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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Okay. Thanks, everybody. Welcome back from lunch. I'm Lee Hambright, U.S. MedTech Analyst at Bernstein, and we are thrilled to host Johnson & Johnson, Chairman and CEO, Joaquin Duato. Thank you so much for being here.

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Thank you.

QUESTIONS AND ANSWERS

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

We're scheduled here for a 50-minute fireside chat, just a reminder that you can submit questions at any time through the Pigeonhole app and we will try to work in as many as possible. So Joaquin, you've been in the CEO role now for almost 2.5 years, maybe you can kick us off with some opening remarks on how you see the state of the business at Johnson & Johnson.

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Thank you. Yes, it's been 2.5 years after 35 years in the company. So I've been around for some time. So we had a very strong first quarter, so that gives me confidence on the trajectory of the company and the health of the company overall. Our growth in the first quarter was 8%. We grew 8.3% in our Innovative Medicines business, and we grew 6.5% in our MedTech business.

So it was a good start of the year. And normally, if you want to have a good year, a good first quarter is always a good condition. In Innovative Medicine we had some important progress in our pipeline overall. For example, we had the approval of CARTITUDE-4, which is the indication of our BCMA CAR-T in one prior line. And that's going to expand the market for our BCMA CAR-T medication that is called CARVYKTI, which is one of the medicines that we have pointed out to be more than $5 billion medicine.

We also presented data -- important data on some of our major products. For example, we presented data from TREMFYA, our IL-23 in the Digestive Disease Week that happened several weeks ago, both in ulcerative colitis and in Crohn's disease, and those were Phase III data. In that context, we have already filed in the U.S. for the indication of TREMFYA in ulcerative colitis. We also presented important data of our frontier study with our oral IL-23 targeted peptide and that's going to be another important asset in our portfolio.

And we continue presenting data, and you're going to see some data in this upcoming ASCO next week of amivantamab, specifically on the subcu formulation. So we had an important data presentations, filings and approvals during the first quarter. That shows how well we are working in delivering our pipeline. I don't think we have had a single misstep in our pipeline in the last 24 months. So every single aspect of our pipeline is delivering exactly where we wanted to be.

In MedTech, which we grew 6.5%, we also had significant progress in pulsed-field ablation. We are market leaders in ablation, and we have made a lot of progress in pulsed-field ablation. We had the approval of our new PFA catheter called VARIPULSE in Japan and in Europe. We already have filed for VARIPULSE in the U.S. So our expectation is that we will be in PFA in the U.S. sometime at the end of this year or next year. And we continue to make progress in some of the acquisitions that we just did, for example, Abiomed, which is performing ahead of our expectations.

We completed the Impella ECP study, which is the Impella with a smaller French with 9 French, which is going to be easier to be able to place the pump. And importantly, during the first quarter, we signed the agreement to acquire Shockwave, which is going to help us entering into the fast-growing market of coronary arterial disease, which is a great complement also to our Abiomed franchise, and it configurate what I think is one of the best specialty cardiology franchises in the MedTech industry with a combination of atrial fibrillations with Biosense Webster, heart failure with Abiomed and then calcified arterial disease with Shockwave.

So we are pleased with that. Keeping in MedTech, we also initiated the clinical studies with Laminar, our new atrial appendage, we call it elimination device. And that's another important innovation that we can bring into a fast-growing market. So overall, great progress from an operational perspective with 8% growth for an $85 billion company and also great progress in our pipeline, meeting every single milestone that we had put in front of us showing the quality of execution of a company like Johnson & Johnson, and that makes me really confident in the future of Johnson & Johnson.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Amazing, very exciting stuff to double-click on there. But before we jump into some of those points across the businesses, pulling up and talking about priorities, you've said that your top 3 priorities are to number one, make Medtech a best-in-class performer; two, deliver on long-term growth goals in pharma; and three, ensure the successful creation of a new consumer health company. Kenvue, of course, IPOed successfully last year. Maybe you can give us some updated thoughts on how you're thinking about your priorities.

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Yes. So we can check one of the priorities already, right, which was the successful creation of a new consumer champion, which is Kenvue, which is now a public company, and it was a very successful IPO, also in a moment in which most of the markets for IPOs were closed. So I think it was a good demonstration of the quality of Kenvue as a company. When I think about the priorities that are remaining, and when I think about Johnson & Johnson, my first priority is to be able to continue to be a multi-decade successful company.

