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EDITED TRANSCRIPT

JNJ.N - Johnson & Johnson at RBC Capital Markets Global Healthcare Conference

EVENT DATE/TIME: MAY 15, 2024 / 3:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Timothy Schmid *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

CONFERENCE CALL PARTICIPANTS

Shagun Singh Chadha *RBC Capital Markets, Research Division - Research Analyst*

PRESENTATION

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

We'll go ahead and get started. Hello, everyone, and welcome to the 2024 RBC Capital Global Healthcare Conference. I'm Shagun Singh, Senior Medical Device Analyst at RBC. And I'm very pleased to have Johnson & Johnson here with us again this year. Joining us from the company is Tim Schmid, EVP and Worldwide Chairman of the Medical Technology franchise. Tim, thank you so much for being here today. We appreciate it.

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

My pleasure, Shagun. Thank you.

QUESTIONS AND ANSWERS

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Great. So maybe we'll start off with some high-level questions. Tim, I believe this is the first sell-side conference appearance for you since you took on your new role. So again, thank you for being here. But thus far, just curious, what has surprised you to the upside or downside? And how do you think about your key strategic objectives over the next couple of years?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Sure, Shagun. And thank you again for the opportunity. Shagun, while I'm new to this position, roughly 6 months, I'm not in any way new to MedTech. I've spent my entire career in MedTech with Johnson & Johnson more than 30 years. And in that time, I've had the opportunity to spend about 15 years here in North America, 10 years in Europe and more recently, about 5 years in Asia Pacific.

And I've really gone back and forth between roles and leading our businesses. We have 12 platforms north of $1 billion. I've led the majority of those businesses in different capacities either out in the markets running the P&L or leading those businesses from a strategy and pipeline perspective. And so I couldn't be more honored and thrilled to have this opportunity to lead Johnson & Johnson MedTech at this stage.

I've spent the last 6 months really listening and learning to, most importantly, our customers and to our people around the world. And there are a few things that I'm going to continue to build on the success we've had. And certainly, there's a couple of things I'm going to do differently. And let me try and bring some of those to life.

Number one, we are going to continue to accelerate our innovation and shift our portfolio into high-growth markets. If you look back to 2017 -- actually 2018, about 20% of Johnson & Johnson's business, which, by the way, surpassed $30 billion last year in MedTech were in what we deem to be high-growth markets, 5% plus, so 5% plus. 20% in 2018. By 2023, that was 50%. And why is that important? Because it allows us to both address significant unmet needs, go after high-growth markets with attractive margin profiles.

And we've done that through 2 key drivers: number one, continuing to invest in our core business. We've invested $12 billion in the last 5 years, $3.1 billion last year. You'll see significantly more than the majority of our competitors. And we've invested to actually shift our core businesses into high-growth areas, while at the same time, complementing that with M&A. Over the last 5 years, we've invested over $22 billion. And by the way, that does not include the recently announced acquisition of Shockwave. And we've done that to really enter high-growth spaces where we can address the most significant health care needs and deliver the best returns for our shareholders.

At the same time, we're also shifting our portfolio by really aggressively focusing on divestitures. There are some businesses within our portfolio that don't deliver the returns that we need, and we actually believe it would be better suited in the hands of others. A good example of that would be the recent divestiture of our ENT business in ACCLARENT, which we also closed in the last quarter. And so that's the first priority is how do we continue to shift that portfolio. And so you'll see continued active engagement on our core portfolio and through M&A.

The second one is our financial performance, certainly of interest to all of you. We are proud of the progress we've made. If you look back to 2017, we grew 1.5%. And through 2017 to 2023 when we grew just under 8%. We've added actually a point of growth each and every year. And that is not a small undertaking especially. And I know you compare us with everyone, but there are a few $30 billion MedTech companies. And so we're very proud of that performance. And while we need to continue on that trajectory, we're lucky we operate in markets that represent about $100 billion, all growing at a weighted average of about 5% to 7%. We believe we can grow within that range.

We also need to continue to balance that focus on top line with margin improvement, and that is a major focus for our organization. I think you know as an industry, we faced some significant headwinds, whether that be through inflation, currency and others. And so we're having to offset that with a lot of focus on how we really go after simplifying our operations within our organization. And so that's the second priority.

