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OVERVIEW:

Company Summary

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Larry Biegelsen *Wells Fargo Securities LLC - Analyst*

PRESENTATION

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

All right, it's almost good afternoon kind of cusp. I'm Larry Biegelsen, the medical device analyst at Wells Fargo, and I'm thrilled to have Tim Schmid as our keynote speaker today. And I should also welcome everybody here to the 2025 Wells Fargo Healthcare Conference. Thank you for making the trip.

So back to our keynote speaker. Tim is the Executive Vice President and Worldwide Chairman of J&J MedTech, which is one of the world's largest medical technology companies with annual sales of $32 billion. Tim's been with J&J for over 30 years, and served in leadership positions across multiple multi-billion dollar businesses across the globe. Most recently, Tim was company Group Chairman of J&J MedTech Asia Pacific.

The format today will be moderated Q&A. I'm planning to spend the first part of the discussion on industry topics, and the other half on J&J MedTech specific topics. So Tim, thanks so much for agreeing to be our keynote speaker today.

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

My pleasure, Larry. Thanks for being here, and good afternoon, everyone.

QUESTIONS AND ANSWERS

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

So let's jump in with the industry topics. Tim, talk about the state of the MedTech industry today. I think you said you expect sector growth at 5% to 7% at your last Investor Day in 2023. Is that still the case?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Sure, Larry. Let me maybe just start with the big picture. We are very fortunate to work in a highly attractive industry, the medical technology. The sector is roughly $500 billion in sales, and certainly it's not going away. It's being driven by aging populations, greater access to healthcare, and to a new technology that frankly is making a lot of surgical and other medical procedures easier for many physicians to do.

And so it's an attractive industry. While many people think that J&J originally was a consumer products company, you understand that we started 140 years ago as a surgery business in New Brunswick, New Jersey. That's the basis of J&J. It is our legacy and certainly it is our future today.

As Larry mentioned, we're roughly $32 billion business. We have market leadership positions in the majority of categories that we participate. We have 12 businesses with annual sales in excess of $1 billion, and shortly we will announce the 13th, which is the acquisition and addition of Shockwave to our portfolio.

And as we look forward, we certainly are excited and encouraged by the recent performance that we've driven. And Larry, to answer your question, we are very confident that, that rough end market range of 5% to 7% is stable, and our expectation and commitment is to grow at the upper range of end of that range.

What's driving that is really continued portfolio renewal. And really doubling down on parts of our portfolio where we believe we have a right to win and growing in categories that really offer the greatest unmet need and growth and margin profile for Johnson and Johnson.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's helpful. So innovation is the lifeblood of the industry. How would you assess the state of innovation in the industry? And what are some of the key areas you're most excited about? Are there ones that J&J participates in today or ones that you're just monitoring?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Well, Larry, I think we are on the cusp of an absolute explosion of innovation, and it shouldn't surprise any of you what's driving that. And new advances in technology, whether that be AI or robotics or the demand from customers for personalization.

Personalization of care is really changing the game for our business, and certainly for the industries, from individual single use devices to highly connected and smarter devices, less invasive devices. And so I think it is a -- we're going to see more innovation that really changes lives over the next 10 years than, I think, we've seen in the last 20 to 30.

When you think about how we view innovation, there's two aspects. Clearly there's internal R&D. Last year we invested roughly $3.7 billion in R&D, especially in high growth businesses like cardiovascular, like digital surgery, as well as vision.

And of course, we've been fortunate to leverage the power of Johnson and Johnson's balance sheet and credit rating to make some sizable investments. In fact, over the last couple of years, north of $30 billion invested on really getting into the most exciting and high growth aspects of MedTech such as cardiovascular, with the acquisition of Abiomed and Shockwave.

And so certainly we'll continue to build our presence in that area given its size, $60 billion segment, within MedTech growing roughly 8% annually. And so we see that as certainly an area where we will continue to double down. At the same time, we've got a big business, and we will look to place our bets on those that we believe will provide the best return.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's helpful. So let's talk about the policy environment. Talk about some of the changes that the FDA and CMS, et cetera. Have you seen any impact on new product review times, approval timelines, access to healthcare, et cetera?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Well, Larry, no doubt, it's a dynamic time. But frankly, we've been quite encouraged by the openness of the FDA to collaborate with industry. Now we think that certainly continued modernization of the capabilities of the FDA streamlining some of the processes for approvals are tremendous opportunities, and those are on the agenda of the administration.