We have 138 years of history, 62 consecutive years of increasing our dividend, and that's because we have a high-quality company, which is a principled company where putting the patient in the center is paramount to everything we do, a company with high-quality people, people at Johnson & Johnson stay longer than in other companies, high level of engagement. There's not a meeting that I don't go that they don't tell me the high quality of the Johnson & Johnson people.

And then, at the same time, an operating model, which is based on being a diversified company, not a one-trick-pony company that has enabled us to be successful during a long period of time. So that's my goal. My goal is to bring a company that has success over decades, not only in the next 2 or 3 years, that's already for sure, I will discuss that with you later. It is that we build a company that is able to grow over decades the way we have been able to do. And that takes a special type of company. And I think that we are unique in the health care industry.

We are the only company now that can bring all the capabilities and expertise to be able to have an impact in major diseases like cardiovascular, oncology, trauma, neuroscience. We are the only company now that has the ability to have MedTech and pharmaceutical business. And that I believe is one of the reasons we can be more diversified, we can reach more customers and we can have better insights to develop unique products and solutions.

So that makes us special, and that's one of the reasons of success. When I think about the projections that we have for the company in this decade, most of them were already outlined in our enterprise business review that I hope you were there too, Lee, in November last year. We spoke about

the fact that we are projecting 5% to 7% compounded average growth from '25 to 2030. So that is our estimation, and that is including all the different pros and headwinds that we are going to be experiencing during that period.

So for a company our size, last year, we were $85 billion company, being able to project 5% to 7% growth over the next 5 years, I think it's a very significant achievement. And by the way, we -- it's very rare for us that we have missed any projection that we have put out there. So I mean, in pharma, we spoke about our portfolio. We commented on the fact that we have 10 assets of more than $5 billion and 15 assets of $1 billion to $5 billion peak year sales. And in MedTech, we also discussed the fact that we plan to grow at the top end of our markets in the period of 2022 to 2027, and that we continue to make progress in moving into faster growth markets.

Now 50% of our sales in MedTech, which has had a very positive trajectory, 8% growth in 2023, being the second largest MedTech company, 50% of our sales are in, what you call, faster growth markets. So markets that are growing more than 5%.

So I'm very optimistic about our ability to continue to drive best-in-class growth in pharma, which is one of my priorities, even in the context of the entry of the biosimilars of STELARA. And I'm very optimistic in driving our MedTech Group, which is a more than $30 billion group into being a best-in-class group, and we are in the middle of that transformation. And when I think about the growth that we delivered in the first quarter of last year, it's already there. It's a reality. It's not something that investors need to wait to see happening, it's happening already as we speak.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Great. Before we get into a lot of those exciting opportunities, one thing we just need to get out of the way is talc. There's been a lot of recent activity related to talc litigation. How is the prepackaged bankruptcy different from your previous attempts? And how confident are you that you can get to that 75% support threshold that you need by the end of this solicitation period in July?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Let me tell you upfront. I mean, 99.9% of the people at Johnson & Johnson is working in delivering medical devices and pharmaceutical products for patients in need. So in our company, everybody is focused on that goal. Now we have to address our talc situation, and we have clearly stated that we are unequivocally decided to be able to put talc behind us. So rather than having to use time in these meetings discussing about talc, we can continue talking about the exciting things that the 135,000 employees of Johnson & Johnson do every day and how we are improving the standard of care for patients globally.

So I mean, what is the strategy and what's different? What's different is that we are letting the claimants vote. It's as simple as that. What we are doing now is that we are entering into a solicitation of votes period, and we are letting the claimants vote. And we are focusing on claimants with ovarian cancer. We have essentially addressed claimants with mesothelioma that we have addressed 95% of them. We have addressed the consumer protection claims from the states, and we are focusing now in claimants with ovarian cancer. And what we want is that for these claimants that now represent more than 99% of the claimants, we'll let them vote and see if they want to go along with the reorganization plan that we have presented that we think is very fair. So that's my expectation. Let the claimants vote.

I mean the vote will be what it will be. I am not going to comment on that myself because people may consider that I'm positively biased, but many of your colleagues have issued reports after consulting with legal experts. I'm sure you have consulted with legal experts, and some of you may have consulted with legal experts.

