REFINITIV STREETEVENTS

EDITED TRANSCRIPT

JNJ.N - Johnson & Johnson at Bernstein Strategic Decisions Conference

EVENT DATE/TIME: MAY 28, 2025 / 1:00PM GMT

OVERVIEW:

Company Summary

REFINITIV

CORPORATE PARTICIPANTS

Joaquin Duato *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

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

CONFERENCE CALL PARTICIPANTS

Lee Hambright *Bernstein - Analyst*

PRESENTATION

Lee Hambright - *Bernstein - Analyst*

All right. Thank you, everybody. Thanks guys. I'm Lee Hambright, US med tech analyst at Bernstein, and we are thrilled to host Johnson & Johnson. We have, Chairman and CEO, Joaquin Duato; and CFO, Joe Wolk. Thanks guys for being here.

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

Thank you.

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

Thanks for having us.

Lee Hambright - *Bernstein - Analyst*

So we're scheduled for a 50 minute fireside chat. Just a reminder that investors can submit questions at any time through pigeonhole and we'll try to work them in as we go. So Joaquin, first of all, thanks so much for joining us. Lots of macro uncertainties lately and pressures on the industry. The news cycle has been pretty frenetic. Maybe you could kick us off with some opening remarks on how you see the state of the industry and the state of the business at J&J.

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

Thank you, and thank you for inviting me. I have participated in all the strategic decision conferences since I became CEO, so I'm already a veteran, thank you Lee.

So how do I see the industry, trying to elevate myself? I see a great combination of science and technology driving significant medical innovation in a way that I have not seen that in my 40 years working in the industry. So I clearly see when we look at Johnson & Johnson that the opportunities to improve the standard of care, I see more opportunities that I have ever seen. So in that sense, I see the industry being healthy.

Yes, there's rhetoric in the industry, and I'm sure you will have more questions about that, but I also have seen a lot of situations in which we have a combination of headwinds and tailwinds. Ultimately in this industry, if you are able to bring opportunities that are going to improve the standard of care for patients in severe diseases, you normally are able to create significant value. So I remain optimistic despite of all the comments that we may have seen there, and I also believe that we have an administration that wants to be able to create value for American businesses, that wants to invest in the US, that wants to create manufacturing jobs, and we share those goals with them too. So there's good common ground to build from there.

Johnson & Johnson, we are -- we have a great combination at Johnson & Johnson, that has made us successful for 140 years, that is based on two things, a clear focus on healthcare. We are not a pharmaceutical company or a medical technology company, we're a healthcare company. And we are the only company that can span the entire patient journey. Our breadth of capabilities at Johnson & Johnson is unmatched. We can go from cell therapy to robotic surgery. We can work in cardiovascular or in mental health. There's no other company in the healthcare ecosystem with the breath of capabilities of Johnson & Johnson, and that makes us unique.

That is translated into a company that is broadly diversified. We can go where medicine is going. We have 26 platforms at Johnson & Johnson of more than a $1 billion, and that diversification enables us to be able to manage multiple business cycles. We are diversified by product, by geographic area, and helps us to be able to reinvent ourselves constantly. That's why we have had 63 consecutive years of the dividend increases. That's why we are able to deliver the consistent results that we deliver. We have been able to meet or exceed analyst expectations in earnings for 28 consecutive quarters for 7 years.

If you have an example of a company doing that, please, bring it up. As I look at our current situation, we have had the first quarter results. Our overall growth in the first quarter results was 4.2%. 4.2% in our pharmaceutical group. And 4.1% in our medtech group. And I think the first quarter of this year is particularly important, why? Because we have started to address the number one question that I used to get in every single investor meeting. And you know what the question Lee, it was, are you going to be able to continue to deliver growth in the middle of the biosimilar entry in the US of your biggest product STELARA.

And in the first quarter we delivered 4.2% growth in our pharmaceutical group in the face of the STELARA biosimilars that were an 810 basis points headwind. So we are starting to address the number one question that we have had. We are delivering growth in the face of the STELARA biosimilars. Again, I cannot find any other pharmaceutical company that has been able to grow in year one of having biosimilar genetic competition of their major products.

Do you know any other one? Absolutely. So I'm glad that we are able to address that question, and our results show the strength of our business model. And we have been investing for that. In the last two years we have invested $50 billion in M&A and in R&D. We also have announced an investment in the US, in R&D manufacturing and technology of $55 billion over the next four years, which is an increase of 25% of our previous four years, so we feel confident about our future and we feel particularly confident about our ability to meet our guidance that we provided about having growth of 5% to 7% from 2025 to 2030.

