

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

JNJ.N - Johnson & Johnson at Wells Fargo Healthcare Conference

EVENT DATE/TIME: SEPTEMBER 05, 2024 / 3:00PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Larry Biegelsen *Wells Fargo Securities, LLC - Analyst*

PRESENTATION

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

With us we have Tim Schmid, Executive Vice President, Worldwide Chairman of MedTech, Jess Moore, Vice President of Investor Relations and Tracy Menkowski, Senior Director of Investor Relations. The format is fireside chat. If anybody has a question, just raise your hand.

Tim, thanks so much for being here.

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

My pleasure, Larry. Thank you.

QUESTIONS AND ANSWERS

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

So let's start with a few big-picture questions. You've been leading the J&J worldwide MedTech business for nearly a year. Talk about what's gone well, what could have gone better and what you're excited about?

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

Sure, Larry. Firstly, thank you for the opportunity to be here today. As you know, it's almost 10 months into the role. I couldn't be more honored to step into this role. I've spent my entire career, almost 31 years with Johnson & Johnson MedTech across almost all of our regions and all of our businesses. I'm proud to have been a part of the journey we've had as a management team over the last five years in really turning the business around to much more positive growth. And my goal really is to build on that.

Let me maybe start with the things that haven't gone to plan, and I'm sure we'll get into a little more detail later if needed. But certainly, as we look at our performance in the first half, our Vision business hasn't performed at least consistent with historical norms. We're very confident that, that will rebound in the back half, but that's number one.

And number two, as I'm sure you've heard from many other competitors in our industry, China being an important market to us is delivering some challenges and headwinds, especially related to volume-based procurement and the anticorruption campaign, which we expected to last a year and unfortunately, is likely to go on for a little bit longer. And so those are the two things that I'd say still we've got work to do and are headwinds that we're addressing.

That said, I've got a lot more to be proud of and certainly excited about. We made a commitment at our Enterprise Business Review late last year to really improve our performance and deliver a WAMGR of roughly 5% to 7% and at the upper range, and I'm confident that we will do that. And by the way, that was '22 through '27.

The second focus area is clearly how we build out our innovation within Johnson & Johnson MedTech, both organically and inorganically. And starting organically, we have invested close to \$3.1 billion last year, \$2.5 billion the year before, significantly more than many of our competitors on really increasing our competitiveness in our core business, investing in really differentiated innovation in surgery like our Ottava robot, in orthopaedics with our VELYS systems, which we now have across multiple specialties, in Varipulse in our electrophysiology business, which I'm sure we'll touch on. And so really excited about the progress we've made there.

And of course, as you know, we've been very acquisitive, especially in higher-growth spaces. We made a commitment to shift our portfolio into higher-growth categories. If you go back to 2018, about 20% of our portfolio, by the way, which exceeds now \$30 billion, was in categories that were growing north of 5%. We now have just north of 50%. And that's been through deliberate focus on organic innovation and significant investments we've made north of \$30 billion over the last couple of years in high-growth spaces, specifically in cardiovascular, starting with the acquisition of Abiomed, which adds to our leadership position in electrophysiology followed by Laminar late last year, Shockwave and then a couple of weeks ago, V-Wave, and so very excited about that. And we're going to continue to focus on shifting that portfolio.

And then finally, we're a big and complex organization, and I'm very much focused on how we simplify how we work at J&J. And what we've done over the last six months has actually moved 40,000 people across our business into our business units. And we're moving away from a centralized operating model to a decentralized one that gives our business units direct end-to-end accountability for their business.

And I subscribe to the philosophy that accountability is everything. The buck needs to stop with one business unit. And as you know, across MedTech, specialization really matters. And I do think this shift that we're driving within Johnson & Johnson is going to increase our speed and our ability to adapt to local market conditions.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

That's helpful. One follow-up on the decentralized model. Any margin implications of that? Of course, more centralized, you might have more cost synergies. Decentralized, I understand what you said about speed, but are there any margin implications from that?