In every single note issued by your colleagues in consulting with legal experts, the opinion that has come out is that we have a high probability of success. So I'm going to leave it there. I'm not a lawyer. I'm not prepared to go more. I mean the strategy if somebody asks you is simple, let the claimants vote. If we let the claimant vote, we are confident that with any other interference, we will be able to move forward.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

That's great. Great. Hopefully, we're not talking about this next year. It seems like a good potential that this is gone by the end of the year, let's hope. Okay. EPS expectations. So you're guiding to organic sales growth of 5.5% to 6% in 2024, and EPS growth of around 6.5% to 8% this year. Consensus has EPS growth dropping a bit in 2025 as STELARA LOE becomes a little bit more of a headwind. How do you think about key sources of upside and downside to current investor expectations?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

So I mean, if I give you the big picture, what we have said is that we see 5% to 7% growth in the following 5 years, including in 2025 that we guided to 3% growth, and that's in the context of the STELARA biosimilars entry. I cannot think about any other company that, in that scenario, is able to grow. And if you give me one example, I would be very appreciative. But I cannot think about any other company that, in that scenario, it's able to grow. And what we have discussed as far as margins, other than the guidance we have provided for '24 that is already public, is that given all the puts and takes that we're going to have do in that period, our EPS growth is going to be, we use the expression commensurate with our sales growth.

Obviously, there's going to be ups and downs with that. I mean, in certain periods, we may be ahead, in other periods, we may not be ahead. That's driven by the situation that we are going to go through every year. But we are committed to deliver earnings growth, which is commensurate with our sales growth even in the context of the headwinds that we have in front of us.

Sources of upside. Look, I think that if investors would believe the 5% to 7% growth, there's a lot of upside, right? Because while we are very much in the same place when it comes to '24 and '25 as far as the projections, we have a divergence in what happens post '25. So if we are able to deliver what I told you, the 5% to 7% growth, there's a massive upside versus the consensus that the sell side have. So that in itself is an upside. So the upside that I see is to what extent you are able to believe the 5% to 7% growth, and what upside exists with that growth versus the existing consensus?

I get very frequently asked where are the disconnects? I would say there's lots of disconnects, and you may want to talk to me about that. But I mean they are in existing products like TREMFYA, in which the biggest indication, which is the ulcerative colitis and Crohn's disease has not been factored in yet. And they are adding new products that maybe are more difficult to understand, like our drug-eluting device for non-muscle invasive bladder cancer, which, as you know, doesn't have an analog, it's difficult for people to forecast and we have said $5 billion. The consensus is $400 million. So just there, you have a reason to think about either we don't know what we do or there is some disconnect there. And as I told you, we have a track record of delivering in our commitments and we plan to deliver on that.

So I think that if you want to look for a source of upside, it is in the disconnect that exists from 2025 onwards between our projections and the models that the analysts are putting forward.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. Let's talk about M&A. So from the start of your tenure, you've talked about getting more acquisitive, particularly in MedTech. Your CFO, Joe Wolk, raised some eyebrows last year when you referred to J&J's M&A appetite is voracious. Starting in MedTech, you've done a couple of larger deals recently with Shockwave and Abiomed. Should we expect more big deals in MedTech? Or do you need a little bit of time to integrate those 2 first?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

It's good that I have English as a second language, and then I cannot use such florid language as the CFO. But M&A, I mean, it's always been an important component of our capital allocation priorities. So just to be clear, our capital allocation priorities are in order investing in our business. Last year, we invested $15 billion in research and development. I believe that, that makes us the largest investor in R&D in healthcare. The second

one is to continue to grow our dividend, and we have 62, 6-2 consecutive years of dividend increases that have pretty good proof that we plan to continue to grow our dividend. The third one is M&A. And then finally, look, we also would consider share repurchases as appropriate.

So M&A what -- how do we look at M&A? I mean, in general? I look at M&A as something that I am agnostic to the sector, and also, we have the ability because the strength of our balance sheet, we are a AAA-rated company, so we can still have significant leverage if we elected to do so. We are agnostic to size. So we are open to any opportunity that we think can create value. There's a number of criteria that we use when we look at that. One is, it's easy to close to our areas of expertise. We always have seen that if we acquire companies that are close to our area of expertise. We have a higher probability of creating value than if we acquire a company in which we don't have capabilities, and we don't have good insight and knowledge. So we always look at our areas of expertise, and they are very wide, by the way. I mean because we operate in oncology, in immunology in cardiovascular, in neuroscience, in orthopedics, in vision, in surgery, so there's a lot of waterfront for us to be able to look at in which we have experts.