And I believe that, based on the results that we're having today, we are increasingly confident of our ability to do that. As a matter of fact, I think that there's significant still disconnect between the Street and our own expectations and that that's something that is not new. We have done an analysis of our top 10 new product launches over the last 20 years and in 9 out of 10, we have exceeded the consensus expectations of the analysts.

As a matter of fact, the median increase over the consensus expectations of the analyst in this top 10 launches was 93%, at the five year mark. So I'm not surprised because it's the pattern that the Street is still underestimating our potential both in medtech and in pharmaceuticals, and I think Joe in the first quarter call gave a good update on where these disconnects were.

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

Yeah, sure, thanks, Joaquin. And you know Lee, we're very optimistic based on what we said back in December of '23 on our Investor Day and we pointed out some significant disconnects between products that we saw, some of which were still in the pipeline that today are now approved, but those disconnects still exist, and we're not talking hundreds of millions of dollars in our forecast. We're talking potentially billions. So if you go to RYBREVANT, LAZCLUZE for lung cancer, new data came out recently proposed a one plus year benefit of life for the average lung cancer patient who has only three years to live if diagnosed today, 80% of those patients don't get to a second line of therapy. We feel really good.

I think the Street estimate for '27, '28 on average is about $2 billion. We see twice that amount for that same time frame. Let's go to SPRAVATO, something that's been on the market but performing extremely well for us. We launched it during COVID. There was a lot of, I'd say, implications to launching during that period of time for that particular drug. Just received monotherapy indication. The Street has that also at about $2 billion, '27, '28. We see that 50% higher in that same time frame.

TREMFYA, most of our revenue -- about 75% of our revenue for STELARA came from IBD indications. We just successfully launched ulcerative colitis in the fourth quarter of last year. We recently received at the end of the first quarter of 2025 approval for Crohn's disease. Subcutaneous induction as well as maintenance, we see that the Street has about $6 billion, '27, '28. We see that 25% higher in that same time frame.

A new one to the list, icotrokinra, which wasn't in the '23 Investor Day. That's about $700 million. That's the oral formulation that has biological efficacy we're studying in psoriasis, hope to file that later this year. We see that potentially 2 times higher. And then lastly for bladder cancer, about 600,000 patients every year get diagnosed as new patients for bladder cancer. The treatments today don't do enough for patients, usually resulting in patients losing their bladder.

About $700 million is the forecast for '27, '28 for consensus. We see that 3 times higher during that same time frame. So you just do some rough math, you clearly get to a much higher growth rate, so the 5% to 7%, when you consider that we've added a really nice asset in the neuroscience field with CAPLYTA, that 5% to 7% we're very, very bullish on, and personally, I think Joaquin and I will both be disappointed if it's not closer to 7% than the 5%.

QUESTIONS AND ANSWERS

Lee Hambright - *Bernstein - Analyst*

This is great, guys. Thank you. There's a lot to dig into here. Maybe we can start with the macro environment. Lots of moving pieces here. Obviously, MFN, Medicaid cuts, PBM reform changes at HHS, cuts at FDA and CDC tariffs. How do you put all of that in perspective for us? And maybe you could kind of rank those in terms of sort of relative risk.

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

Yeah, thank you. So as I said at the outset, I'm optimistic about the outlook for the biopharmaceutical industry and the medical technology industry because I see a situation in which science and technology are combining to advance the standard of care in a significant way both in medtech and in pharma.

So it's difficult to predict how the situation is going to end up in some of the aspects you were talking before. Some of them can have a short term impact like MFN or tariffs. Some of them are more longer term impact like what's happening with the NIH or the FDA. I'm going to tell you what is our perspective. We see opportunities to work with this administration.

We see openness to have a dialogue with the industry and we are having that dialogue as we speak and we are working to try to be able to address a dual need. One is to be able to maintain our ability to continue to innovate in the context of this unique opportunities that we have today and at the same time make sure that medicines for American patients and medical technologies are affordable and the patient experience improved. So that's what we are trying to do with this administration and I think we have common ground to be able to do that.

Now, what's going to happen with tariffs, to be honest, I don't know. We have said it before and I will say it now, if we want to have more jobs in the US and to manufacture in the US, it's also about tax policy. And part of the investments that we were describing before of the $55 billion are facilitated clearly with the 2017 tax cuts and Jobs Act, that is what has made possible for us to be able to invest in the US. Our goal is to be able to manufacture here in the US once we complete this four year planned investment, essentially all the advanced medicines that are being used in the US. So I think that's a goal that we share with the administration, and we want to work to be able to do that.

Lee Hambright - *Bernstein - Analyst*

All the advanced medicines, meaning these are the --

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

Advanced biologics.

Lee Hambright - *Bernstein - Analyst*

Biologics, yeah.

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

And for the most part, in our medtech sector we have already a quite a dual source, manufacturing footprint that enables us to work with two separate supply chains.