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

You know what I've learned, Larry, is I think we often think that by centralizing, we're going to deliver better outcomes, be able to leverage our scale and it's areas that makes sense. For example, we still maintained a central approach to procurement where we can leverage our buying power.

But in other areas, it doesn't necessarily play out that way. And actually, with a more decentralized model, it allows us to move faster scale up in certain businesses and scale down. And I do think the quicker we can be to evolve our the operating model will help us evolve our portfolio and being able to add businesses like we have Abiomed and Shockwave, who, by the way, already work in an end-to-end model, but also more aggressively divest of businesses, which is certainly going to be a continued focus of ours.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

That's helpful. And the M&A strategy, we've certainly noticed you've done a lot of deals recently and four in the cardiovascular side. Your CFO talked about modest tuck-in deals going forward on the Q2 earnings call. How do you define modest in size? And is cardio, is that still an area of focus for you for M&A?

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

Well, it is, Larry, and I will say that I'm -- what helps me in the job that I have is I have a CEO who has declared that we will continue to build a best-in-class MedTech company. And certainly, when you look at the investments we've made across the corporation, we've been the beneficiaries of some tremendous investments in MedTech. As I said earlier, upwards of \$30 billion.

Size really isn't a major factor as we make these decisions. We really focus on three key factors. Scientific. Is there a really significant unmet need and a technology that creates differentiation for our customers? Strategic. Does it fit with our strategy, and does it align to the capabilities we currently have? And then, of course, financial. Does it deliver the returns we need to ensure we meet our commitments to all of our stakeholders? That's the way we look at it.

Now we have made some big acquisitions, most notably in Abiomed and Shockwave. But we've also made some nice tuck-ins in both Laminar, which gets us into left atrial appendage and then more recently, V-Wave. When you look back over the last 20 years, not just for our MedTech business, but also for our Innovative Medicine businesses, over 90% of our deals tend to be south of \$1 billion. And so we like those. But as you've seen, we're certainly willing to make bigger bets. And I think this is where the strength of our balance sheet at Johnson & Johnson is very beneficial to all of our businesses. And for the right reasons, we'll continue to make big bets.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

And cardio, I mean, still a focus or --

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

Cardiovascular is an amazing focus, and let me tell you why. I mean in most industries, the largest category tend to be the slow growth categories. It's exactly the opposite in MedTech. And if you look at the size of the cardiovascular category, it's upwards of \$60 billion. It's growing 8%. That's an extra \$5 billion that we're adding or that part of the business is adding to the industry. And so it's very attractive.

We had and we already have a very strong established leadership position with our electrophysiology business, but we didn't play in interventional cardiology where many of our competitors did. The move into Abiomed was a deliberate move to start moving into that area. Shockwave was a fast follower, now getting into coronary artery disease and peripheral. And certainly, our expectation is we will continue to invest both organically and inorganically where it makes sense.

I think, Larry, what is important to us is and I think what sets us out from the competitive set is our positions in cardiovascular are all high-growth and higher-margin businesses. And as long as it meets those sort of criteria, we'll continue to grow in that area.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

That makes sense. Tim, the guidance, I think, is for this year about 6% for MedTech. I think the first half was about 5% -- a little over 5% or operational organic. It implies an acceleration in the second half. What gets better from first half to second half?

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

Yes. And by the way, the numbers that you've just quoted is actually 5.2 through the first half. That's on an adjusted operational basis. So it doesn't account for the investments we've made inorganically since then.

What gives me confidence is I think I've been very transparent from both first quarter and second quarter that our laggards have been primarily our Vision business. This is a business that historically grows consistently mid-single digit. And it hasn't, as you know, for the first two quarters.

What gives me confidence is that some of the headwinds that really drove the less-than-expected performance are being addressed. And some of them are out of our control, primarily stocking dynamics primarily here in the US. We had some supply challenges last year actually on the back of COVID. We saw a reduction in distributor inventory, which bled both first and second quarter.