The second one is that we want to make sure that it's a true innovation. So it's a clear improvement on the standard of care. We are not about buying me-toos. When we do M&A, it's not because we see synergies from a cost perspective, it's because we see growth, and that's the reason we buy companies is because we see growth. We are not buying companies to create synergies by cost cutting, and that's why we don't look that much at large M&A because that's not something that we think it's conducive to creating value over the long term. And then the third one is that we have to be disciplined in our financial metrics in order to maintain a high return on capital investment for the investors.

We have a very high return on capital investment. In our Pharmaceutical business, without any question, the highest return on capital investment of any company at Johnson & Johnson based on the fact that we have done relatively minor M&A. So that's the principles.

Now I have to tell you, we are doing M&A all the time every day, but it doesn't make the headlines. Last year, we did in pharma alone, about 50 deals and some of them are structured partnerships, some of them are alliancnes, and some of them are acquisitions. So we don't stop doing M&A. I mean every week or every other week we are doing M&A. This past week, we did 2 acquisitions. Nobody even pays attention to it, but we did 2. We acquired a company called Proteologix for $850 million that has bispecific antibodies. And we just announced this week that we acquired a subsidiary of a Swiss company called Numab that has a bispecific antibody in atopic dermatitis for a total consideration of $1.25 billion, but nobody covers that. But we are -- we don't stop doing M&A. And we go to the sweet spot. The sweet spot for us in pharmaceuticals is early on in areas in which we have expertise and we can add more value.

Yes, in MedTech, we have done bigger M&A, Shockwave and Abiomed. The total consideration combined is $30 billion because we have the stated goal of moving into faster growth markets, as I said from day 1 when I became CEO. And with Abiomed and Shockwave, we are moving into faster-growth markets in cardiology, which I think is a good area. Are there good areas in orthopedics in surgery and in vision? Absolutely, they are good areas too, and we will continue to look at the areas, the first 2 that we identify were -- they are in cardiology. So that's our approach to M&A is agnostic to sector and to size. It has to meet certain criteria. And what we have found that creates more value is to go early on to nurture internally those opportunities so we can utilize our scale in development, in manufacturing, in commercialization to create more value than if we were going to buy an established large company.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Yes, very good. like you said, big investment in cardiology and MedTech. Is there potentially more focus in that area going forward? That is an area of high growth overall, or would you say still kind of agnostic across cardiology?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

I am agnostic. We also acquired Laminar, for example, too, in the area of left atrial appendage, we call it elimination not closure. And we will continue to look at opportunities there. What I want to say I mean we are not only looking in cardiology. Cardiology is one aspect. And now we have integrated 2 companies, Abiomed and Shockwave, and we are also interested in opportunities in other areas in which we operate and may be faster growth markets. Most of them are relatively small M&A.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Yes, very good. Okay. In MedTech, end markets have been pretty healthy. You've talked about parts of your MedTech business, particularly in Ortho that benefit from continued recovery of COVID-related backlogs. Some investors worry a little bit that growth could decelerate when those COVID backlog recovery tailwinds start to peter out. Can you talk to that a little bit?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Yes, it's true that for everybody, especially in 2023, there's been some tailwind from the COVID backlog. I mean that COVID backlog is improving now in 2024. If I look at our existing growth that we are experiencing, it's based on our improving operational performance and improving introduction of new products into the market. So if I look at our growth in orthopedics, for example, especially in areas that we had high single-digit or double-digit growth in the first quarter like knees, hips or shoulders, the growth is driven by the fact that we are introducing new products. For example, in the knees, we see increased utilization of our robot VELYS.

We have ATTUNE platform that we think is a best-in-class platform that combined with VELYS is having a very positive impact. When we go to hips, we have our anterior approach with ACTIS. Some of the technologies like KINCISE, VELYS keep navigation, which is helping us. Our shoulders are doing very well. So I think it's a combination of our improved execution and the cadence of introduction of new products that is making us very sustainably stabilize or improve share in every market that we are competing.