Lee Hambright - *Bernstein - Analyst*

Very good. Okay, let's drill down on most favored nation drug pricing. The President's executive order was a little bit light on details, but the press conference and commentary since, the tone seems to be more about helping pharma companies to your point, and the focus seems to be more on PBM reform and balancing lower prices in the US with higher prices in Europe and elsewhere outside the US. Can you just help us understand your latest thinking on how all of that might play out.

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

Yeah. It's similar to tariffs, Lee, quite frankly, we still have to see what actually transpires. What I would say, and maybe underscore what Joaquin said about how the administration and its officials are willing to engage in the dialogue. I mean how often have we heard or not heard about middlemen as part of the equation here, right? So if you just look at the difference between list and net price, on average, the industry is discounting 50% to 60% off of list.

Yet we all know, whether it's ourselves or people close to us going to the pharmacy counter paying higher co-pays. If we made just a simple change and calculated the co-pay off of net price versus list price, that results in a 50% to 60% reduction of out-of-pocket co-pay costs.

There's also the administrative factor of prior authorizations, additional approvals to get the drug that's been prescribed to them by the physician that they trust, right? Those -- I think IRA did have the benefit of limiting the out-of-pocket co-pay, $2,000. That's become less noise, I think, in the system, not that we shouldn't do more for patients. But now it's about, hey, I was supposed to get this drug and I have to go -- I have to make three or four phone calls, and hopefully talk to the right person after that time to get the drug that I was prescribed. So there's a lot that can be done in the system.

In terms of the opportunity of raising prices outside the US, I think administratively, that gets a little bit complicated. I'd like to see how that's going to be affected. But maybe the pie remains intact, and it is -- it acts similar to a tariff in that or the argument with NATO, right? The US was paying a disproportionate share, and so how can other countries contribute to that?

The access in countries outside the US is quite alarming if you ask me. So you look at the G20, there's been about 130 oncology drugs approved since 2014. Americans have access to about 96% of those drugs. In the G20, so developed countries, it's like 48%, I believe. So if we want the best treatments available to the patients that really changes their life, look what we've done with DARZALEX and CARVYKTI. CARVYKTI at ASCO is going to have a five year data coming out. And the results are astounding. They're going to be astounding.

And it's those types of treatments, we want to make sure that we preserve the system here where Americans do have access to the best medicines. We just got to get the discounts and the rebates that are intended for the patients into their hands.

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

And I believe that it's in these circumstances where a company like Johnson & Johnson plays better because of our diversification that I was telling you before, I mean we are diversify geographically, we are diversified by book of business and we always have opportunities to grow one way or another within our own portfolio. So I'm optimistic about our ability to navigate these circumstances, as we have navigated multiple circumstances in the past.

Lee Hambright - *Bernstein - Analyst*

Yeah, very good. Still lots of questions about how MFN works still really up in the air. Okay. HHS, lots of changes at HHS, including new leadership, cuts at FDA and CDC. Have you seen any changes in the day-to-day interactions with the agency or drug approval timeline?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

No. We don't have seen any impact in our drug approval timelines. We continue to have a good dialogue with the FDA, and that's the credit of the people working at the FDA that continue to produce for the health of all Americans. So at this point, we have seen a very good working relationship with the FDA. And we have multiple approvals that are ongoing and all of them are on time.

Lee Hambright - *Bernstein - Analyst*

Great. Okay. One of the questions from the audience is on Talc, let's get that out of the way. It seems like the end of the road for the bankruptcy path. Now we're back in the tort system what's the path forward from here? And how should investors value that liability related to Talc?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

So very simply, we are back in the tort system. We are now working with the redo of the Daubert hearing, which is heard in New Jersey, which is going to set different standards for evidence to be able to be presented in the MDL. And we like our odds in the tort system. In the last years, we have won 16 out of 17 cases in ovarian cancer. So we like our odds in the tort system.

On the mesothelioma side, we have essentially all of the cases settled, so we like where we are today and we have been able to revert $7 billion of accruals that we had for this bankruptcy. I have to tell you, look, this bankruptcy had more than 80% of support of the claimants and the plaintiffs and clearly we continue to believe that there is no connection between talc and cancer and most of the science. The regulatory agencies support that assertion that I'm giving you, and we like our odds in the tort system, and that's where we're going. We have no intention to settle. We are going to fight it in the tort system and we like our odds as they are.

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

The other component I would just add to that is just the level of rigor that's going to be placed around this junk science. So the change in how the Daubert standard is applied is a very significant factor that actually improves our hand than what we had in the cases that we prevailed in. So that's only going to get tougher for the plaintiffs' attorneys and their claimants.