We are seeing a sequential improvement in the second half. And thankfully, that has continued. And so our contact lens business, I feel very confident will continue to improve. And so I feel very strong about that.

I think the headwinds -- the other second surprise certainly was our business in China. That will be a headwind, not just for this year, but for next year.

But when I look at the momentum we have in the other businesses, that's what gives me confidence. It's the Cardiovascular portfolio we have. Even with the competition that we're seeing in electrophysiology, that is upwards of \$5 billion business that will once again grow double digit this year in the face of the competition that we're facing.

And then, of course, all of the new assets we have in the Cardiovascular space. And so all those together, we feel very confident that we'll continue to meet that commitment that we made to grow in that 5% to 7% range and over that '22 to '27 period in the upper range.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

The anticorruption issues in China, you said it's taking longer to resolve, I think, earlier. We heard that from another company this morning as well. Was that contemplated when you -- on the Q2 call? Or is that incremental?

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

Well, in all transparency, Larry, it's two factors. It's VBP, which I think is not -- none of our industry are immune to that. And so that's the number one factor. And then the anticorruption program was actually announced in July of last year, and it was initially announced that it would continue for about a year. It hasn't stopped.

And firstly, let me just be very clear. It is impacting procedures. It's impacting engagement among our physicians, but it is still the right thing, right? We take a very firm stance on compliance, and we believe that a more compliant environment is more healthy for competition and certainly better for patients. And so it's a good thing.

But first, as long as it continues, we're going to see a dampening of procedures. And we're going to see more reticence among our customers to engage with the industry. That is just the fact.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

Got it. Got it. And you've not disclosed the percent of MedTech sales in China, correct?

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

We haven't and we won't break into specific detail. But just to give you an idea of materiality for Johnson & Johnson as a whole, 5% of our business is in China. We are more indexed on MedTech, but it gives you some perspective on the materiality for the enterprise.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

That's helpful. So let's move on to some of the businesses or maybe just before that, maybe just how you're thinking about the outlook beyond this year, that 5% to 7% for the market? And J&J, maybe it's just -- maybe it's too early. Any preliminary thoughts on puts and takes for next year?

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

We remain very bullish. And frankly, we've been fortunate to receive the investment we have in our segment. And so whether it be the investments we've made externally in, by the way, Abiomed, Shockwave, still early venture but all performing on par with what our expectations were. And so we're very focused on nurturing those growth engines in Cardiovascular.

Once again, in electrophysiology, almost \$5 billion business today. That's going to grow double digit this year even in the face of the competition we're seeing.

We are also eagerly awaiting the approval of Varipulse, which will be our entry into the PFA market here in the US. We already have approval in Europe and Japan. And so that will be a significant tailwind for us in that high-growth business.

And by the way, PFA, while it has caused some challenges for us in the short term, we would love to have been first to market. It's a great thing for patients, and it's a great thing for our industry to see the market grow, the entire market grow -- with that has been tremendous. And so I think that's a real headwind -- sorry, a real tailwind.

If you look at the other businesses, very confident, as I mentioned, in the momentum we're building in Vision, and we definitely see that carrying into next year. Orthopaedics, I couldn't be more excited about the results, 4%.

And if you remember, three, four years ago, we were not growing even close to that in orthopaedics. And that's driven by significant organic investments within our pipeline, specifically with VELYS, our robots, for knee procedures. You'll see the launch of a spine robot next year.

Our hip business grew 7.4% in the first half, 9.4% in knees. And so while orthopaedics, and it's a big business for us, \$9 billion has been a bit of a laggard, we see that being a strong single-digit performer into the years ahead. And so overall, I would say our picture is getting brighter, not darker even with the headwinds we face.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

That's helpful. Tim. On the interventional and EP is the Varipulse US approval, you've talked about late '24, early '25. Is that still on track? And what's the strategy once you launch that? I assume that some physicians, Biosense Webster users have started using Faripulse the Boston Scientific product or the Medtronic product. What's just -- once you have Varipulse, what's the strategy to maybe recapture some of those physicians that maybe started using other catheters?

