be disconcerting on a number of fronts, not just for our company but for the industry at large.

We've paid dividends for, at that time, high 50s years, Dividend King. And we thought it was important to lean into who we were. So with that first quarter earnings in April, we did provide guidance. We said this is going to be 100% precisely wrong. But here's the ranges of what we know, here's what we don't know. We did increase our dividend at a disproportionate rate at that time. And I think that reassured investors that J&J is going to continue to manage as they always have, and that's for the long term.

And our long-term success is going to be premised on innovation. It's no different in good times or bad times as to having the capability and the desire, quite frankly, to want to make sure that whether it's Innovative Medicines, Pharmaceuticals or MedTech, that we're bringing offerings to the marketplace in health care that are differentiated from the current standards of care. That's been our formula for success for quite some time. So while it may have coincided with some turbulent years since my appointment, I think I'm just the benefactor of really what's been part and parcel to Johnson & Johnson for decades.

Now I do think those turbulent times has accelerated things. And the acceleration serves our business well. If I think about during the pandemic, as a simple example in finance, we were closing the books almost remotely at the time. That would have been very nerve-racking had I known about that on March 10, 2020. Wouldn't have signed up for it, but we had to get through it. I take the skill sets that we developed -- that's a small example. But I take the skill sets of doing things that we hadn't done before and doing them quickly

with the right people in the room to the Kenvue separation, right?

It was -- that was a business that was really part of Johnson & Johnson's heritage for decades. It was intertwined for many reasons throughout all parts of our business. We were able to separate a $40 billion company within about 15 months in total. The team did a fantastic job without a playbook, right, forging ahead, getting the right people to make the decision and then course-correcting when something went wrong.

And here we are, by all accounts, whether you talk to some of the big banks that assisted us or some of the consultants, that it's become the gold standard for those types of separations. So we're very proud of what the team was able to accomplish. I think that sets us up very well for what we see in terms of acceleration of where we go tomorrow.

Joaquin Duato, our CEO, has said, "The next 10 years of healthcare innovation will be much more profound than the last 100 years." And that's probably a true statement when you just think of the convergence of tech with healthcare, right? There's major tech players wanting to get into the space of healthcare. And we see it in our own business where MedTech applications are now being combined with therapeutics for a better result down the road.

We employ 6,000 data scientists within our company, something that would have been unheard of prior to 2020. And we're teaching our organization to be kind of bilingual with respect to being technologically savvy, knowing the science, knowing your specific functional expertise, but also how technology can help you become not just more efficient but more effective in that decision-making. So we're very excited about what lays ahead for Johnson & Johnson. And I think the last couple of years have, quite frankly, formed us to be a much better organization for what are seemingly faster times.

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**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Excellent. And so turning to the numbers. At your Analyst Day in December, management targeted '25-'30, organic growth of 5% to 7%. I mean you didn't give specifically '29-'30 for Medical Devices. But I would call out that I think the current consensus projects about 3.6% by our last cut of the numbers. So could you discuss what you think the sell side is underappreciating? And I guess, what you would specifically point to?

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**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Yes. So it's funny. I kind of look at this as somewhat of a good story. Because if you go back to this time last year, the analyst consensus for our MedTech business was about 5.2%, and our Pharm business was 1.6%. Today, that same consensus stands at about 6.6% for MedTech and about 3.2% for our Pharmaceutical business. So that tells me folks are starting to come along for the ride. But it also provides me, I think, with a perspective that there's still tremendous opportunity that some of the data matriculates and comes out, which, based on what we committed to and expected at the December Enterprise Business Review, I would say we're at least on schedule, if not ahead, in many cases, with some of those data readouts.

We feel pretty good. There's still an opportunity for investors to kind of capitalize on going from that 3.5% growth to something that's going to be closer to 6% growth over that horizon. I think in MedTech, what's changed the game there is there's a belief in the sustainability of performance. We've gone from 1.5% in 2017 as a growth rate to 7.8% last year. That's without the acquisition of Abiomed.

In Pharmaceuticals, I think there was a slide that we put up that identified about 6 products that we thought The Street was severely underestimating by different degrees [in 2027] (added by company after the call). So in the category of being about 25% off the forecast where we saw it higher, we had CARVYKTI as well as TECVAYLI, so the bispecific for multiple myeloma, CARVYKTI being the CAR-T BCMA for multiple myeloma as well. The data there continues to progress. TECVAYLI is off to a very strong start.