Lee Hambright - *Bernstein - Analyst*

I think you mentioned before that there was -- there's actually a decent chance that a lot of these cases get thrown out through the Daubert --

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

That's correct. In the bankruptcy proceeding, we found out that a lot of the claims were either barred or fraudulent. So the claims that were out there in the tens of thousands is probably significantly less. We still don't have a firm number. We'll have to see what's filed here.

But there was even talk yesterday in a Bloomberg article, I believe, just the cost that the plaintiffs' attorneys are now weighing in their mind, whether it's worth pursuing or not to file one of these claims. So they're even thinking about it differently if that article is true to form.

Lee Hambright - *Bernstein - Analyst*

Can you talk about timelines just briefly? Is there any chance this is resolved somewhat quickly? Or is this likely to drag out for many years?

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

I think the best next milestone we could point to is a couple of months away with the Daubert hearing and how Judgeship rules in New Jersey.

Lee Hambright - *Bernstein - Analyst*

Yeah. Okay. Very good. Okay. Why don't we shift to financials, Joe. Looking forward, you're guiding to 2025 organic sales growth of 2% to 3%, sticking to your promise, as you said, Joaquin, to grow despite STELARA LOE and EPS growth of about 5% to 7%. What's your latest thinking on sources of upside and downside to those numbers?

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

Yeah. I'd still like to -- I'm not going to give mid-quarter guidance. We'll update that in July, but the year did get off to a very fast start. I would say the upside is from some of the pharmaceutical products, just the level of receptivity for ulcerative colitis that we saw with TREMFYA, we think that will also play well with Crohn's disease. So that's a potential opportunity.

RYBREVANT LAZCLUZE, some of the newer multiple myeloma therapies, DARZALEX continues to do well. So it's hard to come up with a real strong downside on the pharmaceutical side. I think on the Medtech side, we continue to make progress. Some of the things that we haven't maybe executed as well as we should in recent quarters.

We see light at the end of the tunnel for those. So if you go to Vision Care, 2024 as well as maybe the first quarter '25 wasn't as strong as we had hoped because of some supply chain issues that really related back to 2023. Those are now corrected. We're putting some investment from behind it commercially. Some new indications with astigmatism coming out. We think it's -- that's going to get back to the growth that we're used to.

EPS going to be an improving story as we go throughout the year. Joaquin certainly will tell you, I'm sure, in one of these responses, how committed we are to being the number one in cardiac ablation no matter whether it's RF, PFA or whatever else might come down road. Orthopedics has room for improvement. So we had a number of one-timers in the first quarter that probably hampered the reported growth, that I see abating as the year goes on. And as we called in January, we always saw the second half stronger than the first half for our entire business.

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

I would say, look, we are more convinced that we were at the beginning of the year that this is going to be a good year for Johnson & Johnson.

Lee Hambright - *Bernstein - Analyst*

Very good. Just quickly on tariffs. You reported early, as you always do, and sized 2025 impact around $400 million. Things have changed a little bit since then. We maybe walked back from the ledge on a couple of conversations. Yeah, can you may be just reflect on to this.

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

Yeah. Listen, things will change by the week, by the day. I would say just based on the retaliatory China tariffs that we had in our $400 million assessment, that probably cuts the $400 million down to $200 million. But that doesn't include anything that may come out of Section 232. The Europe tariffs are still somewhat in flux.

So we will provide our best and latest estimate in a transparent way on July 16 when we report earnings. But it's a moving target, but it's going in the right direction.

Lee Hambright - *Bernstein - Analyst*

That's great. Yeah. Looking at margins, the first quarter in '25 was a miss on adjusted gross margin, 71.8% versus consensus 74.9%. That's at EPS still beat by 5% to 7% driven by spending control on R&D and SG&A and some favorability in other income. You have a number of efficiency programs running across the organization. How should investors think about margin progression over the next few years beyond the STELARA LOE?

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

Yeah. Well, I think it's important in the first quarter. You guys saw it as a miss, I'm not sure that was a fair characterization. And I hate to say that because you guys are very good at what you do. You've got a lot of companies to cover. But when you just think about STELARA as well as Part D redesign, which was worth about $400 million to $500 million, that's pretty significant. So the expectation that we were going to actually improve gross margins for the first quarter was optimistic.

That doesn't mean we don't have initiatives going on across all of our businesses to improve the gross margin profile, most notably in our surgery business as well as the ongoing efforts in our orthopedics business where we're looking at SKU rationalization, network footprint as well as exiting some markets that just aren't profitable. That work will continue.

I think the way we'd like to manage the full P&L, we like to manage that we're always prioritizing that next dollar towards R&D because that is really the long-term lifeblood of the company going forward, transforming the current standard of care into something much better. And so I think what you can expect from Johnson & Johnson is us doing at or slightly above our sales growth when you think about operating margins.