Third one is really simplifying Johnson & Johnson MedTech. As you can imagine, we're large, we're complex. We're focusing a lot of our efforts on really driving much more focus and specialization within our businesses. And I can touch on a little more about that later. But we believe the combination of those 3 priorities, advancing our innovation, strengthening our financial performance and simplifying Johnson & Johnson MedTech are going to be key to continuing on the trajectory that we're on.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

That's really helpful color. I guess a couple of follow-ups. And I guess even from my standpoint, I've really noticed a difference in innovation as well as execution in the past couple of quarters at least at Johnson & Johnson. So is there anything else you can elaborate on from a leadership or operation standpoint that you have done differently or looking to do differently?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

I can, and I'll build on that third point around simplifying Johnson & Johnson MedTech. And that may sound simple to you, but it's not. When I look back on my experience in Johnson & Johnson MedTech, MedTech is unique and that it really requires deep specialization in our areas of focus. The way you innovate in MedTech is through deep partnerships with your customers and building expertise and trust in that area of expertise. And actually, if you look at how we've operated over the last 10 years, we've migrated towards more leveraging the scale of Johnson & Johnson.

And while sometimes that delivers efficiencies on cost. What it doesn't drive is customer focus and speed. And so we are in the process of reorganizing our company to focus on specializing in the businesses where we believe we need to win. You may ask, why are we being successful with the integration of Abiomed is because exactly that. We're protecting those elements of the business, R&D, supply chain, and commercial that really drive that specialization and that focus and that speed with customers while looking to leverage all of those back-office capabilities where we know we can drive scale. And so it's that focus on simplification that you will see as a major focus of our organization going forward again, Shagun.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

That's helpful. And another follow-up, just -- I believe you mentioned the high-growth portfolio mix has grown from around 20% to about 50%. Can you define how you think about new products? Is there a timeline launched in the past x amount of years, what are those focused products and how you expect that mix to change over time?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Sure. When we define a new product, it's really anything that's launched in the last 5 years. And shifting that portfolio into higher growth has really been driven by making some very deliberate choices. Let's think about the $22 billion that we've invested in M&A. It's really been focused on choiceful decisions in areas, number one, of significant unmet need, areas of high growth where we have differentiation and healthy margins. Already, if you think about our presence in cardiovascular, we have the market-leading position in electrophysiology. But outside of that, we've had little presence until now.

The reason we've gone after the cardiovascular space is its size and its potential. It's not only the largest category in MedTech, $60 billion, by the way, growing at a weighted average of roughly 8%. That's a $5 billion incremental growth just from that category alone. And so we're building on our leadership position in electrophysiology. By the way, that comes to a $5 billion business today, growing 26% in the first quarter. We've added that with a leadership position in heart recovery with the acquisition of Abiomed, which by the way, is also now performing and has continued to perform ahead of the deal model, and we're complementing that with the recently announced acquisition of Shockwave, which you will be happy to know we expect to close around the middle of the year. And what that now gives us is a beachhead in interventional cardiology, which within cardiology is a tremendous opportunity for improvement. And so it's making those choiceful decisions to really participate in high-growth categories.

The last thing I'd say, Shagun, it isn't just about entering cardiology. And it isn't just about M&A. It's also shifting our existing portfolio into high-growth areas, whether that be PFA technology in electrophysiology, the robotics movement within orthopedics with VELYS our efforts towards the launch of OTTAVA, which is on track for our IDE in the back half of the year. It's those choiceful decisions to really invest behind areas of growth within our business.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Great. Another aspect of the strategy I want to touch on is profitable growth. And I think you have taken some initiatives on the orthopedic side. So can you elaborate on how you think about profitable growth? How should we think about orthopedics? And really, as we think about MedTech margins, where does it go versus 26.4% in Q1?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Well, obviously, I cannot provide forward-looking guidance, but I can say that this is a tremendous area of focus. And if you look at our margins delivered in the first quarter of this year, when you compare those against fourth quarter '23 or even the first quarter of '23, you'll see the improvements we've made, and that doesn't just happen. And let me bring to life an example of what that looks like. And it really relates to this theme around simplifying Johnson & Johnson MedTech.