We do think that continuity of leadership and deep clinical expertise is essential for a high performing FDA. And even with the recent staff changes, we've been surprised, and actually grateful for the fact that we have not seen a significant amount of disruption to approval times or anything of that nature.

We're also very confident in the current leadership of CDRH, which is the version of FDA that oversees medical technology. And we think that we've got a leadership team that is very committed to ensuring both fast and appropriate approvals, but also, keeping the safety of patients in mind.

The last thing I'd say is that we're also encouraged by recent authorization on update to MDUFA, which is an important policy whereby industry provides and supports user fees to ensure the continued rapid approval of appropriate medical technologies. And so, so far so good.

I know it's a dynamic space across certainly this market, but we've been encouraged by the administration's openness to engage. And why are they engaging with us is because MedTech as an industry is a US grown industry.

We have positions and products in almost every single operating room around the world, and I don't think the administration wants to do anything to disrupt an industry that frankly is homegrown here in the US and is a significant contributor to economic growth.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's helpful. There is some concern among investors at the expiration of the ACA exchange subsidies and the Medicaid cuts in the One Big Beautiful Bill could reduce the number of covered lives in the US next year and in 2027 by a significant number. How are you thinking about the potential impact of this on procedure volume?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Yeah, let me start with that first aspect of the One Big Beautiful Bill, and that is the potential change and impact on Medicaid payments. It's only two months old, and actually if you look at the provisions within the bill, many of those aspects that could impact Medicaid only come into play over the next three years.

And so our early assessment and once again it is early days, Larry, is that we do not expect a material impact to our industry or our business on the back of those changes, given that we're not highly reliant on Medicaid. And so for us it's not a major concern.

At this at this time, I think it's important to draw attention to while that created a lot of noise around the One Big Beautiful Bill, there are many aspects of that bill that are very attractive to Johnson and Johnson and to our industry.

In fact, our ability to make the recent commitment we made of $55 billion over the next four years, which, by the way, is a 25% increase over the prior four years was the fact that many provisions within that bill are very attractive to big American companies like us, like us doubling down here in the US, things like our ability to expense R&D investments here in the US.

And it didn't just start with the One Big Beautiful Bill. In fact, changes that happened in the first Trump administration in 2017 with the Tax Cuts and Jobs Act already created an environment for us to really continue to focus on building our presence here in the United States, and that's exactly what we're doing.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's helpful. Tim, China has obviously been volatile in recent years, and it's been a growth headwind for J&J MedTech and some of your peers -- most of your peers. What are you seeing on the ground today? And how do companies like J&J continue to operate in that environment?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

It's dynamic. Larry, I spent the last almost six years of my career before stepping into this role out in Asia. And listen, there are tremendous opportunities, and there are tremendous challenges, and we've been fortunate to mostly benefit from the opportunities.

Today we're the largest MedTech company in China. We've been there for almost three decades. There is an insatiable demand for healthcare and for technology. And frankly, there's investment in healthcare, which we think is tremendous.

And so by no means are we stepping away from China. We've got a tremendous presence and set of capabilities in China. We're increasingly localizing our capabilities. And we've got a responsibility frankly to many physicians and millions of patients that we've built over many decades.

Now the impact of volume-based procurement has been profound for our industry. At the same time, we're working through that. We expect that China will continue to be a headwind for this year and for 2026. But beyond that we still see it as an attractive market, just given its size and its scale, and the investment in healthcare.

Just to put it in context, while this is a bigger proportion of our MedTech business, for J&J, only 5% of our sales globally are from China. And so I do think it really talks to the scale of and the presence we have around the world that allows us to weather challenges that we're facing in China today and even in our MedTech business. We grew 6% last year, 6.1% in the second quarter, even with that headwind from one of our most important markets.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's helpful. So let's transition to J&J's specific questions, starting at a high level when Joaquin Duato became J&J's CEO a few years ago, he said that driving the MedTech business to become a best in class performer was a top priority for him. Where do you think the business is on that pathway today?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Yeah, and there's no doubt it is a significant focus for our company. And frankly, Joaquin has put his reputation on the line, and so I couldn't be more grateful for the support that this industry and this sector gets from him.