This year we committed to 300 basis points. Despite the miss in Q1, we're still committed to that 300 basis points improvement by the year-end. Now some of that has a natural tailwind because we had asset acquisitions of about 150 basis points last year, that aren't on the horizon to repeat this year in the second half. And then the other 150 basis points is around operational improvement.

Some of that is just due to technological advances. AI is helping our business become more predictable in terms of our forecasting. That leads to better efficiencies. We're using some of the AI technologies and some of our global services to be quicker in processing AR, looking at disputes, things like that can add costs, but also limit cash flow. We're using those tools to improve the overall financial health of the business as well.

Lee Hambright - *Bernstein - Analyst*

Excellent. Okay. Let's shift into the fun part in the businesses. Maybe we'll start with EP in Medtech. You've got a couple of competitors here who have had some really successful PFA launches, more PFA launches to come. You've been the dominant player in Afib for a really long time, but you're a bit behind on PFA. What are you doing to stem those market share losses in EP?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

Thank you. And let me start by saying that we are determined to retain our leadership in cardiac ablation. So that means that we are going to be investing in cardiac ablation to be sure that we are at the forefront of medical innovation and that we are going to have the appropriate clinical and commercial support to deliver on that. So let's be clear, we are determined to do that. And when I think about our priorities in medtech, number one priority is to win in cardiac ablation. Number one priority.

So, it's correct that we are -- we have been late in PFA and we're working to correct that, right? So when it comes to cardiac ablation, now we have a new modality which is PFA. We have to see what the overall clinical effect of PFA is once we have more time to analyze that. And eventually we'll understand better how PFA, RF can combine and coexist together. So that's something that we're going to be working to understand. Nevertheless, clearly PFA has had a significant impact.

We remain leaders in overall a cardiac ablation with a business of more than $5 billion and we are especially strong in the mapping area. We are also mapping most of the competitive procedures too. Why we are strong in the mapping area, which is a very important part of the value of each procedure, and sometimes we only focus on the catheter. Keep in mind that mapping and the mapping catheters are a very important part of the value of each procedure. Why, are we strong in the mapping area? We have the best mapping system in the in the market, which is CARTO with more than 5,000 installations.

We have the best mapping catheters. We have the best intracardiac echo graphic technology with our ultrasound technology, and we have studies to demonstrate that the combination of intracardiac echo plus our mapping clearly improves outcomes in any ablation procedure.

And finally we have a well established network of clinical specialists, we call them mappers, that are supporting the procedure. So we are determined to maintain our leadership on the mapping space, which is a very important part of the value of each procedure, and that's a strong, a clear strength of Johnson & Johnson.

The second area we are working in PFA catheter innovation. We are working to improve VARIPULSE with different things. We're looking at the past sequence. We're looking at the irrigation flow, and we are going to work in order to improve our VARIPULSE catheter. Our VARIPULSE today is working very well outside of the US, and we are now with new instructions for use, getting up to speed here in the US too. So you're going to see an improvement in VARIPULSE as the year goes by.

And staying in catheter innovation, we are working in two additional catheters. One is a dual energy catheter which will give the opportunity of having RF and PFA in a single catheter, which is very practical for the electrophysiologists as they can ablate with different energy modalities depending on the lesion. That's already ongoing and it's approved in Europe and we're going to be launching. It will come to the US. And we think it's going to be another alternative based on the SDSF catheter, which is the most utilized catheter today as far as handing the catheter in radio frequency.

And then the third catheter that we are developing is a large deep focal catheter we call it OMNYPULSE that we are starting our IDE study here in the US as we speak that will give another option for the electrophysiologist. So we are going to have a suite of PFA catheters together with our suite of RF catheters that is going to create a combination together with our mapping that will continue to drive growth and drive opportunities for Johnson & Johnson down the road.

And we are committed to this space and to understand and analyze what is the best combination of therapies for patients. So we are going to be looking at all information, coming from electronic medical records, real world evidence to really understand the impact of using one technology

or another and have the electrophysiologists see what is the best option depending on the type of lesion and the type of patient. So we are very much focused on retaining our leadership in cardiac ablation and as I said before, that is my number one priority in our MedTech business.

Lee Hambright - *Bernstein - Analyst*

Very good, very good. Probing on one thing you said related to mapping. With the advent of really effective and safe single-shock catheters, some people think maybe mapping is less important than it used to be. It's not happening as much in Europe as it used to. How do you see that trend going forward?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

As I said before, all the data that we have. And we have done real-world evidence studies to analyze the effect of mapping and ultrasound, show that mapping and ultrasound technologies improve the outcomes for patients with atrial fibrillation with RF or PFA. So saying the contrary is going against the evidence. So when I see evidence of that, then I will change my mind. The evidence that we have today, it's clear that mapping and ultrasound improve the outcomes of cardiac ablation.