Another bispecific in multiple myeloma, TALVEY, we think is 50% higher than what The Street is currently calling for, as we think the same with SPRAVATO for depression. So we're very well positioned. And then probably, the biggest product that has a disconnect would be the combination of RYBREVANT and lazertinib for small cell lung cancer with EGFR mutation. We've got some data in MARIPOSA-1, MARIPOSA-2 as well as PAPILLON that read out [late last] (corrected by company after the call) year. We expect approval for

MARIPOSA-1 likely this year, hopefully soon, as well as the PALOMA study, which is a study that should read out later this year for sub-Q formulation and administration.

So I think that it's very bright. So folks have changed their perception a little bit on some of those products. I think the 25% category is now closer to 20% understated. The one product I didn't mention there was for bladder cancer, the intravesical device that we have to address bladder cancer known as TARIS. So we think that's an underappreciated opportunity, particularly in the longer term when some of the bigger trials read out.

So those are some of the disconnects that we see from The Street. But again, all the data that we expected to come through is either on track, enrollments are on track or slightly ahead of what we committed to in December.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Excellent. And just on the -- you mentioned the current year in terms of expectations. Just when you reported the fourth quarter, there was some noise from medical device analysts. I focus less on that area. Obviously, I've a lot of biopharma companies to cover. But I think there were some initial margin concerns. But I think you were emphasizing the full year perspective. So could you just provide a little more color on that?

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Yes. So in candor, I didn't do a good job of explaining that very well during the fourth quarter.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Oh sorry to bring that up.

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

No, that's all right. I'm glad for the chance to clarify the record here, give me a second shot at this. So if you look on the year-on-year change, about more than 75% of the change related to an acquisition we made, I think towards the end of last year, booked in the fourth quarter, about $400 million, known as Laminar, so it's for left atrial appendage closure. It's somewhat unique in the MedTech world to have an IPR&D charge of that size, that magnitude. We took that charge. I could have explained it better during the call.

We did have some headwinds in terms of margin. As you can imagine, there's a little longer inventory lead times on our balance sheet that flowed through. So some of the inflationary impact you saw from 2022 came off through the P&L in '23. Some of it's even still coming off in '24. There's no new inflation that we have to be concerned about.

What was maybe a little puzzling at the time is we gave guidance for the full year in '24. I think people projected that, that poorly explained fourth quarter would somehow translate into fourth quarter performance. But we're very comfortable, as we said 3 months in, with the guidance that we provided at the beginning of the year. We still provided that same guidance back in December at the EBR. So our margin profile remains very much intact despite what might have been a noisy fourth quarter because of that IPR&D charge.

There is an opportunity to improve our margins in MedTech. Tim Schmid and his leadership team are doing a fantastic job getting after that. Some of you may have noticed that we did take a restructuring charge in the third quarter, specific to our Orthopaedics business to improve margins there, exiting some less profitable markets, looking at our footprint from a manufacturing perspective, getting much more efficient. So we think we're very well positioned to meet the margin commitments going forward.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Got it. Thank you. Well, that's very nice of you to take responsibility for sell-side misinterpretation.

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

No, no, no. I wouldn't say that.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Most CFOs would just blame the sell side. But anyway, so in terms of the pipeline, you frame, obviously, what are going to be several multibillion-dollar blockbusters. But I'm sure there are probably some other interesting pipeline candidates that are maybe not quite as large of an opportunity as the ones that you've mentioned that are interesting and exciting for you to see how they play out. Could you comment on those, please?

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**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Yes. And maybe I'll ask -- I'm sure I'm going to leave 1 or 2 out. They may be as large. They may be bigger. I think about JNJ-2113, so our targeted oral peptide, that provides tremendous opportunity in some of the spaces that we play today, specifically psoriasis and IBD.

If you think about kind of patients' aversion to needles, about 30% of patients today do not get treatment because they have an aversion to a needle. We also did some studies that suggest that those who do receive injections, 75% of them are willing to switch and actually prefer to switch to an oral if given the opportunity. So you're talking about millions of patients who -- if the efficacy proves out, which, again, another readout over the weekend, suggests that we're very happy with some of the efficacy rates we're seeing will be -- could be a major player within the IBD / psoriasis space.

We have the partnership for a Factor XI with Bristol-Myers Squibb. Obviously, the Factor Xas are effective. They've been great for patients, but there's still about 25% to 30% that can't avail [themselves to] that because of the bleeding profile. We think the Factor XI could be a remedy to that. It's Fast Track designation. So we'll continue to pursue that.

I would say the -- TREMFYA is one that -- you may have seen yesterday that we've made a filing for the UC indication. I think that's critically important as STELARA is going to be subject to biosimilar competition here in the U.S. beginning of next year, later this year for outside the U.S. 75% of STELARA sales today are in IBD. So we think this provides a nice transition by having TREMFYA stepping into UC with Crohn's data being read out later this year.