So I don't see that as something that is only the result of the COVID backlog. I think it's an improved execution on our side, and I'm confident on the trajectory of our orthopedic business, to which we are very committed. As you know, in our orthopedics business, too, we are doing a restructuring plan in order to be able to improve our operating margins, and we are in the middle of that plan, too. So yes, I'm optimistic about our improved execution and cadence of new products in our orthopedic business, driving growth, as you have seen in the first quarter.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. Let's shift to Biosense Webster. This has been such a strong business for you. You've been a dominant player in afib ablation for a very long time. Obviously, lots of excitement about pulse field ablation right now. A couple of your competitors are working hard to ramp up new PFA systems. But your EP business continues to grow really nicely, and you've got a bunch of investments in the PFA space as well. What's your outlook for J&J's EP business as competitive PFA systems ramp up?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

The headline is that we plan to remain the leaders on the atrial fibrillation ablation market. First, the market, it's going to grow. It's going to grow because it's underpenetrated, and it's underpenetrated in part because of awareness issues but also because of capacity issues. So there's not enough electrophysiologists. There's not enough capacity to address the incoming patients. So PFA, as a new modality, it's going to make it potentially easier for more people to be able to do ablation and it may require less time. So that's going to increase the capacity, and as a consequence, as the patients are there, you're going to see an increase in the market of atrial fibrillation ablation. And we guided in our EBR 11% to 13%. We may have come short in that estimation of market growth in ablation.

So I think that, that's going to be something good for everybody. Now I want something good for us also, right? So we are going to remain the market leader there. We have very nice growth in the first quarter. We have a suite of catheters in development. I explained them before. We have VARIPULSE, which is a loop PFA catheter that has been approved in Europe and in Japan.

We have filed in the U.S. already, so it's possible that we have VARIPULSE, our first PFA catheter, at the end of this year in the U.S. We also have a dual energy catheter that has been already submitted for CE Mark in Europe, dual energy catheter will have radio frequency and PFA in the same catheter, and it will be the catheter that electrophysiologists are more used to manage, which is our own STSF.

And then we have a focal catheter called OMNYPULSE that we are filing now in the U.S. to start our clinical trials. We're filing our IDE. So we're going to have a suite of catheters. But most importantly, we are the ones having now the best mapping system in the market. We are just now upgrading our mapping system to Version 8.

So clearly, we have the best mapping system in the market, which is fundamental for the electrophysiologists in order to know where they are and what to do. And even today, 70% of the PFA cases that are done in the U.S. are done with our own mapping system. So the combination of the PFA suite that we have, the strength of our radio frequency portfolio, because radio frequency will still have a role. Our information is that in 20% of the PFA cases, you still have to go with radio frequency in order to get deeper lesions.

So the strength of our radio frequency portfolio with Credo that you know that is a best-in-class catheter, plus our mapping system and our installed base of mapping system, which is in Version 8, with 5,500 mapping systems installed globally and the largest clinical support group that we have in the country, it's going to make us remain market leaders there and be able to drive what is going to be a significant expansion of the market driven by PFA, and it will continue to be a core driver of growth for our MedTech business.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. So also within cardiovascular, you've touched on Abiomed, Shockwave and Laminar. Maybe can you talk a little bit about how J&J brings value to those 3 deals, and how they, together, help build on your presence in cardiovascular?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Yes. I'll talk more about Abiomed and about Laminar. We have not yet closed Shockwave. So I have to be more economic on that. I mean we plan to close midyear and every single milestone is progressing well. So Abiomed, great company. We are exceeding our model of acquisition in our growth, 15% growth in the first quarter. We are also exceeding analyst consensus numbers. And we are excited about the possibilities that we have with the Impella CP, which is the most used pump, which, with Impella 5.5, which is the surgically implanted pump, which is launching and is doing really well. And at the same time, we have just completed the clinical study for Impella ECP, which is the smaller bore, 9-French pump, which is going to make it easier to insert and to implant.

So we are very positive about the progress that we are doing because of the different pumps. And at the same time, we continue to progress with our clinical studies, PMA intended clinical studies. One is PROTECT 4, which is in our existing indication to demonstrate superiority versus standard of care. The other one is STEMI DTU, which is in myocardial infection without shock, and we have a large trial there in STEMI DTU. So these 2 trials are on one side. One is going to reinforce the benefits of utilizing the pump versus other strategies that the international cardiologists may want to use, and that's going to reinforce the use of it. And the other one, it will open a large population of patients with heart attacks and no cardiogenic shock. So I'm excited about that, and I'm excited about the possibilities that it may have.

Together with that, what Johnson & Johnson can bring is, not only continue to execute with these programs, but also the international expansion of Abiomed into other markets that would utilize our global capabilities that otherwise a smaller company would not have been able to do. And if we do a proxy with atrial fibrillations of Biosense Webster, there's a lot of room for Abiomed to have the same weight of ex U.S. sales that Biosense Webster has today. So there's a significant portion of the value creation, which is driven by the international OUS expansion of those technologies.