And let me tell you where it started. If you look back at our performance in MedTech, while we are one of the largest, if you look at our performance prior to the MedTech, we were -- prior to the pandemic, we were growing close to 2%, Larry.

And that was driven by the fact that the majority of our portfolio, while large, participated in lower growth markets. We have been on a tear over the last five years to address that. In fact, in 2018, about 20% of our portfolio participated in high growth markets, so north of 5%. Today, it's close to 50%. How have we done that? We've divested.

In fact, we generated about $5 billion of cash over the last seven years in divesting of businesses that don't meet our strategic priorities, that we think would fare better in the hands of others. And of course, adding to the portfolio, doubling down on the highest growth category within MedTech being cardiovascular, with massive acquisitions both starting with Abiomed and Shockwave.

And so today about 50% of our portfolio is in markets growing north of 5%. And you've seen that reflected in our results. And so the first one has been changing the portfolio, and by the way, we're not done. Our goal is to be best in class, not just the largest, best in class. And so that's the first one.

The second one is we've made significant changes to our operating model. In fact, over the last 18 months we've moved 35,000. There are roughly 70,000 people in MedTech, into individual business units, moving away from a highly centralized management to more decentralized.

And why have we done that? Because each business within MedTech is unique. Specialization really matters to our customers. And allowing our businesses to move at speed and with greater efficiency to serve customers, we think is essential and we're already seeing the benefits of that.

And so those two drivers, Larry, both in terms of shifting the portfolio and driving a more efficient and effective and faster organization, we think are essential and we're proud of the progress, but certainly more to do.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

So Tim, you set a goal of growing at the high end of that 5% to 7% market growth for J&J MedTech. On the Q2 call, you talked about being very confident in reaching the high end, between I think it's '22 to '27.

I guess my question is, do you think you can achieve that organically? If I look at kind of the first half, growth was about 5% constant currency adjusted operational, which is your definition of organic. Can you still grow at the 5% to 7% -- high end the 5% to 7% organically, or do you need to supplement that?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Well, we'll continue to review the portfolio, both looking at businesses that we need to cull as well as businesses that we want to add to the portfolio. But to be clear, Larry, when we stood up at our EBR in late '23, we committed to that 5% to 7% over '22 to '27 operationally, inclusive of everything, and we're very confident that we will deliver against that.

You'll know that we had a softer first quarter, which I'm sure we'll get into talking about a little later, but a really nice rebound in the second. And we made firm commitments in the second quarter that you will see acceleration, H2 versus H1, and we're very confident that. That is exactly what's going to happen. So we remain committed to that commitment of 5% to 7% at the upper range over that period.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

Okay. Well, you preempted my next question, which was how you're thinking about the second half of the year for J&J MedTech relative to the first half. Maybe I'll add the second part, which is in the early color and just puts and takes for next year.

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

I won't give a lot of guidance for 2026 given where we are in the year, other than to commit to that range that we mentioned earlier. But why I feel confident in stronger performance in the back half is very clear. Firstly, we had a bit of a stop start on our electrophysiology business within the cardiovascular business unit in the first quarter.

We saw tremendous growth in the second half -- in the second quarter. In fact, 9% sequential growth, Q1 versus Q2, with acceleration in the quarter. We are absolutely back with PFA and in EP, and we are not backing down. We are by far and away the worldwide market leader in that space. And our expectation is you will see continued performance there. That's number one.

Obviously we have the new acquisitions of Abiomed and Shockwave. The portfolios continue to grow, tremendous new evidence around the benefits of those technologies, both double digit businesses. Shockwave, as I mentioned earlier, will be our 13th $1 billion platform. We saw 22% growth in the second quarter in cardiovascular.

And so we do think that's going to be a tremendous growth driver for the future. We've seen strong stable growth in our surgery business, driven by biosurgery as well as our wound closure businesses, both growing about 7%.

And so even with the competition from surgical robotics, we're seeing robust growth in one of our largest and most profitable businesses. Vision is absolutely on a tear. We had a challenging '24 due to some portfolio gaps as well as some capacity challenges.

Our contact lens business continues to grow, especially with the launch -- recent launch of the ACUVUE OASYS MAX 1-Day, which is the first and only disposable contact lens for patients suffering with astigmatism and presbyopia.