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

Sure. And maybe I'll firstly start by sort of dimensionalizing what's happening in that business. Once again, I mentioned \$5 billion. That grew 21% last year through the first half of the year grew 19%. Now you are seeing a slowing of our growth on the back of some of the competition. But even here in the US, where the competition is fiercest from some of the competitors you mentioned, we grew 16% in the second half -- sorry, in the second quarter. And so we're very proud of that performance.

I think to be specific to the question you asked, as we prepare for Varipulse, we're learning a lot through our early launches in Japan and in Europe, the feedback from our customers have been exceptional and very similar to the feedback our competitors are getting. Our customers obviously love the safety profile. It gives them a sense of security that they didn't necessarily have before. The time, we're seeing significant reduction in procedure times, which allows them to do more procedures. Everyone wins, both patients and our industry. And so the feedback has been phenomenal.

We also got the results, which we published at HRS here in Boston, in fact, a couple of months ago, where we showed 85% primary effectiveness of our Varipulse technology. So we know we've got a dog that hunts, and that will be very competitive. While we don't control approvals here in

the US, we've signaled that if everything goes to plan, we should have approval by the end of this year or early next year. We are not simply waiting on the side.

I think you know electrophysiology isn't just about catheters. It really is the full workflow. And one of the benefits we have and that has been a big proponent of establishing the leadership position we have today is the importance of mapping. When you are navigating through a heart, knowing where you are is really important. And with our eighth generation now CARTO mapping system, it allows physicians to know exactly where they are and to pinpoint with precision their procedures.

Today, even with us not having a PFA product here in the US, 50% of PFA procedures happen in this country are mapped with our mapping system. And so it's not just the technology, the map, but it's also the sophisticated nature of our highly trained mappers. We have CARTO established in 5,500 sites across the world in almost every single cath lab here in the US with a highly trained mapper. And so once we have that technology, we have no doubt that we will regain some of the share that we are seeing move to some of our competitors in the short term.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

Is there any way to stop other catheters being used with CARTO? I mean I know it's not fully integrated. There's different types of mapping. But if someone wants to use CARTO with competitor or catheter going forward, will they have that option?

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

Well, we could do this, Larry, but we don't think it's good for the industry and certainly not good for our customers. They love CARTO.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

No, I mean, to close CARTO ops, so it has to be -- you have to use it.

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

We could do that, but we have no plans to do that. In fact, the feedback we're getting from electrophysiologists today is they'd like it to be until we have a PFA offering even more user-friendly. There are some functionalities associated with CARTO, and the full benefits aren't enjoyed with all of the competitors. But we are going to make some short-term changes to make sure that it works for them so we can maintain our presence.

And by the way, we're still earning dollars in those cases on the back of having our mappers there, but we have no plans to close it off. But the functionality that customers will enjoy once we have Varipulse on the market along with QDOT, which is the best-performing RF technology, which, by the way, is not going away for complex cases.

All of our customers say they need both offerings. Our expectation is that at the end of the day, both labs will have a lead dog in RF as well as in PFA. And our plan is to be the preferred partner in both those cases.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

One question on Shockwave. The outpatient reimbursement did not get mapped higher. Just curious if you think that will have any impact on volumes of Shockwave for coronary in the US.

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

We don't, Larry, and firstly, just for everyone's benefit, the -- no decision has actually been taken. We're still in a consultation process, which is how it works. So we're actively collaborating with CMS regarding that patient reimbursement.

We have gone through this before, and we are very confident that it's not going to change clinical practice. That's what matters most. And so right now, we do not see it as a challenge and believe that customers firstly don't have many choices at all and believe that our technology does the job. And so no concerns from our side on that right now.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

And the integration so far so good, it sounds like, with Shockwave.