So very positive about Abiomed. And I mean, the proof is in the reality. We are exceeding the analyst models and not -- I want tell you, most of the deals do not exceed the analyst models when they are completed. So this is an exception in which is exceeding the analyst model. So that has given us the internal conviction to move on and sign an agreement to acquire Shockwave that has an impressive technology for calcified arterial disease, which, by the way, is very complementary with Abiomed because in high-risk percutaneous intervention, sometimes there is calcified arteries.

So the Shockwave technology and the Abiomed technologies sometimes are used in the same intervention. It's a fast-growing technology. You've seen the results of the first quarter. They have been really strong. And we're looking forward to onboard them into Johnson & Johnson. They will be an independent company, the same way that Abiomed is.

Our goal with these company is we're playing for growth. We're not playing for cost synergies. So there's a lot of growth to be gained, both in Abiomed and in Shockwave. So we plan to run them independently. But certainly, it's creating a very differentiated, high-growth franchise in cardiology between Biosense Webster, Abiomed and Shockwave.

And then to close with Laminar, I mean it's an interesting market, we are already in clinical trials, so earlier than we thought. And that's something that may enable us to have a differentiated offering in a growing market of left atrial appendage closure. And that's another opportunity. And that's another way of investing in cardiology. It's not only about acquiring companies that are already in the market, but also about acquiring companies that may have some runway until they get to market.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. You mentioned VELYS briefly before in orthopedics. You've got nice momentum with your VELYS robotic platform within the first couple of years, you're in 18 markets. There's growing adoption in ASCs. You've done a lot of procedures over 50,000 procedures. What's your strategy here to differentiate VELYS from the other orthopedic robots that are out there?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Yes. So we are pleased with VELYS. There's been already 50,000 procedures utilizing VELYS, together with some of the improvements in our ATTUNE line that we have done with the cementless knee, with our media stabilizer, it's giving us the growth that you are seeing in our knee platform. So we are pleased with the VELYS introduction.

What we hear from orthopedic surgeons is that the VELYS is a more compact robot than the competition, and it occupies a smaller footprint. So especially in the context of having crowded operating rooms or even in the context of ASCs, having a smaller footprint as VELYS has is an advantage. I'm sure you've seen Mako and VELYS, right? So you realize how different they are in the footprint.

So I think that's an advantage that orthopedic surgeons are seeing. And fundamentally, it remains that they lack ATTUNE. They lack our knee. So I often hear, and I also attend many of the orthopedic meetings that we have the best knee platform in the market. So I think that what we were missing was the robot. So now that we have the robot and the best knee platform in the market, we have the opportunity to regain share and to deliver growth in our knee platform.

We are doing really well with our hip platform, too. I mean, our data shows than in the first quarter of 2024, for the first time ever, we are market leaders in the U.S. in numbers of procedures. So we are doing very well in our hip platform. That's our modality with ACTIS, which is the anterior approach. It's our KINCISE for preparation. So we are very pleased. It's our hip navigation software, which is helping in the placement. So we are very pleased also with our hip trajectory, and we are very confident on the growth trajectory that we have in orthopedics.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. MedTech analysts love talking about robots. You have lots of robots across the portfolio. MONARCH is your endoscopic surgery platform. You're the only one out there that has 2 indications, one for bronchoscopy and one for endourology. It's an increasingly competitive market with another competitor in that space. Maybe can you just talk a little bit about progress on MONARCH and sort of plans for the future there?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

So we're progressing well in our robotic bronchoscopy area. We are improving our overall operational performance. We're improving the system. We're improving our cost of goods, and we are getting to more hospitals. I'm excited about the opportunities in urology. For the audience, it's in kidney stones, in difficult-to-treat kidney stones, and it is an opportunity, in which, at this point, we are the only company working on that, too, and it's a significant market.