And then I think you've seen the resurgence of our IOL business, which is by far and away the fastest growing premium IOL business where we are taking significant share in Asia, in Europe, and most importantly, here in the US, on the back of the success of our Odyssey launches.

We do have opportunity being given the portfolio we have, there's always opportunities, Larry, our ortho business was a little soft in the first two quarters, better in second quarter, and we see improvement there also on the back of tremendous innovation. And so very confident in what we communicated in the second quarter and that the second half will be better.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's very helpful. Before jumping into the individual businesses, let me ask you how you're feeling about the J&J MedTech portfolio today. You've participated in other areas in the past such as diabetes and diagnostics, which you exited. Could we see you either enter new areas, white spaces or exit from existing ones in the future?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Absolutely, Larry. And I think -- I mean, it's why I think J&J has stood the test of time, and we've made some difficult decisions over our history, most notably in 2023 when we exited the consumer products business and spun out Kenvue and within MedTech alone, as I mentioned earlier, last seven years, we've generated $5 billion by divesting the businesses that we think will perform better elsewhere.

The most recent example of that was Acclarent business, which we -- was in ENT. We divested of that in the second quarter of last year. We are constantly looking at adding to our portfolio as we have with Abiomed and Shockwave, V-Wave, Laminar and others as well as continuing to look at businesses that would perform elsewhere.

Obviously, I won’t divulge what those plans are, but expect continued evolution of our portfolio and why that is so essential is getting that percentage of business is growing north of 5% above the 50% that it is today. To get the best-in-class as a MedTech company, we think we need to be north of 60%. And so we will be very aggressive in looking to achieve that.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

So I think I heard you -- let's move on to cardiovascular. You've touched upon it a few times today. I think I even heard you say maybe doubling down there earlier. But if I look at your -- at a high level, your cardiovascular business, you're number one in many areas you participate in, but you're number four overall after Medtronic, Boston, Abbott, which is unusual for J&J.

If I look at ortho and other surgery, other areas, you’re in vision , et cetera. This is a space where I think contracting across service lines and the presence in the cath lab tends to be important. So how important is it to you to be kind of number one or number two in cardiovascular devices overall? Or is it just -- is it more important this be number one in the subsectors you participate in, or to number two?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Larry, it's a great question. If it’s anything I have learned, you guys don't reward us for size, right? You reward us for performance. And so our goal isn't necessarily to be number one in an entire category like cardiovascular, which is by far the biggest $60 billion category.

Our goal is to be number one in the businesses that we participate. And that's, frankly, what I've seen you reward. And so no, we're not going up the number one or number two, but we certainly want to be number one in the areas we participated.

If you look back prior to the acquisition of Abiomed and Shockwave, we were actually number six, Larry, not number four. Only had presence in EP, we made a specific decision to lead in heart failure with Abiomed, which has been an absolute home run, and then we built on -- we bolted on Shockwave, which drove our presence deeper into interventional cardiology, allowed us to play in coronary artery disease and peripheral artery disease.

And so we are certainly increasing our tentacles within cardiovascular, but we're being very deliberate around not just participating but leading. And if you actually look at the decisions to acquire Abiomed and Shockwave, these are two categories north of $1 billion, growing strong double digit, but we have no competition today.

We are creating those categories in the same way we did our EP business. And so we think that's the winning formula. Will we look at other opportunities in cardiovascular, most likely. At the same time, today, our focus is really actively integrating those businesses.

They're big acquisitions. It's not easy, but I can confidently say that we are delivering results ahead of our deal expectations and we believe that those are going to be annuity growth businesses for the next couple of decades.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

So Tim, how are you thinking about the evolution of the cardiovascular device business going forward? And specifically, within cardiovascular structural heart, one of the fastest-growing areas. Do you feel it's important to participate in this area at some point?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Obviously, there's been a fair amount of rumors out there, and I'm not going to comment on those at all. We constantly look at opportunities across our entire portfolio, not only in cardiovascular, but where we can lead. And we typically have a very simple formula, but an effective formula to how we assess these opportunities.

Number one, it starts with strategic -- sorry, scientific. Is there a significant unmet patient need and does the company have a technology that can really address that? That's the first one. The second one is strategic. Do we have a right to win?