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

Shockwave has been -- we learned a lot. I mean we've been very acquisitive. We learned a lot through Abiomed. And while we did have presence within cardiovascular, as I mentioned earlier, was primarily in the electrophysiology space.

Specialization matters in all parts of MedTech, but especially in cardiovascular. And so what we decided to do with Abiomed is we didn't fully integrate it into all aspects of MedTech. It is a growth play. There is significant opportunity for expansion. 80% of the business is here in the US, only 20% externally.

And so we really focused on keeping this business as a somewhat standalone. We integrate all the back-office functions, the risk functions, but anything to do with innovation and customers is fully in control of that business.

And the same thing we've applied to Shockwave. I've had many questions from investors well are there synergies? Why aren't you looking for cost synergies? There are some opportunities to collaborate when we go to conferences. We share space and all the rest of it, but those businesses will retain their independence, and it's all about investing for growth. And when I look at the moat we have, the technology in Abiomed and Shockwave, those are going to be long-term gems for Johnson & Johnson in the same way that our EP business is.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

All right. Let's move on. I could ask cardio questions all day, but we need to get a couple other businesses. Vision care, I heard you talk about contact lenses bouncing back. I may have missed it, but surgical has also been a little soft within Vision Care, particularly in the US. Please correct me if I'm wrong. But what's -- talk about that end of the business because it sounds like contact lens is back on track, but what about the surgical side?

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

Yes, very confident in the rebound of contact lenses. And I mean, just to put that in context, we supply the eye care needs of almost 40 million people globally. And that strong leadership position in contact lenses is well established and will continue.

Surgical vision, in all transparency, has been challenged here in the US. When we actually look at our share globally, we're gaining share but primarily on the back of our performance in Asia-Pac and in EMEA where we are seeing tremendous momentum, especially on the back of our premium IOL innovations, specifically in TECNIS PureSee.

Where we are focusing on changing the trajectory in the US is that premiumization of our IOL portfolio. We will be broadly launching our TECNIS Odyssey platform later on this year, which we believe will create a tailwind to return that business to more positive performance.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

It's interesting. We haven't seen a lot of M&A in the ophthalmology area from J&J since you've owned the AMO asset. Why is that? And how are you thinking about inorganic opportunities in ophthalmology?

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

Larry, there's some formidable competitors in that space. And so we will be very choiceful in how we think about growing our presence. It's not that we're not looking. And for the right opportunities, we'll get after them.

But at the same time, we also -- we treat the dollars that we have very carefully. And for the reasons you've already cited, we've got opportunities to improve our performance in that business, and that is the focus right now. It's not that we don't look at other opportunities in that space, but the others that we've chosen to hit on like Abiomed and Shockwave just have a different profitability profile that, frankly, so far, we haven't been able to see within the vision space.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

Got it. And then surgical, that was a little soft as well in the first half mainly due to softness in advanced surgery. It was -- 2023 grew nicely 6%. How do you see that business performing moving ahead?

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

Yes. A little like our orthopaedics businesses, these are our core businesses, both in the vicinity of \$9 billion. Let's remember that 2023, not just for us, but for our industry benefited from fairly significant market growth on the back of the -- coming out of COVID and so a lot of backlogs. We've seen that dissipate largely across our surgery business.

It's really a tale of two stories within surgery. Our wound closure and our biosurgery business is where we have very significant leadership positions continued to perform well. They were a little soft in the first half primarily driven on some supply challenges we had in wound closure, which we have currently addressed.

Our challenge has been, as you said, in the advanced surgery space. And you know what's happening there, specifically, our energy businesses, our endocutter businesses are challenged with the continued penetration of robotic procedures. And so that has been a headwind.

If you look at our results in the second quarter, we declined 1.2%. If you actually neutralize for the impact of the divestiture of our Acclarent business, which we made last year, it was roughly flat. We do see that returning to low single-digit growth as we look through the back half of the year.

