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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

Joseph Wolk *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Shagun Singh *RBC Capital Markets - Analyst*

PRESENTATION

Shagun Singh - *RBC Capital Markets - Analyst*

Hello, everyone. I am Shagun Singh, Senior Research Analyst at RBC. And I'm very happy to host the next session with Johnson & Johnson. Joining us from the company is Joe Wolk, Chief Financial Officer of the company.

Joe, thank you so much for being here today. We really appreciate your time.

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

My pleasure, Shagun. Pleasure to be here.

QUESTIONS AND ANSWERS

Shagun Singh - *RBC Capital Markets - Analyst*

Great. So I thought we could open it up with a brief state of healthcare discussion given the current environment. Maybe start off with tariffs. So we are in an unprecedented time with respect to tariffs and all the policy rhetoric that has been going on. How much of an impact do you think tariffs will have on the state of healthcare as well as the overall delivery of it?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yeah, I think that's obviously one of the topics of the day or actually of the year so far with respect to tariffs. I do think it's important to take a step back, given the company that Johnson & Johnson is in times of uncertainty. We think we really have the opportunity to shine in terms of stability.

So if you look at our first quarter results, 4 % sales growth. We're calling 6 % earnings growth on the year. That's in the face of some significant headwinds, I would say, with respect to our business. Specifically, the loss of exclusivity on STELARA, as well as Part D redesign, which is another $2 billion in discounts. Most companies would be looking to contract or at least moderate their growth expectations on both the top and bottom line. We're looking to grow through that. So I call it kind of a gutting it out type of year, and I'm really pleased with what happened in the first quarter, specifically how the overall business performed.

In our first-quarter results, we did talk about tariffs about $400 million based on what we knew back in that date in April. That considered a 90-day pause, that considered China retaliatory tariffs. And at that point in time, we were able to absorb that additional impact in our 2025 outlook of about $400 million. That was mostly on the MedTech side impacting our business.

Since that time, there's been a little bit of a retrenchment in terms of the Chinese tariffs, both retaliatory as well as what the US is levying. And so I would estimate that the impact as it currently stands today, is probably half of the $400 million. I'm reticent to kind of give that number or say that's where we can go with from here. Because as you know, on the pharmaceutical side, there is still the Section 232 reviews that are occurring.

And it seems to be very much a moving target. I think what I'd like all of you to take away though is that our business is strong enough to absorb impacts like that and still continue to perform to meet expectations.

So we'll have to see where the tariff landscape goes. Obviously, we've had discussions with the administration, and I'd like to actually complement the administration in terms of the level of engagement. I can't think of a time certainly in my career, and I think many executives would say this across pharmaceuticals, trying to understand the landscape not only on tariffs but also pricing. There is obviously a sense of renewed optimism from the industry with respect to investments. Johnson & Johnson stood up about two months ago, committed to $55 billion over the next four years, which is a 25% increase. That's really related to tax policy though.

If you look at the biopharmaceutical industry, before the passage of 2017 TCJA, there was about 1,000 biopharma manufacturing facilities in the US. Today, there's 1,600. And that's the result of having a tax policy that's not necessarily advantaged, but it's not so disproportionately disadvantaged the way it was.

And so that's where we try to have the administration when we have discussions with them, focus on the next dollar invested. We can't disrupt supply chains to a significant degree because that's going to impact patients. And quite frankly, some of it because it takes so long to build a manufacturing facility. By the time you get some of these products over, there'll be end of life anyway.

So let's focus on the next new cell therapy, gene therapy. We've got a facility for drug supply in North Carolina that we announced on that same day. And focusing on those newer therapies, I think we'll continue to enable the US to be a leader in life sciences.

Shagun Singh - *RBC Capital Markets - Analyst*

No, fair enough, good point. You mentioned the $55 billion investment in the US. Can you talk to us about how you are looking at your global manufacturing footprint, as well as the supplier side of the equation, and where does pricing fit in?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yeah. That's a good question, where does pricing fit in? Let's talk about manufacturing first. I think the key there is because of the products that we supply, they're so instrumental to critical health issues. We always had to have that contingency plan in place.