I think that MONARCH also, on top of that, could be a platform for us in what you would call interventional urology or interventional oncology. Because with our robotic-assisted system, we could deliver drugs, energy or other devices directly into the urogenital system or into the lungs. So it's not only exciting as a diagnostic treatment, as a diagnostic in bronchoscopy or as treatment in kidney stones, but also it has the possibility of being a platform for us to deliver energy, other devices or drugs into those systems. So an exciting platform. And we just got the approval of MONARCH bronchoscopy in China. And China, as you know, has a high incidence of lung cancer. So we are looking forward to see another opportunity for growth of MONARCH today based on the Chinese approval.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Great. Maybe rounding out the robotic trio, Ottava. There's still a bit of work to do on your soft tissue robot, Ottava. You're targeting FDA ID submission in the second half of this year. Medtronic is out there and potentially will have a bit of a lead. Maybe can you share your thoughts on how you will compete in the market for soft tissue robotic surgery? And then how do you think about that trade-off between kind of maximizing Ottava's capabilities, really focusing on bringing something new and different to the market versus potentially waiting too long?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

It's a balance. So I feel good about the system that we have and our ability to compete with the incumbent. Why do I feel good? One, because we have a differentiated system, and I will explain the differentiation in a second. The other element is because surgeons want to have competition, and they are going to welcome having other robotic soft tissue systems in the market especially if they are coming from Johnson & Johnson because they have been working with us for decades, for decades. Many of them have been trained with our instruments, all of them use our sutures. So they are going to welcome to have another competitor there. So the combination of the differentiation of our system that I will go into in a second, and the fact that it's us and they want to have other options, which I think it's logical, make me confident that we're going to be successful.

Why do I think our system is different? One is that we have a different architecture. So we have a unified architecture in which the arms are integrated into the bed. That makes it more seamless, occupy a smaller footprint, and in a very crowded OR, that's something that matters. The second thing is because we have a feature, which we call twin motion. So the bed and the arms move in unison so you don't need to move the patient. It's going to all move together. In the feedback that we have gotten from surgeons that have been testing, road-testing the system, that becomes really important and convenient.

And then the third one is because our system will carry the Ethicon instruments that are the instrument that they prefer, and the instruments that they have trained with, the instruments that they are used to. So they will carry our energy devices, they will carry our staplers, and I think that's going to be a significant advantage for what we hear from our surgeons or the surgeons that are testing our system.

So I'm confident that we're going to continue to progress with Ottava. As you mentioned, we're going to start clinical trials in the second half of the year. I'm confident that we have the differentiation elements, including our instruments. I'm confident in our established relationships globally with the surgeons, and I'm confident in our ability to deliver there as a growth driver for us in the second half of the decade.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. So a couple of questions from the audience. One about the longer-term outlook. The question is, does the 5% to 7% revenue and EPS guide over the next 5 years or I think this means from 2025 to 2030, does that include the 2 big MedTech deals?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Yes, everything is included there. I mean, we have a cadence of M&A that I would consider business as usual. So I don't think that what we have done in the last 2 years is different from business as usual. It would not include things that would be outside of the business as usual. If we would do large M&A, I would not consider that something that plays into that equation. But everything that we have done so far, I would consider that part of our normal cadence of M&A. It's nothing extraordinary when you look at the amount of M&A that we do annually. It's relatively small for us, even the contribution from a sales perspective is not that material. So it's more a new growth driver, a multi-decade growth driver that we have in our toolbox.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Got it. Maybe another one, you touched a little bit on the benefits of having pharma and MedTech under the same roof. How do you think about sort of tangible examples of benefit from that strategic combination?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

I will give you one. And look, I think at the end of the day, it's all about the numbers. It's all about can you deliver higher growth in revenues and in earnings by being a company that is unique, as I said, that can play in the entire patient journey, both in MedTech and in pharma. When we compare ourselves with the company our size, and I underline size, in 2023, we are better than them in every single line. We're better than them in revenue growth, we're better than them in margins, and we are better than them in earnings growth. There's no question about that. So the proof is there. When we compare ourselves with companies our size, more than $30 billion in MedTech and more than $50 billion in pharma, we are better than that competitive composite.

Now you want tangible examples of how we combine the technology. I just mentioned one. It's our drug-eluting device called TARIS. We presented data in the latest American Rural Association, 2 platforms, one that releases gemcitabine, another one that releases erdafitinib, which is an FGFR inhibitor. Both of them have breakthrough designation, and we have guided that these are going to be more than 5-year peak year sales. This is the result of our understanding of how to combine a drug in a device, in a product. It's going to be a very large product, and it's only possible because of our expertise in both areas. So those are 2 tangible examples.