Lee Hambright - *Bernstein - Analyst*

Very good. Okay. The surgery business, you announced a $900 million, two year restructuring program in surgery. You just talk a little bit about the key goals for that program and you know why was now the right time.

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

Yeah. I think, Lee, similar to what I said earlier, we're looking at gross margin improvement across our entire network, pharmaceuticals included. In surgery, we saw some of the success we were having in early days with the orthopedic program that we announced about two years ago, and thought that was a very good template to follow. So we've got the core competency built up on a pilot basis. We think surgery was the next logical area to go to and to get that business ready for when we have OTTAVA down the road.

Lee Hambright - *Bernstein - Analyst*

Great. Maybe you could just touch on OTTAVA timing. I think you mentioned that the trial started and you announced first cases in April. What's the timeline look like on OTTAVA?

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

We're continuing the clinical studies now. We would hope to file either late this year or early next year.

Lee Hambright - *Bernstein - Analyst*

Great. Okay. Turning to orthopedics. Lots of moving parts this last quarter with the ortho transformation program, some revenue recognition, timing changes and selling days and stuff, some competitive pressures in spine and sports. How do you think about ortho performance in the back half of the year?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

We see our performance in the back half of the year improving. There were a number of headwinds in the first quarter that we communicated, and we provide even a chart in our first quarter results in order to be able to reconcile the onetime items. It was related to the walking implants, it was related to less selling days. And it's also related to our restructuring program that Joe was mentioning. So you're going to see an improvement in orthopedics in the second half of the year.

And I'm very excited about the opportunities that we have in orthopedics. We now have about 25% of the knees that -- primary knees that are utilizing our VELYS system. And we are launching two new robotic systems in orthopedics. One is the UniKnee and also VELYS Spine in spine surgery. We have the first clinical cases in the US very recently. So I am excited about the opportunities that we have there in orthopedics, especially in robotics to continue to improve the outcomes of joint replacement or spine surgery based on the precision that robotics can offer.

Lee Hambright - *Bernstein - Analyst*

Very good. Just a question from the audience on China. You've talked about China as a headwind in the Medtech business, VBP, anticorruption, et cetera. When do you see China turning back to a growth tailwind?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

Yeah. Let me tell you, long term, not being a company with a presence in China is myopic. We are the largest medtech company in China. And as a consequence, the movements in the China market affect us too, right? So we are seeing now headwinds due to VBP that eventually would be anniversaried.

So today, the China business as opposed to it was in the past that was a major growth driver for us, it's been more a headwind in our overall medtech profile. But we see our China business continue to grow in the rest of the decade once we anniversaried the value-based procurement headwinds. And we have the strength to be able to remain with our innovation in the China market. And being a strong player in the China market is a strength moving into the long term

---

Lee Hambright - *Bernstein - Analyst*

Very good. Okay. Bigger picture. Ever since you spun out consumer, you've gotten lots of questions about whether it makes sense to keep medtech and pharma together under one roof. You've made some progress on drug device synergies like TARIS in bladder cancer and MONARCH in lung cancer.

But these haven't been a real material driver of growth yet. Just wondering, has your thinking evolved at all on keeping -- on the benefits of keeping pharma and medtech together?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

So I mean, I told you before, why have we been able to deliver 28 consecutive quarters that we have met or exceeded analyst expectations? Why have we been able to deliver 63 consecutive years of dividend increases? It's because we are a well-diversified company that can go where medicine is going, that can span the entire patient journey. No other company can do what we do. And that's the secret of our longevity.

It gives us the financial strength to have strategic optionality. We are the only, together with another company here in the US, AAA rated. We have significant scale in every aspect that we want to invest. We are always a preferred partner based on our scale and our reach. So I think it does have tremendous advantage over the long term.

I think it's great not to be a one-trick pony company. I know investors, some of them like one-trick pony companies because they may have some upside in the short term. In the long term, the longevity is not with one-trick pony companies, and I can give you multiple examples of that.

One of the questions that I get frequently is, okay, but show me show me one product in which you are going to be able to combine your drug and device expertise? You know what, I'm going to be able to show you one. So I'm going to be able to address that question. We -- this fall we are going to be launching our first drug-device combination or it's the platform that we call TARIS. It's a drug-eluting stent that is going to release gemcitabine for localized bladder cancer, has two breakthrough designations.

We just presented data at the [American Royal Association], 80% response rates in localized bladder cancer, patients continue disease-free at year after about half of them. This is going to be a more than a $5 billion platform, and it's only the beginning of our interventional cardiology sprint.