So we have more manufacturing facilities in the US than any other country in the world, and we're very well positioned. I think the whole industry, maybe industry at large took a look at that when COVID hit, and we had supply shortages, where are we getting some of our key components from. I would say we're largely well covered no matter where we are in the globe.

So if you think about Asia, China specifically, we manufacture there for the Chinese market or at least for the Asian market. So we don't have a lot of risk in that regard. Our ability to put new facilities here in the US is really tethered to the tax reform and a rate of 21% versus the 35-plus state tax that we were looking at a few years earlier and tapping into the innovation ecosystem, the university system, the labor force here in the US. That's enough to kind of have that middle-of-the-road tax rate, which again is truly middle of the road based on OECD and make a really good business decision.

In terms of pricing, it seems like the conversation these days is all over the place. We had announcement this morning about MFN building on the executive order, I believe, last week. We hear a lot from the administration about middlemen, which again I do want to complement because we had not heard that before. And so we take our opportunities to educate.

If you think about the pricing problem in the US, its patients go to the pharmacy counter and they're experiencing not only higher insurance premiums but a co-pay of $100 on a chronic monthly med. That maybe 5 years ago was $10 or $15, right? Our average discount is somewhere between 55% to 60% off of list price here in the US at Johnson & Johnson. That's pretty emblematic of what we see across the industry. And we publish these in the transparency report.

We need to get those discounts and rebates into the hands of the patients to ensure good access. If you think about some of the systems that are out there that probably co-mingled with most favored nation status and lower prices, often the disparity in price uses the list price here in the US, not net, and the net price overseas. There is a disparity that it creates greater access here in the US, specifically.

Let's go with oncology drugs. In the G20, since 2014, I believe, it's been 130 oncology drugs approved. US citizens have access to about 96% of those drugs. In the G20, so developed countries, that access rate is only about 46%.

We certainly don't want to limit access for good medicines. We were traveling as an executive committee to Canada last week. Cataract surgery, you could be diagnosed today here in the US and have your cataract lens by this afternoon or at least by Thursday.

In Canada, they wait 18 months. What could happen there is blindness. So we were just in the conference here at RBC, listening to Alex Azar. As an executive at Lilly, he never launched a product in the UK first or Germany first because it was just not a good business proposition. That's not the kind of healthcare system we want in the US.

So does the pharmaceutical industry need to do their part? I believe so, and I think we have done that throughout time. But I do think focusing on the middlemen, who puts no capital at risk in terms of discovery or manufacturing facilities, is a good place to start and actually more impactful on the American voters' wallet.

Shagun Singh - *RBC Capital Markets - Analyst*

Great. No, that's really helpful. I guess just sticking to the topic and thinking about your innovative medicine franchise. It looks like there could be opportunities as well as some risk. So you think about tariffs, you discussed MFN, there is IRA, how should we think about, I guess, J&J's pricing power, specifically on innovative medicine as well as the margin structure as we move forward?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yes. That's a good question. So our growth over the last decade plus has been built on innovative medicines that transform the standard of care. And that's what's the promise going forward, if you think about some really interesting areas that I'll get to in a second.

But if you look at our average price, net price over the last six years, we've gone down on average 3% to 4% each and every year. So we don't have the ability to take price certainly within our segment of the portfolio. But I'm very excited about what the promise is for not only our core products.

If you think about TREMFYA, it's been a $4 billion drug for psoriasis. We launched UC in the fourth quarter, ulcerative colitis of 2024. We just received approval about 1.5 months ago for Crohn's disease, subcutaneous formulation. It seems like that's going to be very, very promising. So for Johnson & Johnson, the street has that projected at approximately [$6 billion](corrected by company after the call) in '27, '28. We see that probably at least 25% higher.