Let's take our Orthopedics business. It's almost $10 billion business, lots of complexity. We have decided to look at that business and really focus our portfolio and our focus both on the products within our portfolio and the markets where we can deliver the biggest impact for patients and for shareholders. And to bring that to life, Orthopedics is complex: 100,000 different implants, that we actually offer. Through that program, which we announced in the third quarter of last year, we are reducing our implant SKUs by 20%, taking out 20,000 SKUs. And the impact that has on both simplifying our organization, taking cost out and improving margins will be substantive. You will see that there will be an impact on our sales. We've mentioned roughly $250 million, roughly spread over '24, '25, starting to hit us mostly in the back half of this year. But that's all with the expectation that, that will deliver margin improvements through the '26, '27 period.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Understood. And with respect to M&A, could you elaborate on the philosophy you have around M&A? I think there have been a range of deals. But how do you think about tuck-ins versus larger-size acquisitions? And where do you see portfolio gaps at the moment?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

So Shagun, we take a very long term -- if you listen to our CEO, he will tell you that we think about M&A in the form of not months, days, but really decades. And one of the benefits of being a part of Johnson & Johnson really is the strength of our balance sheet. And if we do compare ourselves against many of our competitors we have within our composite, very few have the strength of balance sheet to do the big deals as well as the small deals that we have. We typically look at 3 key drivers in determining our M&A strategy.

Number one, we look at strategic. And what I mean by that is do we have a right to win? Do we have adjacent capabilities or perspective that will allow that new asset to flourish within Johnson & Johnson. That's a very important factor. If you stretch too far, that can be challenging. And so do we have a right to win strategically?

Secondly, we look at scientific. Is there a very specific unmet patient need that we can address with a very unique technology. Think of Impella and Abiomed is a wonderful example of a significant unmet need in heart failure and the technology that really addresses that need.

And then the third one really is looking at financials, right? Do we believe that this is a market that has the opportunity to grow? And is it going to deliver the returns that we need for Johnson & Johnson. And just as importantly, you expect as shareholders. And that really is our philosophy. We have invested north of $22 billion over the last 5 years, not including Shockwave, and that has been through some big acquisitions, but also some smaller ones. Think about the acquisition of Laminar which now gets us into left atrial appendage also within cardiovascular. If you look at our history, the majority of our deals tend to be at J&J with $1 billion or just shy of $1 billion. But we are certainly not agnostic when we see a tremendous opportunity to meet a specific need and deliver the returns that you and we expect.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

I guess just a follow-up on the cardiovascular space. You have done a couple of transactions in there. Curious, should we expect -- or do you have more to do in that space? And how do you think about TAVR TMTT as an area to participate in?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Well, cardiovascular for the reasons I cited earlier is a really exciting space and mainly because of the unmet need. It is the leading cause of death. It is also the key driver of expense within the health system. And so that's what drives the attractiveness of that category. We are proud of the leadership position we have in electrophysiology. As I mentioned, we've just added those assets.

Right now, Shagun, our focus is 2 things. It's really continuing to drive the performance of Abiomed, which as I mentioned earlier, is delivering ahead of the deal model. And then it's the successful integration of Shockwave. And that is really what we are focused on. And we think that by doing those 2 things well, we'll earn additional credibility and trust with that group, it then gives us the opportunity if we see fit to look at other assets in cardiovascular. At the same time, that's also competing with other exciting opportunities across ortho, across surgery, across electrophysiology. And so we'll consider all of those in the mix.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Got it. So you did report Q1 results a couple of weeks back. I just wanted to get a sense of what you're seeing from a utilization and procedure volume standpoint. It seems like you guys have increased your expectation for growth market growth of like 5% to 7%. I think pre-pandemic, it was 4% to 6%. So we are seeing a bit of an elevation there. Even as we look at your results, I think on a stack 2-year basis, growth actually was flat sequentially despite the seasonality. So there does seem to be this strength on an underlying basis. Can you comment on that and possibly elaborate?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Sure. So we grew 7.8% last year, as you know, 6.5% in the first quarter. And while that underlying strength in the category is a key driver of that, it's not the only one. It's also our focus on really advancing our competitiveness in the businesses that we decided to focus on. We do see continued robust performance within the category. At the same time, we are seeing that procedures, for the most part, are starting to normalize around the world. Now at different paces. Remember that different parts of the world came out of the pandemic at different stages. And so for example, if you look at China in the second quarter of last year, it really came out of the pandemic, and we saw significant growth there. That's starting to normalize.