I will say that this is a business we are absolutely not giving up on. One of the biggest investments we are making across all of Johnson & Johnson organically is in our surgical robot in Ottawa, and I can confidently communicate that we are very much on track to deliver the IDE, which we said we would achieve by the end of this year.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

So you said we're going to file the IDE in the second half of this year. Do you think you could have FDA approval of the IDE this year?

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

To be determined. I mean we don't control those factors, but we do think that everything we've communicated so far is on track and that our IDE will be communicated as shortly as we possibly can, but certainly this year. That is -- listen, we've got a formidable competitor there. You know that. But I will tell you, having traveled the world and spoken to many surgeons and certainly health systems, they are pinning for competition in that space.

We're also learning from other competitors who have entered that space on what to do and what not to do. And we take this launch very seriously, but we've got something that we think really differentiates ourselves from our competitors, both in the architecture of the portfolio, the only soft tissue robot with an architecture where the arms are actually built into the table. We have twin motion, which allows the arms and the bed to move simultaneously, which is really important in complex cases. And what surgeons absolutely love about Johnson & Johnson is the quality of our instruments. And so that robot married with our advanced instrumentation, we believe, is going to create competitive advantage in that market.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

Maybe just, Tim, while we're on robotics, if you could give us an update on the digital robotic strategy. You have three platforms. Ottava, you just went through; VELYS; and then you also have MONARCH.

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

Yes. Now when we look at our core portfolio is clearly how we digitize those portfolios is a huge opportunity for our industry. But it's important to recognize that a robot never stands by itself.

Our success in orthopaedics today is how we marry our best-in-class implants with a surgical robot. We've got VELYS, which was launched 2.5 years ago. It's now available in more than 21 markets, more than 70,000 procedures. And the success we're enjoying now, 9.4% growth on our knees, is a direct result of that marriage of a great robot with a great implant. We're seeing the same thing on hips. It's not just our ACTIS implant, it's ACTIS with KINCISE, and the VELYS-assisted solution for hip replacement.

We announced recently that we will also be entering the spine market with a robot next year. This is also a tremendous opportunity to bring a differentiated innovation to that space. But once again, it's not just the robot by itself. It's the robot in combination with our thoracolumbar system, especially the launch of TriALTIS. And so we think that combination is really important. And we think that, frankly, the digitization of MedTech is only starting and tremendously positive around the future in that area.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

VELYS spine, I think, is already cleared.

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

It's cleared. And I while won't mention an exact launch date, we are certainly gearing up for plans to launch in 2025.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

Soft launch this year? Any activity this year before the full launch?

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

We're certainly preparing but not actively out with customers commercializing. That will be a 2025 activity.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

I'm not sure I heard anything on MONARCH, just the uptake adoption of MONARCH? How is that going?

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

MONARCH is -- I mean we -- as you probably know, have just recently launched into China. That's a big market. In fact, almost 50% of lung cancer cases across the world occur in China, and so we're learning through that one.

When I look at how we're prioritizing our investments within the robotics space clearly is Ottava, number one; VELYS, number two; and MONARCH, number three. We do see opportunity to leverage those technologies over time, but that would be our prioritization.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

And the orthopaedic SKU rationalization, \$250 million over two years. That starts in the second half of this year, I believe.

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

It does.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

So that's on track. And I assume you'll help us understand the impact of that when you report your results?

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

We will, Larry, and so this is a restructuring program we announced in the third quarter of last year. And why it's important is if there's one thing about orthopaedics in general, it is a very complex business with tremendous -- I mean the amount of SKUs, we have 100,000 active SKUs. And so this restructuring program was focused on really simplifying that portfolio. We will reduce our active SKUs by 20%.