Let's go to lung cancer where we've recently had an approval probably about a year ago now, RYBREVANT, RYBREVANT plus LAZCLUZE. We see that as something that the street is calling '27, '28, around $2 billion drug. We see that 2 times higher at that same time period with higher peak sales down the road.

Why do we think that? It's changing the standard of care. Lung cancer patients usually have on average a three-year survival rate. 80% of those patients don't get a second line of therapy because they don't make any time. Our data with subcu formulation that we presented recently has the proposed potential of having one year plus of mortality, and that could build from here.

If you think about Icotrokinra, something that's not yet launched but in the pipeline. That's an oral formulation for psoriasis. We expect to file that for approval later this year. I think you guys have it for roughly $700 million in '27, '28 time frame. We see that much higher as well, 2 times higher, 2 to 3 times higher.

TAR-200, bladder cancer. Bladder cancer impacts newly diagnosed patients, 600,000 per year. It's a horrible disease. Usually, it leads to the removal of the bladder. Current treatments aren't sufficient. This is a very simple procedure that has a device that provides the drug exactly to the tumor. We don't have all the systemic side effects. It's I think a 2- or 3-minute insertion or 1 minute removal a few weeks later, and that has great promise for folks with bladder cancer. We see that 3 times higher than what the analyst models are.

So there's a lot of reasons to be optimistic. And again, we had roughly 4% growth in the first quarter. That was despite losing about 40% on STELARA more than a $10 billion drug and a quarterly apportionment of about $2 billion impact for Part D redesign discounts. So again, most companies on the pharma side, when they lose a major product to patent, are looking to contract for a year.

There's only been one other company that we know of that has done that to scale. That was Johnson & Johnson in 2018 with REMICADE. We grow through this both top and bottom line.

Shagun Singh - *RBC Capital Markets - Analyst*

Thank you so much for that color. In fact, I think all the products that you called out on the innovative medicine side, I think it adds up to almost $7 billion that you are ahead versus where the street is. And I guess I should ask you what level of conviction do you have that you can actually hit those?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yes. So in 2023 in December, we had the opportunity to host many of you at our Analyst Day here in New York City. And Jennifer and the team committed to 5% to 7% growth for 2025. That's the CAGR to 2030. When you consider we've just added a really nice asset with the Intra-Cellular Therapies acquisition, CAPLYTA, we think that's a high-growth asset. Our conviction is very high.

As a matter of fact, I almost be disappointed if we don't get to at least the upper range of that guidance that we gave. Jennifer won't like that I just said that publicly, but we'll put a little bit of pressure on her. But if you just think about the products we have, what we said in 2023, we did put up a similar slide and said here's the disconnect. And at the time, I think the analyst community saw our growth rate over that period of time about 1.5% in pharma.

They came up to about 3.3%. We still think there's a way to go, and that's why we felt compelled to show that slide in the first quarter earnings. Just to remind everybody that we've got more conviction now, and some of those things were speculative back in 2023. We've gotten approvals that make those much more, I'd say, the technical risk is now.

Shagun Singh - *RBC Capital Markets - Analyst*

Yes. No, absolutely. Thank you for clarifying that. As we think about the innovative medicine versus the MedTech franchise, it seems like there's a bit of a disconnect. And I think there are a few factors at play.

On the MedTech side, there is increased competition on the EP segment. You guys are working to get OTTAVA out into the market. There is also a restructuring underway on the orthopedic, as well as now surgery segment. Can you parse that out for us and talk to us about what the underlying growth is within MedTech? And how do you see the underlying growth for both your franchises, innovative medicine, and MedTech?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yeah. So innovative medicine, I would stand by the commitment of that 5% to 7%. I think it's very much well in hand for 2025 to 2030. I think that's what investors should expect from us because these drugs are truly transformational.

In terms of MedTech, Tim coincidentally came out with a similar -- I think it was from [2022 to 2027](corrected by company after the call), a 5% to 7% CAGR. And right now, that portfolio is not where we want it to be. I think if you look at on the surgery side, we had a good first quarter with respect to Wound Closure, Biosurgery was good.