Across the board, I'd say, on average, we're seeing normalization of procedures, but still significant underlying demand for our innovations. Where we are seeing continued tailwinds is actually in orthopedics, where there was a significant backlog across the world as a result of the lack of care provided throughout the pandemic. And so that's an area where we're still seeing tailwinds. And as we've already signaled, we expect that those should continue at least through the first half of this year.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Understood. Any trends for April and May to call out?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Well, you know I can't call out the future. But once again, we're seeing a consistent robust performance of our markets. And once again, I'm more focused on not just counting on that, but really on our competitiveness.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Got it. And with respect to Recon, I think you guys have indicated that we should expect high single-digit kind of growth, which is above what we've seen historically. You mentioned backlog. You said first half. Should we expect like tougher comps in the back half because backlog may be waning? How should we think -- and then you also talked about innovation that is driving that higher growth. So I guess just putting it all together, how should we think about your recon portfolio over the next 3 years?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Well, I would just look at the results in the first quarter. And if you actually look at the key driver of the 4.8% that we enjoyed within orthopedics, which is significantly higher than what we've done historically, it is primarily driven by our performance in the joint Recon business. And so specifically in knees, we have the best knee on the market. We're confident in our ATTUNE knee. We've now been able to couple that with VELYS. Over the last 2 years, we've launched VELYS in 18 different markets around the world, north of 50,000 procedures, and that's really driving that added competitiveness within the knee portfolio.

Specific to Hips, which is the other category within joints. We can confidently say that in the first quarter of this year, we are, for the first time in a long time, the market leader here in the U.S., and we are #2 globally. And that's driven by the continued penetration of our ACTIS stem, one of the highest, most utilized stems within hip surgery, but it's also the combination of the implants with the enabling technologies. And so when we think about the revenue mix within hips. It's not just the implant, but it's also the VELYS-assisted solution as well as the KINCISE which is a hammer that we use within those procedures. And so the combination of that really is lifting our performance and driving the competitiveness that we're enjoying today.

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Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Understood. On VELYS, how are you thinking about the time line for a shoulder and a spine launch?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

So there's a few -- thank you for that. So I do think that across our surgery and our Orthopedics businesses how we can leverage robotics and provide our customers with better insights to make better decisions, both pre and during the cases is absolutely a key. And so while we started with our VELYS-assisted solution for hips as well as also for knees, we are now working on a unirobot, which we have 510(k) filed for here in the U.S. And we are also focusing on a spine robot. This is another area of orthopedics where we do believe we can make a significant difference and we look forward to providing information on that launch shortly, ideally early in 2025.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Understood. Just, I guess, shifting gears to the surgery business. I was curious to get your thoughts on just the competitive landscape. So Intuitive Surgical is just launching its Da Vinci 5 robotic platform. You were focused on getting OTTAVA out into the market and they do have force-sensing instrumentations. I know there have been some competitive headwinds in that advanced surgery part of your business. But I guess just at a high level, how do you think about your instrumentation business? Do you think you will have to launch force-sensing capabilities? I do think you have it in-house on the EP side, if I'm correct? Just how should we think about that business going forward?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

It's one of our core businesses. And while many people think about Johnson & Johnson as a consumer products company, 130 years ago, we actually started as a surgery company. We were at the forefront of safe and effective sterile wound closure products for open surgery. We were then at the forefront of the next horizon in surgery with the move to laparoscopic surgery. And clearly, the next horizon is robotics. Keep in mind that our instruments aren't just the ones that are used on the robots. We have a market leadership position in wound closure globally today, which is growing very, very strongly. We have a market leadership position in biosurgery, which is hemostats, that is also a core driver behind our growth in that business.