I think that this combination is unique. This is different from other combinations. I mean we are not combining an aerospace company with a bank, with a chemical industry. No, we are talking about a company that is working in the same diseases, cardiovascular, oncology, orthopedics, that is having exactly the same customers, exactly the same hospitals, exactly the same payers, the same regulatory agency. So I think you have to take that off your mind. Those are not different. I mean, we are trying to do exactly the same thing. We're trying to cure diseases. And we do it with a medical technology or with a drug, but it's exactly the same mission, the same purpose.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. One question from the group on STELARA LOE. Given how PBMs have been willing to kind of break the rebate wall with drugs like Humira and appear to have kind of cracked the code on driving biosimilar adoption, should we expect a more material roll-off in STELARA than maybe you previously thought, or we've seen from other drugs?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

With my information today, I think the best analog that you can find with the variability that this is introduced it's the Humira erosion. So I don't have any other comments there. I cannot improve upon giving better guidance than using the closest analog, which is the Humira erosion. And again, we are guiding that despite of the entry of biosimilars of STELARA, we're going to grow 3%.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Yes. Great. So maybe one more on IRA. How should we be thinking about IRA effects on the pharma business, particularly the redesigned Part D benefit in 2025?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Look, IRA overall is something that creates a negative presence for innovation and for investment in R&D and for developing new cures. Let me put that upfront. And IRA, what it's doing is price setting. So we don't think that this is something that recognizes the value that we are creating. So what is the impact of the negotiation, we are about to understand that. So I don't want to speculate upon that. As you guys know, it will have an impact in 2026, and we are in the middle of the negotiation process.

The estimates that I gave you include IRA impact, if anybody is thinking about that. So the estimates that I give you a 5% to 7% growth from '25 to 2030 include the IRA impact.

As far as the impact of the Part D redesign, we shall see. I cannot really speculate about that. There's one positive element there, which is the out-of-pocket cap for the patients in Medicare Part D, which I think is very welcome because the design of Part D was very difficult for patients that were in specialty medications because of the co-pay that they had to have in the catastrophic phase. By capping the total out-of-pocket expense, and smoothing the payment, we're going to alleviate that issue. So I think that's a positive development.

How much is that going to impact one way or another? I don't know. We'll see when we have it. But again, our projections include any impact from the IRA.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. Maybe just one concluding thought. This is the Strategic Decisions Conference, so you're 2.5 years into your CEO tenure, when you look over to the next 3 to 5 years, what are the most important kind of 1 or 2 strategic decisions you might face as a company?

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

I believe this is a fantastic moment for healthcare innovation. On one hand, in the medical technology side, you have the incorporation of new technologies into the medical devices, and that's going to help surgeons, that's going to help cardiologists, that's going to help physicians to be much better in the way they do surgery, in the way they do procedures. We are seeing that already. I mean when we are launching our Version 8 of CARTO, it does have some smart machine learning tools that we didn't have in the past. Our medical devices, our instruments now, they are connected and they can give you indicators that in the past was not possible. So I think we're going to see significant progress in the medical device side by the incorporation of connectivity and technology into the medical devices and that will transform surgery over time.

I also believe that we are in a particularly exciting era on the medical side because new technologies are going to help us process large amounts of data, giving us a better understanding of the underpinning of the disease, to identify new targets, new pathway, be much faster in screening the disease, being faster in understanding the toxicology of them and getting them earlier to market. So I think we are going to see significant progress in treating diseases in this decade, and I'm excited about that. And I think health care is an area where you're going to see significant progress.

From a J&J perspective, we have a number of things that we have to address that are strategic for us. One is the success of the new product launches that we have in front of us. In Pharmaceuticals, we have a number of new product launches in front of us, TREMFYA in IBD, we're going to be launching amivantamab, our RYBREVANT, our bispecific antibody in non-small cell lung cancer first line. So that's a very important one for us. And we are going to be also launching our TARIS, our bladder cancer platform.

So how successful we are with these initial launches are going to give you confidence that we're going to be able to navigate the STELARA biosimilars. And then we need to continue in our great trajectory in MedTech. We grew 8% last year. We're in a trajectory of growth. If we are able to sustain and deliver best-in-class MedTech metric growth, we are going to be seeing a significant impact in our overall value creation, and I hope investors will appreciate and recognize that.

Lee Michael Hambright - *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Very good. We'll have to leave it there. Thank you so much for being here, Joaquin. Thank you.

Joaquin Duato - *Johnson & Johnson - CEO & Chairman*

Thank you.