And so we're really trying to focus on those SKUs that deliver the greatest return and those markets where we think we can make the biggest impact for both patients and our business. We mentioned that, that restructuring program will have roughly a \$250 million impact. That will be on -- across both '24 and '25. We expect that slightly more will be in the back half of '24, and the majority of that impact will be felt in the fourth quarter. And so we will transparently communicate that as we move through.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

Tim, you've been pretty clear about -- so I wanted to ask about procedure volumes. And you historically, the backlog, particularly in ortho would kind of run through the second half. Is that your view? And any kind of color commentary on kind of the state of procedure volume around the world?

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

So Larry, what we mentioned at the EBR late last year and what we've actually consistently said since then is that for the most part, the market has normalized. Where we did see continued backlog was in orthopaedics. And we signaled that we expected that to continue for the first half of this year, not the full year, and that actually is what we have seen. And so for the most part, we would say the market has normalized.

What I will say is that I do think our customers have also learned a lot about resiliency through the pandemic. And so we've seen the ability of our customers to actually do more cases. The movement of procedures into the ASC environment has also increased capacity. And so we still believe that 5% to 7% market growth that we mentioned there and specifically in orthopaedics, roughly 3% to 5% remains true.

But we have seen, from our perspective, the market really returned to more normal levels. And even those sort of seasonality that we normally would see, especially in the summer months, we've also seen this year, too. So I would say we are back to pre-COVID levels.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

Tim, I'm going to try to sneak in a couple of cardio questions.

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

Sure.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

So back on the Shockwave outpatient, it sounds like you're still having discussions with CMS. You don't expect it to have an impact, but it sounds like you think there's still a chance you could get the outpatient reimbursement moved up?

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

Certainly, that is our focus, right? And if you actually look at that technology, reimbursement really matters, both here in the US and as we grow that globally. And so we're going to do everything we can to demonstrate why that makes sense. Certainly, we don't control the outcome, but that would be what we expect.

Once again, even if it doesn't happen, from everything we've seen in the past as based on how our customers love this technology and how comfortable they have become with it and the benefit it delivers to patients, we just don't see a change in clinical practice.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

And then in cardio, gaps, any other -- you just bought V-Wave, that interventional heart failure. How are you thinking about rounding out your cardiovascular device portfolio?

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

We've got a handful, Larry, right? I mean two huge acquisitions in Abiomed and Shockwave. And our focus is really delivering on those investments. We've got huge technological moats in both of those areas. Upwards of a 15-year head start in Abiomed, no formidable competitors in Shockwave. And so our focus is growing those as fast as we can. I think the tuck-in of Laminar, which we announced in the fourth quarter, especially getting into left atrial appendage where there's lots of opportunity for competition, almost billion-dollar market, we're very excited about that.

And then V-Wave is another good example. I mean this is a company that we started investing in 2017. That's before we even add Abiomed. And initially, we invested in that business behind our electrophysiology portfolio. Now that we have a market leadership position in heart failure, we're actually aligning that business in V-Wave with Abiomed. And so we're starting to create these fortresses across our cardiovascular portfolio.

Are there other exciting opportunities? There's no shortage of rumors out there. We've got our hands full and very excited about the portfolio we've got. Last thing I'd just reiterate is that we are the only competitor in cardiovascular with high-growth, high-margin businesses, and that's what we'd like to continue.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

All right. We're out of time, but I want to give you the last word, Tim, and thank you so much for being here. Any closing remarks, anything you want to highlight that we didn't touch upon?

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

No, I think we touched a lot, Larry. I think, firstly, thank you for the time today, and thank you for your interest in Johnson & Johnson. I think you know as a company, we've gone through a lot of changes of late as we've now spun off our consumer business, which is actually creating much more focus in the businesses that we've retained in both innovative medicine and MedTech.

I couldn't be more excited to have a CEO who really has staked his reputation on continuing to improve our performance in MedTech, and we know we have bright years ahead. So thank you again for your time today.

Larry Biegelsen - Wells Fargo Securities, LLC - Analyst

Thanks for being here.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.