So that's only possible because we are a medtech and a pharmaceutical company. So it has advantages in the longevity of the long term, there's no question about it, but it also -- it's going to bring significant product platforms of more than a $5 billion like the TARIS platform that we are going to launch in the second half of this year in the US. So there you go, a demonstration of that. I'm glad I can answer that question for all investors that have been asking me that for many years. You have a demonstration of that now.

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

I think we've got a really timely example too. If you think about just STELARA and the pending biosimilar, we don't wake up and all of a sudden went biosimilar. We would have been planning for that two to three years and probably had to cut some investment, right? But yet we have a robust pipeline for lung cancer, bladder cancer. We've got icotrokinra for psoriasis and perhaps other IBD inflammation diseases. I don't think you could have done that without having the complementary medtech business.

It doesn't mean we don't prioritize. We still make choices. You saw last year, we exited infectious diseases and vaccines. We still prioritize but it gives us a lot more flexibility to manage for that long term and have the robust pipeline and the growth outlook we have for the balance of this decade.

Lee Hambright - *Bernstein - Analyst*

Very good. On that topic of flexibility and financial strength. Joaquin, from the start of your tenure, you've talked about getting more acquisitive, particularly in medtech. You've had some time to digest Shockwave and Abiomed. Going forward, do you see potential for more medium to large-sized deals in medtech?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

So let me start by saying that our goal in medtech, clearly, our strategy is to move into higher growth markets. So if you ask me, what is your number one strategy in medtech? We want to move into higher growth markets, and that's translated into our ability to bring new technologies into those markets.

So one of the areas that we see as a higher growth market is cardiovascular. Clearly, that's an area where you have significant mortality and morbidity and where medical technologies make a significant difference. So we have worked in order to identify companies that would have, technologies that would make a significant difference in the standard of care and also have a significant competitive moat.

And we have identified two great companies: Abiomed in heart recovery and Shockwave in calcified arterial disease. Both of these companies are working ahead of our deal models, and we are especially pleased of the results that they are delivering. With Abiomed, we have more than two years' trajectory. With Shockwave we are going to go into our first year. We are very glad of these two acquisitions and they are exceeding deal models and doing really well for us.

So I am pleased with what we have been able to do that, and it has enabled us to be in three of the most attractive markets in cardiovascular: heart recovery, calcified arterial disease and cardiac ablation. So we are well positioned to be a leader in cardiovascular.

Are we thinking about more acquisitions? Look, it depends on the opportunities that are out there. I mean, basically, our focus is in cardiology and in robotics, as we have commented multiple times, the two areas that we see as growing areas within medtech, where medical innovation can make a difference for patients. And we're always looking for things that are going to be -- that are going to combine improving the standard of care in which we have enough expertise to understand what's good, what is may not be as good. So we have internal expertise.

And finally, that we have a good competitive moat that can give us the opportunity to develop those markets. We continue to look for them. And that's as much as I can tell you about that, right? But it's an important tool.

Now our focus now, both in medtech and in pharmaceuticals, is to make our platforms work, to make what we have in-house work. I mean we have multiple opportunities in medtech. We just commented about EP. We are -- we spoke about OTTAVA, which is the other big priority for us. We have Abiomed and Shockwave doing well. We have our vision franchise coming back strong. So we want to make sure that we make the things that we have organically work well.

In pharmaceuticals, we have multiple opportunities. Multiple opportunities. I mean we are launching TREMFYA in ulcerative colitis and in Crohn's disease. We're launching RYBREVANT and LAZCLUZE in lung cancer. We are launching IMAAVY nipocalimab in myasthenia gravis. We are launching our drug device combination TARIS, which is going to be branded INLEXZO in localized bladder cancer. We are going to have the approval of CAPLYTA in adjunctive therapy of major depressive disorder, which is a relatively big market.

And we are going to be filing this year for our next blockbuster, which is called icotrokinra, which is an IL-23 oral. That's going to be groundbreaking. This is the first time -- difficult to understand. It's the first time that you're going to have an oral medicine that is going to have an efficacy and a tolerability like an advanced biologic. That's going to transform the treatment of immune-mediated inflammatory diseases, and that's going to be a real groundbreaking.

So we have enough opportunities, internally to be able to deliver in our 5% to 7% growth both in medical and pharmaceuticals and we are going to be, focused on trying to develop those opportunities and we don't exclude that some -- if something comes our way that checks all the boxes we can also pursue that.

Most of our innovation comes from a smaller deal. When you think about our drug device combination now that was a small deal that we did for a company in the 100s. When you think about icotrokinra, that was a small deal that we with a company in the 100s. So most of our innovation comes from a small deals. Sometimes we do larger deals like Abiomed, Shockwave and Intra-Cellular.

Lee Hambright - *Bernstein - Analyst*

That's a great comment. Any other opportunities or areas where you could do smaller tuck-in deals to augment internal programs, maybe in EP or maybe in some areas in pharmaceuticals?