Where we are seeing some softness further to your question is on some of the instruments, which is a portion of our surgery business, specifically those handheld instruments that, in some cases, are moving to robotics. What gives us confidence is that, firstly, only 5% of surgical procedures on the planet today are performed using a robot. So the opportunity for greater penetration and for competition is real. And why we are continuing to invest significantly behind this platform is because we believe that we can differentiate.

And yes, our competitor has been out there for a while, but what we believe we have is something that our customers will appreciate. And the 3 reasons to believe, number one, we have a unified architecture. If you've been into an operating room and you've seen what is currently available, there are booms that come out of the ceilings. There are multiple carts. We will be the only company that can clearly state that we have a robotic system where the 4 arms of the robot are built into the bed. And by the way, this is a standard-size operating room bed. What is important in a OR is the architecture of how people can move freely within that OR.

And so having that established bed, which they normally used to. And by the way, the sizes of ORs around the world vary greatly and so that is a key differentiator that nobody else can state. Number two, we have a technology called Twin Motion, which allows bed as well as the robotic arms to move in unison. Why is this important? Instead of having to stop the procedure, move the patient to get the access port. This allows the surgeon to actually manipulate and continue with the procedure driving speed and taking cost out through the use of that technology.

And finally, it's the trusted instruments that surgeons around the world have come to expect from ETHICON and from Johnson & Johnson Surgery. And so the combination of those 3 factors we believe are going to be critical to our success and will ensure that we can continue to build on our heritage in surgery. Last point I'd make is that we have declared our commitment to filing IDE here in the U.S. in the back half of this year and remain confident that we will deliver against that.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Great. And then with respect to electrophysiology, I guess, you are definitely the market leader in that space. You do have competition coming up in the PFA space, you're looking to launch your own PFA device here soon. Can you just elaborate on the market dynamics with the competitive launches that are ongoing in Q1 and into Q2?

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Yes. And Shagun, there's a reason why there's so much interest in electrophysiology and cardiovascular. The same reasons I cited earlier. It's the tremendous opportunity to make a difference for patients and it's the growth and margin opportunity. Let's remember that we are by far and away the market leader. That business in electrophysiology alone is almost $5 billion, and it grew 26% in the first quarter in the face of competition.

Now competition will come, but we do believe that that's also going to drive additional market growth. In the EP space, only 5%, also similar to surgery of patients on the planet today have access to Afib treatments. And so there's tremendous opportunity to drive for all of us to drive more penetration. What gives us confidence is, firstly, the 20 years of heritage and leadership that we have in EP labs across the world.

We have presence in 5,500 facilities. And actually, when we think about the future in electrophysiology, we believe that RF, which is the technology that really is the benchmark within EP today will continue to play a role. There's a trust and a confidence that has come along with that technology. We also, with QDOT MICRO, have the best catheter on the market with the best success rates upwards of 86%.

When EPs look at their choices within the cath lab, there's 3 things that matter to them. It's the technology, which could be RF or PFA; it's the quality of the representative that they have in the room that provides them with clinical support throughout the procedure; and thirdly, it's actually the 3D mapping technology. When you talk about EP in general, you've got to think about the technology, you've got to think about the clinical support and our mapping system. CARTO is used in the majority of cases around the world. And it allows the physician to actually know exactly where they are in the heart at all times.

And that is a critical safety factor in ablation procedures. Even in the U.S. where EP physicians are deciding to try PFA, 75% of cases they use our CARTO mapping technology. And so we feel very confident that with competition, yes, it's going to be interesting, but we're very confident that we will continue to build on our leadership position. And just to give you some perspective on that, we have approval for our PFA device in EMEA, we have approval in Japan, and we expect to secure FDA approval and clearly, we don't control those timings, but our expectation is we will have that by the end of 2024.

Shagun Singh Chadha - *RBC Capital Markets, Research Division - Research Analyst*

Great. I know we're over time. But thank you so much for your insights. Appreciate it.

Timothy Schmid - *Johnson & Johnson - Executive VP & Worldwide Chairman of MedTech*

Thank you so much, Shagun. I appreciate the opportunity.