We are making advancements. And we're pleased to announce at that first quarter earnings call the completion of [the first cases](added by company after the call) for OTTAVA or soft tissue robotic surgical solution. We will continue to put that out there and hopefully have a filing in due course. There's obviously a very formidable competitor there.

But when I think about a few things, one, our unified architecture that allows the arms to move kind of with the bed, making it easier for surgeons, a smaller footprint. And quite frankly, the market research we've done with hospital administrators and surgeons looking for another option, that bodes very well in a marketplace that globally only has had about 6% penetration.

When I think about orthopedics, we need to do better there as well. We have some really good uptake with our VELYS knee solution. That's a robotic solution there. We just completed a case yesterday for the VELYS Spine solution. And hopefully, that new technology will propel that to the mid-single-digit growth that we should expect in Orthopedics given the demographic landscape across the globe.

In terms of Vision Care, I would say we're still the market leader in contact lenses. We need to recatalyze that growth. We had some supply chain issues at the end of '23 that impacted our 2024 performance. The team assures us that those are largely behind us.

We will put some funding behind the commercial efforts to reinvigorate that top-line growth. Again, we are the market leader. The second place competitor is somewhat distant. But we want to get back to not just maintaining share but acquiring more share.

And then on the Vision Surgical side of things, I was really pleased with what we saw out of the intraocular lenses. TECNIS Odyssey, in the first quarter, I think, had high single-digit growth in the US, which we haven't seen for some time. So those newer product launches are starting to take effect.

EP is the big one. It's one that I think folks like you, Shagun, have come to rely on Johnson & Johnson for being a steady performer over the last decade. We were behind with PFA. We were the third to launch. And then we had in the first quarter -- I would say there's a little bit of an inventory dynamic from prior year that maybe would have made that growth look a little bit better, but that's not really the issue.

We had the VARIPULSE pause as, from the FDA, it resulted in instruction for use labeling change. So there was no product defect. It was just how the physicians were using it. And so we are now back on the market having success in, I would say, Japan, Europe, Canada, 7,000 cases globally.

It seems like the data is starting to build that that is going to be a formidable competitor. We are also working on a dual energy catheter, hopefully, for launch of the second half in Europe of 2025. And then we continue to work on the OMNYPULSE. So we're committed to PFA.

The other thing I would mention, too, is that while the PFA market has exploded, we are still in about more than 50% of those cases because of the CARTO Mapping presence. I think it's pretty generally accepted that CARTO Mapping is the benchmark, the gold standard. And so we do have the opportunity with our clinical account specialists to be in the room while the procedure is going on, so that when these other when VARIPULSE has a little bit more conviction behind it from the community as well as some of these newer technologies on catheters, we'll be well positioned to do what we did with the RF technologies.

Shagun Singh - *RBC Capital Markets - Analyst*

So EP is a big investor focus. And I'm just curious, do you think the market has now shifted from the procedure being led by the mapping system of choice versus the catheter of choice? And does that put you at a disadvantage? And how do you feel about that number one position in the US?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yes. So we're not giving up the number one position easily. So we're going to continue to work on that. We'll have to see how it plays out. The other catheters have been pretty popular to date. But we think that the VARIPULSE catheter once used the mapping system, we'll be able to ensure that we retain or recoup the number one position should we ever lose it.

The other thing I didn't mention is the significant investments we made in capital deployment around Abiomed and Shockwave. Those acquisitions continue to perform at or above the deal model. Those are obviously within the top five of J&J's highest cost for acquisitions.

Abiomed continues to do well. We had the Danish-German Shock Study, which improved mortality in the first study to do that. We've got the PROTECT IV study, which will show that Impella has cardiovascular benefits. We're completing that enrollment as we speak.