So is it an adjacent business? Do we have capabilities we can leverage, just like we did with Abiomed and Shockwave. And then the third one is financial. They're going to deliver the returns that you and certainly, we expect that at J&J and that's really the philosophy we'll follow. Our goal is to participate in areas of high growth, high margin, and where we can win.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's helpful. Let's -- before moving on to surgery, let's address your EP business. I heard your comments earlier. I mean it sounds like you feel like you've turned the corner there. How should we think about your EP growth going forward?

And do you feel your internal pipeline, we'll get you back to market growth. In the past, the hallmark of Biosense Webster was actually you're the market leader, and you would outgrow the market, which is pretty unusual.

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

It is. And that comes from 20 years of commitment to building that space and the science within it. And do we think that we are an inflection or turning point. Absolutely, Larry. I think you know that for good reason, we decided to hold the launch of our VARIPULSE technology here in the US in the first quarter, which was painful, but clearly the right decision for patients, most importantly.

When you look at the growth of that business through the second quarter, we are absolutely back. And rest assured, that while we are not the market leader in PFA today, we are by far and away the market leader across electrophysiology. And the winning formula in electrophysiology isn't just a new catheter, a new PFA catheter, it's three components. And this is what builds our confidence around why we can continue to win.

Number one, it is a full portfolio of catheters, both RF and PFA. RF is not going away for those complex cases. PFA is certainly becoming the dominant modality. And what you need is a full portfolio of PFA catheters.

We started with VARIPULSE. And by the way, there are no safety concerns with VARIPULSE. And that was a concern around the halting of the launch here in the US. We've done 15,000 cases. We have a neurovascular event rate of below 0.5%, which is industry benchmark.

We had a study coming out of the European Society of Cardiology last week, 800 patients in Europe. Zero strokes, right. And so we know we've got a highly effective, safe product that continues to perform. And clearly, you can see that in our second quarter results, and you'll see that through the remainder of the year.

We're adding a dual energy device, already doing cases in Europe, we have CE Mark approval. Think about a catheter that allows a physician to both use PFA and RF technology, depending on what they need in the same procedure. We think that's going to be a home run. We have a product called OMNYPULSE under development, which is a large top focal catheter. And so building out the portfolio of catheters, we think is the first one.

The second one is mapping. And I know you've heard me talk about this at [nauseum], Larry, but mapping is the gateway to electrophysiology. The ability for an EP to be able to see where they're navigating in the confines of the heart to make sure that they're ablating in the right spot really matters.

And even today, where we're not leading in PFA cases. In the United States, we map the majority of cases. Why do we do that? Because physicians trust that we have the best mapping system with CARTO. And by the way, we still make money.

The economics are come from the catheters. They come from the CARTO system or whatever mapping system is being used, and the ultrasound and navigation catheters where we also lead. So mapping, we believe is essential. We'll continue to invest in CARTO to make sure we stay ahead there.

And then the third one which a lot of people don't quite understand is the importance of service in the cath lab. If you go into any EP lab, it won't be just the electrophysiologist in there and their staff. It is a Johnson & Johnson mapper.

We have 5,000 of them around the world who are an essential part of the provision of care, highly trained technical mappers who are helping those physicians to deliver the best outcomes. And so for those reasons alone, Larry, we are confident that we will maintain our leadership position over the long term. We still have some work to do to catch up on PFA, but we are in the early innings, and rest assured that we are not going away.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's helpful. So let's transition to surgery now. You've been growing arguably below market recently because of competition from robotics and China VBP, which you mentioned earlier. What's the near-term outlook for surgery before we get into the Ottava question?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Yeah, I mean, firstly, I know there's a lot of excitement around surgical robotics, and I'm going to touch on that because it's exciting for us as well. But you've got to remember, we are still the largest company in the space of surgery. And surgery has three components to it. It has open procedures, which are still prolific around the world.

Laparoscopic procedures and robotics. We lead in open as well as in laparoscopic procedures. We have two multibillion dollar businesses in surgery, both in biosurgery as well as our wound closure business, one of the oldest J&J business. Growing -- both of them growing 7% in the second quarter. So highly profitable, multibillion-dollar large businesses there.

We are seeing competition on some of our instruments, specifically with endo cutters as well as energy mainly on the back of the advent of surgical robotics, but we're confident that we're going to be a player there. We're not going to be number one overnight, but we certainly believe that there is lots of room for competition in the surgical robotic space.

There are 300 million procedures done across the world every year. Less than 6% of them have done are done robotically. Over time, given the benefits of robotic surgery, the growing evidence space about the reduction of variability of procedures.