Raychel, do you want to pick 1 or 2 maybe that I'm missing?

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**Raychel Kruper** ***Johnson & Johnson - Senior Director, Investor Relations***

I think you captured a good majority of them. I think nipocalimab is another big one that we're excited about. We top lined myasthenia gravis data earlier this year as well as Sjogren's disease. So that would be another large opportunity for us as well.

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**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Excellent. That's very helpful. And so in terms of I&I and formulary placement, clearly, AbbVie has been dominant and constrained the growth, obviously, of TREMFYA. And the PBMs have ever-increasing demands for rebates. So I'm hoping that you could just talk about sort of lessons learned about access pressures, however you'd like to comment on that. And how you're incorporating those lessons learned as you continue to develop additional I&I candidates but also other candidates outside of oncology.

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**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Yes. No, I think the access question is a good one today, obviously, very timely, particularly with the rhetoric that you hear during a presidential campaign year. I would say if you think about the payers, PBMs, it's -- 80% of commercial lives are now covered by 3 players. The good news is Johnson & Johnson has been at this a while, has been competitive for a while. And we have good relationships with those payers. The point of leverage that we have is coming out with products that are truly differentiated.

Much -- just like I said in my first response, having that innovation that elevates the current standard of care puts you in a very good position to have negotiations with some of the payers. Our growth over the last several years, at least the last 6 years, as we published in our transparency report, has come from volume, right, because we've got innovative products. We've lost on price almost each of those years by an average of, let's call it, 3% to 5%. So that's critically important.

I think if you think about where we've got strongholds, you mentioned immunology. We can certainly get more competitive there as there's more products at play. But we think we've got some of these products down the pipe that will meet and address some of those

needs. But we've been in that space for more than 25 years. We've had 5 market-leading candidates. We're excited about 2113 as well as 4804 and an oral IL-17. So we'll have the full portfolio.

Neuroscience is another area where, really, we're the pioneers over 40 years ago, 40 years of experience, largely in schizophrenia but now moving into multiple aspects of depression as well as Alzheimer's disease with a Phase II monoclonal antibody for the tau -- targeting the tau protein as well as a tau vaccine. So there's promise there. And then obviously, the oncology portfolio, which we've alluded to earlier. Really, a number of options available to us with multiple myeloma. We're prevalent and have had leadership positions in prostate cancer, moving now into solid tumors with bladder cancer and lung cancer as well as new modalities.

So the Ambrx acquisition [early this] (corrected by company after the call) year just closed the other day for ADCs, tri-specific combinations as well as cell therapy. So we think we're very well positioned. And I think in terms of creating leverage with the payers, it really comes down to having differentiated products.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

That's great. Yes, you have a lot of cards to turn over in coming years. So it's a great position to be in. Maybe we could turn to talc litigation. I know that you can't litigate at this session, but would love to have you frame for us the key developments to watch over the next year or so.

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Yes. So I think it's interesting now. And as you heard at our Enterprise Business Review from our General Counsel, Liz Forminard and Erik Haas, it's really a four-pronged strategy. The first is to appeal the bankruptcy. I think there's been some recent developments that are somewhat interesting in terms of what the Fourth Circuit ruled and kind of saying that you didn't need an imminent financial distress standard. That was something that the Third Circuit kind of interpreted into or read into the law, which didn't exist previously. So you could see that kind of coming to a head. We'll continue to appeal the Third Circuit appellate court's decision.

We are continuing to speak with the other side in terms of a broad global resolution as Judge Kaplan at the lower level in the Third Circuit encouraged both sides to do. We'll see how that plays out. We'll continue to litigate where necessary. We've won about 75% of these cases.

And then the last aspect is, quite frankly, exposing some of the tactics of the plaintiffs' bar in some of these core proceedings, how these cases are financed. I think shedding some light on just the questionable data that expert witnesses from the other side puts up will be illuminating. This is a problem for Johnson & Johnson, certainly, but it's also a problem, I think, for industry and American business at large. We've got a great legal system, but the tort system, I think, needs some refining.

What I do want to make clear to folks in the audience though is despite the matter of talc, if you just look over the last couple of years where this has been resident, we've been able to deploy capital in many different ways. Actually, over the last 2 years, we've pulled on every lever of capital allocation priorities that we articulate. So that starts with differentiated investment in our organic pipeline. Last year, it was over $15 billion in research and development that hit the P&L.

We continue to increase our dividend for 61 years now, overall Dividend King status. We'll make smart acquisitions. We -- like I said earlier, we're really thrilled with the Abiomed acquisition. It was a great fit from the perspective of culture business. It ties nicely but not directly to our EP business in MedTech. So that positions us very well to broaden out the Interventional Solutions portfolio.