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

I think it's across all of our franchises, both sides of the house in terms of medtech and pharmaceuticals. So we did last year, while the Abiomed, Shockwave, Intra-Cellular that gets the headlines, we did about 40 deals last year for less than $5 billion, right? And those are some of the big blockbuster products that we've had in the past. If you think about going back the day, IMBRUVICA, DARZALEX, wasn't all that much capital upfront. So we continue to do those.

We've got the ecosystem with our JLabs facilities. We've got a venture arm Johnson & Johnson Development Corp, so over $1 billion of investments scattered around. So we're always looking for that next new opportunity and how that can tuck into our business, whether it be in the medium term or the long term, next decade type of stuff.

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

And look, another benefit of being a large company is that everybody wants Johnson & Johnson at the table. That's a benefit of being a large medtech and pharma arms is that every single deal that is out there, they want Johnson & Johnson at the table.

Lee Hambright - *Bernstein - Analyst*

Yeah. Can you speak quickly to the venture capital portfolio? You do quite a bit of early-stage investment as well. Can you comment a little bit on the importance of those deals?

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

Yeah, I mean it gives us really good insight. And many times, we will have at least Board observer seats, and there's been a few that we've actually went ahead and acquired those businesses, again, much smaller deals. But it does provide us with a good insight, and there's a really good strategic alignment with the businesses. So that development corp isn't really out running on its own, saying, let's go after the next speculative idea.

They talk to a Jennifer Talbert, Tim Schmid and their teams to say, hey, does this fit into the portfolio as to how you're seeing it go? Whether it be an orthopedic, surgery, neuroscience.

Lee Hambright - *Bernstein - Analyst*

Yeah, very good. Okay. Great. Maybe just one on Part D. How is the Part D benefit redesign impacting J&J so far in 2025? How much of a net headwind could this be to pricing this year?

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

Yeah. So this year, we quantified it in January, that would be a $2 billion headwind. I would say the first quarter, we're still getting in some of the details from the actuals, but that first quarter number that we accrued, and it doesn't seem to be too far off based on the actual results is about what you would expect about 25% of the $2 billion coming in.

So I think where we probably need to get a little bit more detailed is around by product and informing analysts to that. But I think it's coming in, in aggregate where we thought it would come.

Lee Hambright - *Bernstein - Analyst*

Excellent. Okay. You've done a great job of highlighting some of the areas where the consensus might be a little bit off on expectations or a little too conservative. On STELARA, obviously, LOE this year, maybe just can you give us a sense on how is biosimilar competition coming along? Is it playing out the way you had expected it to play out so far?

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

Yeah. So when you look at the first quarter results here in the US, I would say the first quarter came in as expected. We've been saying that HUMIRA's second year was a really good proxy. You have the added headwind of Part D and some discounting. But that's kind of played out right to script for Q1. Q2 probably might even be a little bit less or more erosion, if you will, but that's not to be unexpected either. And that's what we planned for in our overall enterprise guidance.

So right now, based on one quarter worth of data, we feel pretty good about where it's tracking. And then you complement that with some of the strength we have on the other side of our business, we feel good about the guidance that we put out there.

Lee Hambright - *Bernstein - Analyst*

Very good. Okay. Maybe wrapping up, obviously, this is the Strategic Decisions Conference, maybe, Joaquin, when you look ahead over the next three years or so, what do you think are the most important one or two strategic decisions that you'll face?

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

One, we are -- if I look at medtech, two major things. One, continue retaining in our leadership in cardiac ablation. The second one is entering into the robotic surgical market. So that's clearly. So you think about our priorities in medtech, two priorities, cardiac ablation, robotic surgery. In pharmaceuticals, our number one priority is to show everybody that we are able to grow through the STELARA biosimilar entry.

And I am glad to be able to be in front of you today showing you that in the first quarter, we were able to grow 4.2% in pharmaceutical despite of a significant impact of 810 basis points of STELARA. So those are our two major areas. I think this is a good time to enter into Johnson & Johnson.

Some of the major questions that investors have about STELARA biosimilars, that was the number one question that we always got are starting to be addressed. You're seeing that we are able to grow, we are going to improve our results in medtech in the second half of the year. So this is a good time to think about Johnson & Johnson, especially with the type of volatile environment that we are in because we are always to have more optionality than most of the companies based of our unique diversification. So I'm glad that the year is starting well for us. This is a good time to be at Johnson & Johnson.

Lee Hambright - *Bernstein - Analyst*

Very good. We'll have to leave it there. Thanks so much, guys.

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

Thank you.

Joaquin Duato - *Johnson & Johnson - Chairman of the Board, Chief Executive Officer*

Thank you, Lee, as always.