Over time, the majority of procedures will be done robotically, not all with sophisticated robots but we believe that it is a place that is so ripe for disruption. There is not a physician or a healthcare system CEO on the planet that isn't looking for competition here.

Clearly, our -- the predecessor has been very dominant and clearly very effective, and it will take time. But we are confident that what we have with OTTAVA, which is truly a unique offering within surgical robotics is going to be a home run, and it will not only be -- it will not be the only investment we make in surgical robotics because we believe that is a growing opportunity for the future.

Last thing I'd say on OTTAVA, as we've mentioned, we're currently in the clinical trials. We're doing cases as we speak, and we expect to conclude that work and submit for approval in the first quarter of 2026.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's helpful. A couple of follow-ups on OTTAVA. One is I thought you made a bold decision to skip the feasibility arm and go directly to a US IDE. I guess, is there -- it sounds like you're happy with how things are progressing, based on the comments you made today and on the Q2 call, and I think at SRS as well.

Just want to confirm that. And how are you feeling about kind of your ability to be at least, let's just say, number two, after Intuitive Surgical, what's the goal? What do you think is a reasonable goal for you to have in soft tissue robotics over time?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Well, certainly, our expectation is not to be just in third or fourth. We are very confident that we solid number two. It will take -- it takes time, right? These are very different businesses, installing capital, which are -- they're not giving away. It takes time, Larry. But we believe we have an offering that will absolutely compete. Otherwise, we wouldn't be doing this, right?

And when I think about the benefits of our system, and it's really the unique architecture, it's the only system where if you walked into a lab, you wouldn't even know that it was a robot. The arms come from outside, from underneath the bed. Why do physicians and clinical staff like that because it's a smaller real estate within the operating room, less booms and carts coming in.

It has twin motion, the opportunity for the bed as well as the arms to move simultaneously, which is really important in complex cases. And finally, what surgeons are asking for is, give me those best-in-class Ethicon instruments on a robot. We'll be the only company that can do that.

The final thing I'll say, and I know you heard me talk about this at SRS, Larry, is I urge everyone to think about robotics, not just about the robot itself. Over time, we expect that the robot will become table stakes. The real benefit is actually the leveraging of data.

Imagine 300 million cases around the world and what data can be extracted from those procedures that allow then us to provide real-time feedback to physicians while in the procedures or for poor subsequent procedures to improve their performance. That really is the value.

Think about the iPhone you have. Yes, we love the fact that it's a phone or all the rest of it, but it's actually the ecosystem that Apple provides around it that really creates the value, the access to connectivity and the apps and the entire ecosystem. That is where we believe that's the future of surgical robotics.

Yes, having a robot is important, but it's really leveraging that data and connectivity, which we believe is really going to make a difference for patients. And for us, that's Polyphonic. When we launch OTTAVA, it will come with an open, not closed, an open digital ecosystem that allows many folks to innovate on our platform.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

That's super helpful. Thank you. Okay. Ortho. You touched upon it earlier. That's one business where the performance has been a little bit challenged, second quarter improved over first quarter. What do you need to do to drive J&J's ortho growth closer to the market growth rate of, call it, 3% to 4%?

And one additional question there for you. If I look at the kind of hip and knee market in the second quarter, it did slow. To give you credit, you talked about the backlog from COVID being exhausted second half last year. I think you called it right, you were first.

But we did see a pretty big deceleration in the second quarter. So how are you thinking about J&J's ortho business going forward, which was close to flattish, I think, in the second quarter, right? And how are you thinking about just the overall market?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Yeah, and Larry, no doubt, we need to do better here, right? And in such a big portfolio, there's always going to be opportunities, and this is certainly one of our most important ones. Just to put the results to the first half in context, one of the factors certainly was the fact that we had a tough comparator with the backlog from the first half of '24.

The second one is I'd remind everyone that we had the Ortho restructuring program, which also impacted our sales. And the third one, frankly, in all transparency was tough competition, right? When I look at the second quarter, it was better than the first, and I'm very confident you're going to see increases improvement through the third and fourth quarter. Why is that? It is all about innovation.

And frankly, our competitors in certain spots have done better than we have. When I look at ortho alone, we had 18 510(k) approvals in '24, 40 outside of the US. And so we have a dearth of innovation coming into the space, and we certainly expect will continue to prop up our results.