And then on the Shockwave side, we just about anniversaried that acquisition. The closing was about May of last year, two new launches there. So E8, which is for below-the-knee PAD as well as chronic limb threatening ischemia as well as Javelin, which is a non-balloon catheter that gets those hard-to-reach peripheral lesions.

Shagun Singh - *RBC Capital Markets - Analyst*

Got it. Just I guess given the time, I wanted to get your thoughts on M&A. You have reiterated commitment on both sides of the business, innovative medicine, as well as MedTech. I guess more specifically on the med tech side, I was curious again what are your thoughts on TAVR TMTT markets that you're not currently participating in? RDN is an area that is really picking up as well in terms of pipeline projects. How are you thinking about some of these MedTech areas to further boost the growth rate?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yeah. I think if I just go back to when Joaquin started his tenure, he wants to focus MedTech on high growth areas. I think right now from what we see from the TAVR market, it's high single-digit growth. I don't know that it's double-digit growth. And if you look at Abiomed and Shockwave profile, they were not just double digit but 20-plus at the time of acquisition.

As far as RDN, there's one prominent name out there, we have an investment with respect to our Johnson & Johnson Development Corp facility. I'd probably best not to say anything that given some of the rumors out there. But that could be exciting technology, probably something for the next decade.

Shagun Singh - *RBC Capital Markets - Analyst*

Got it. And with respect to the talc litigation, how should we handicap the risk around you going back to the Tort System and now you'll have to fight case by case? What about the headline risk? And I think in a lot of circumstances, you've gone back, appealed, and then won the case. So how should we think about the risk related to talc litigation going forward?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yes. So as the CFO, I certainly would have liked to have that uncertainty behind us. But also, as a CFO, we were able to reverse $7 billion of an accrual. And I have a hard time thinking just based on the track record, based on the heightened standard for Daubert going forward that we will pay out $7 billion. So that was our best and final offer to the plaintiff's attorney.

We had a bankruptcy proceeding where [88%](corrected by company after the call), I believe, of the claimant says, yes, that's what we want to go down. The judge in his infinite wisdom decided otherwise. It was basically one holdout. And we're going to continue to expose some of the tactics of plaintiff's attorneys in this case. It's based on junk science. There's decades of independent research, including some from the FDA a couple of

decades ago that suggested talc was safe in this use. And we're going to continue to stand by that. But I have a hard time just from a financial perspective thinking we're going to pay out $7 billion going forward.

And any risk that we have, I think it's important we generated $20 billion in free cash flow. This is easily -- not easily manageable because I'd much rather spend the money on an innovation and R&D and other things that bring novel solutions to patients. It hasn't stopped us from making acquisitions like Abiomed, Shockwave, and now Intra-Cellular.

It hasn't stopped us from increasing our dividend. It hasn't stopped us from reaching record levels of internal R&D investment. And so I would hope investors would take that away. Well, this is a risk, it's a nuisance. It's not something that's going to stop the company.

Shagun Singh - *RBC Capital Markets - Analyst*

Fair point. I guess just in the last 15 seconds or so, any key messages for investors? J&J has actually held okay so far in the market. Just what is underappreciated? We talked about innovative medicine, but any other areas you'd like to call out for investors?

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Yeah, I just think that we are in a time of uncertainty. Johnson & Johnson is a reliable investment, but I think there's ton of growth that weight on the second half of the decade. I talked extensively about the innovative medicine portfolio. But I also think some of the execution that needs to get better in MedTech -- it's not only possible, it's very, very likely.

And so I would encourage investors to look at the second half of the decade. We're going through right now absorbing some multibillion-dollar headwinds. Again, not many companies can do that, and we're doing that while still growing. I think that bodes really, really well that will continue to bring new sophisticated treatments and procedures to the marketplace and also continue to return to investors what they expect from us.

Shagun Singh - *RBC Capital Markets - Analyst*

Great. Joe, thank you so much for your time. We really appreciate it.

Joseph Wolk - *Johnson & Johnson - Chief Financial Officer, Executive Vice President*

Appreciate it. Thanks.