And then we'll do share repurchases when we have the opportunity and it makes sense. And if you think about a global resolution around talc, which whether you talk to Joaquin Duato, whether you talk to our Board, we want to put this behind us in a reasonable, responsible way. So we're not oblivious to the fact that, that does provide an overhang. So we're motivated to do that. We just want to do it in a responsible way. But in the interim, it doesn't preclude us from doing anything that we hope to do to either return capital back to shareholders or strengthen our business for the future of any scale.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Excellent. That's super helpful. Yes, it's I'm sure very difficult for you to balance given that no one knows what causes cancer. And a lot of the claims are questionable and the data is questionable. So I'm sure it's difficult to part with any money at all.

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

As a CFO, I'd much rather be putting it towards novel cancer treatments or Alzheimer's disease or exciting opportunities in MedTech. But we also -- again, we're not oblivious to the fact that it is providing an overhang now. And a responsible, reasonable path forward is something that we're looking to affect as quickly as we can.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Excellent. So turning to M&A. The company's balance sheet is really in an exceptional position. And you've obviously pursued select M&A. But how are you thinking about additional activity in biopharmaceuticals? A number of deals you've done in medical devices in the last 3 years has been more than biopharma. And obviously, biopharma is a bigger part of the company overall. So how are you -- how would you characterize future M&A for your biopharma business?

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

We're going to continue to be as active as we have been. While the number -- actually, the number of deals that we've done in biopharm has been much more plentiful than MedTech. It's just there's been higher price tags with some of the MedTech ones. So the Pharm team, I think, takes great pride in maybe not having a headline at the time the deal is signed, but having a headline when the product is about to be launched.

Last year, we deployed about $3.3 billion of capital across 50 opportunities. Where you've seen our success over the last 15 years is really getting in early, being able to influence the development construct and program as well as the time line around that. And that's where we've been able to create some great value for shareholders.

That doesn't mean we're averse to doing a larger-size deal. The nice thing about it, certainly, as CFO, is we're not doing that out of desperation, right? We -- and it's kind of a unique time now, where there are some companies and players that are facing patent expirations and maybe trying to fill that gap. We feel very comfortable with what Jennifer Taubert and John Reed and Joaquin Duato outlined for '25 through '30, right? That 5% to 7% is what we have in-house today. If there's a nice opportunity to fortify that, certainly, we're going to look at that. But it's got to meet that criteria of having strategic merit, which means we either have a scientific expertise or a global footprint that's going to add to the value of that asset; and then making sure we pay a price for that asset that compensates the risk that we're bearing on behalf of shareholders. And that's how we look at really all opportunities.

So I would say we're still very, very active. There just might be -- there might be more under the radar than what you're used to seeing. The nice thing is we don't have to do it out of desperation. We have, obviously, the STELARA biosimilar competition coming in, but we love the pipeline that's going to fill in right after that.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Yes. Very, very helpful. And then just to follow on, on one of the points you made earlier about having 6,000 data scientists at the company. I'm just curious, how would you paint the picture of AI, considering the AI hype that's out there? How is J&J actually implementing AI? And I'm most interested in the Pharmaceutical business but also interested on the Medical Device side as well.

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Yes. So right now, I'd say, David, we're probably pretty good at harnessing the efficiencies that AI can deliver. So looking at some of the back-office functions, maybe doing some medical writing or a clinical trial design. I don't know that we've gotten to the point -- I don't know that anybody in the industry has really the insights that AI can generate for us. So taking countless volumes, reams of data and saying, boy, this is a specific biomarker that we wouldn't have captured otherwise, or a disease state that is subject to this type of biological, genetic or molecular action, we haven't gotten there yet.

So again, I don't think that's unique to Johnson & Johnson. I think that's really pervasive across the industry. We're trying to get -- we're

trying to build the capabilities, where it's a muscle for us. And so the 6,000, I can't say whether that's the beginning or the end. But I do know that it's having an impact in terms of how we do recruit for trials and how we're conducting business at large. So I'd say it's much more of an efficiency play than an effectiveness or insight play at this point.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

That makes a lot of sense. The complexity of human biology and disease and the actual appropriate inputs and whether you have enough of them with the right data sets makes it very tough.

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Yes. Yes, exactly. And then just capturing that data with real-world evidence, right? I think that will be probably the most significant attribute in terms of enhancing what kind of insights we're able to derive.

**David Reed Risinger** ***Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst***

Excellent. Well, I think we are out of time. The clock has just reset. So thank you so much for being here. Really appreciate it.

**Joseph J. Wolk** ***Johnson & Johnson - Executive VP & CFO***

Thank you, Dave. Thank you.