We have our VOLT Plating System. We are number one global in the trauma space, new plating system, which is -- which we believe is going to be an absolute game changer in our Spine business, which has been a bit of a laggard. We're just launching our VELYS SPINE Robot as well as our TriALTIS thoracolumbar system.

Specific to your question in hips and knees, Larry, we're addressing some of the portfolio gaps with the uni -- VELYS uni-knee system, which we've launched in the US. We had another gap with the ATTUNE revision Hinge, which we're launching in the back half of the year.

And finally, we have our KINCISE 2.0, which is the only compactor used or impactor used in orthopedic procedures, both hip and knee that was with an indication for both of those procedures. And so we believe that combination of implants with digital technology will continue to drive our performance. And so --

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Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

Any concerns about the underlying market and procedure volume?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Not really. I mean, Larry, we're still trying to better understand that we've seen a bit of a slowdown of revision procedures, and we think that probably relates to the fact that we're seeing less variability and better outcomes, which is great for patients.

But not really. I do think that the movement of procedures into the ASC channel is continued to be a tremendous growth driver and we think we're well positioned there. So no cause for concern from our perspective at this point in time.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

And the last category, we did talk about vision care. You made some positive comments on the momentum in that business, particularly on the surgical side with your IOLs. Just -- how are you thinking about kind of -- it sounds like you're pretty confident that, that business is going to be at least a mid-single-digit grower going forward.

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

I mean today, we are not the largest eye care business, and our intention isn't necessarily to be the largest. We want to be the best performing in the categories that we just had to participate. We are, by far, far and away, the worldwide market leaders in contact lens with ACUVUE, one of the most prolific Johnson & Johnson brands. We had a challenging '24 on the back of some capacity and product gaps last year.

We've addressed those, and we're seeing continued performance improvements as well as share gains both outside of the US and in the US on some of those changes. And so -- and by the way, this is by far and away the most profitable eye care business in the industry. And so if we can continue to deliver those strong single-digit numbers, mid-single-digit numbers, we believe that’s success.

The other aspect I'd mention is when we make an acquisition, our goal is to make sure that it delivers. We had a bit of a stop start with the AMO acquisition. We believe that we've addressed those concerns. And if you look at the results of our surgical vision business, two consecutive quarters of growth here in the US, 9% growth in the second quarter and accelerating on the back of incredible innovations with the best premium selling IOLs with TECNIS Odyssey as well as PureSee outside of the US.

We believe that one is going to be a tremendous growth driver for our vision business. Vision tends to be one of the smaller businesses, roughly $5 billion to $6 billion in sales, but absolutely critical for our future.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

$5 billion or $6 billion is big for most companies.

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

We're fortunate.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

Cataract market was soft in the first half of the year. Any idea why, and when that rebounds?

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Yeah, Larry, we saw some of that, but not in -- these are -- especially the contact lens business that in certain markets is more susceptible to macroeconomic challenges. It's a cash pay business in certain markets, a little bit of softness there.

But nothing that we are concerned about right now and continuous robust growth, especially in the markets that matter the most, places, especially like the United States. And so we saw some of that, but not data that we would suggest as a trend at this point.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

Last question, what's underappreciated about change in MedTech that we didn't cover.

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Well, I think, firstly, we appreciate the fact that our performance is being recognized. When we look at the performance across Johnson & Johnson in the second quarter and seeing both of our businesses in innovative medicine as well as MedTech performed better than expected is and you've seen the performance of our stock since then.

And so we think that is hopefully a vote of confidence, and our expectation is to build on that. I think Larry also I think it is being recognized now, but where we came from being a slower -- large, slow-growth business now being more competitive, roughly 6% last year, 6.1% in the second quarter, we're not done, right?

And when we look at the leadership positions we have in the highest growth areas with the greatest unmet need as we build in cardiovascular, as we bring OTTAVA to market in surgery, as we build on our vision business, we believe that a position for better performance. We wouldn't say we're best-in-class yet, Larry, but that is certainly the expectation, and that is our plan to deliver.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

Perfect, Tim. Thank you so much for being here. Really appreciate it.

Tim Schmid - *Johnson & Johnson - Executive Vice President, Worldwide Chairman of MedTech*

Thank you so much. I appreciate it. Thank you.
