Johnson & Johnson

Johnson & Johnson Updated Financials and 2023 Guidance
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Slide 1: Johnson & Johnson Updated Financials & 2023 Guidance

Hello, this is Jessica Moore, Vice President of Investor Relations for Johnson & Johnson.

Welcome to the company's review of our updated financials and 2023 guidance as a company dedicated to Pharmaceutical and MedTech innovation following the completion of the Kenvue exchange offer.

I am joined by Joe Wolk, Executive Vice President, Chief Financial Officer.

Before we get started, you can find additional materials, including the associated press release, presentation, transcript, and supplemental schedules on the Investor Relations section of the Johnson & Johnson website at investor.jnj.com.

Slide 2: Cautionary Note on Forward-looking Statements

Please note that this presentation contains forward-looking statements regarding, among other things, the Company's future operating and financial performance, market position, and business strategy. You are cautioned not to rely on these forward-looking statements, which are based on current expectations of future events using the information available as of the date of this recording and are subject to certain risks and uncertainties that may cause the company's actual results to differ materially from those projected. A description of these risks, uncertainties and other factors can be found in our SEC filings, including our 2022 Form 10-K, which is available at investor.jnj.com and on the SEC's website.

Slide 3: Agenda

Regarding the agenda, I would like to note that we will not be speaking to business related items beyond adjustments related to the Consumer Health separation.

To begin, I will highlight the company's recast, consolidated statement of earnings for the first half of 2023.

Afterwards, Joe will provide an update on the completion of the Consumer Health separation as well as walk you through updated Johnson & Johnson guidance for the fiscal year 2023.

Slide 4: Condensed Consolidated Statement of Earnings

Regarding our recast, consolidated statement of earnings, I'd like to call to your attention that Johnson & Johnson will now report its Consumer Health financial results as discontinued operations.

Net earnings and earnings per share from continuing operations, on both a GAAP and Non-GAAP basis, through the first half of 2023 and 2022 are shown here for your reference.

Worldwide Sales were $42.4 billion for the first six months of 2023, an increase of 5.9% versus the first six months of 2022. Operational sales growth, which excludes the effect of translational currency, increased 8.0% as currency had a negative impact of 2.1 points. Excluding the net impact of acquisitions and divestitures, adjusted operational sales growth was 6.4% worldwide, as Abiomed contributed 1.6% to operational growth.

Johnson & Johnson anticipates that it will report a tax-free gain for the separation of the Consumer Health business in the third quarter of 2023, of approximately $20 billion. This estimate is based on the fair value of the shares acquired at the separation date and the carrying value of Consumer Health as of the second quarter of 2023. This gain will be included in discontinued operations.

Supplemental schedules, as well as the GAAP to Non-GAAP reconciliations have been included in our associated press release and can also be found for download on the investor relations website. Additional information, including recast Balance Sheets, Cash Flows, and footnotes, will be made available at the time of our Q3 2023 Form 10-Q submission.

With that, I am now pleased to turn it over to Joe.

Slide 5: Joseph J. Wolk

Thank you, Jessica.

The separation of the Consumer Health business marks a pivotal moment in Johnson & Johnson's history and an exciting new era for our company. The main driver for this transaction always has been the strategic rationale of having both companies be more agile, flexible and focused for success in their respective industries.

Slide 6: Separation Milestones & Accomplishments

Executing one of the largest and most complex corporate separations required tremendous effort. We are incredibly proud and appreciative of the Johnson & Johnson and Kenvue colleagues for their hard work and dedication, as we successfully completed this transaction well within the targeted timeframe of 18-24 months despite a time of heightened market macroeconomic volatility and when many considered the IPO market to be tepid, at best.

As part of the transaction thus far, Johnson & Johnson was able to secure $13.2 billion in cash from the Kenvue debt offering and IPO earlier in the year. This does not consider any additional proceeds to be received from the potential monetization of our remaining Kenvue equity stake.

The Kenvue exchange offer was slightly above four times subscribed, reflecting the interest in owning Kenvue common stock at the exchange ratio offered. We accepted approximately 191 million shares or 24% of the shares of Johnson & Johnson common stock that were tendered in exchange for approximately 1.5 billion shares of Kenvue common stock owned by Johnson & Johnson. As a result, we reduced our outstanding share count by approximately 7%.

It is worth noting that the shares acquired through this single transaction would be similar to a $33 billion share repurchase. Not only would this qualify as the largest in Johnson & Johnson's 137-year history but, based on the value of the shares acquired through this exchange offer, it would be considered the largest execution of shares acquired by any company in a single transaction. Additionally, it was executed without the use of cash and in a tax-free manner for U.S. federal income tax purposes.

Given our belief in the value of Kenvue as a stand-alone company, Johnson & Johnson also retained approximately 180 million shares of Kenvue stock, or 9.5% of Kenvue's share count, valued at approximately $4.2 billion using the Kenvue share price as of August 28th.

This decision provides us the opportunity to monetize the retained stake in a tax efficient manner in the next year, subject to a current 90-day lockup agreement from the close of the exchange offer. However, Johnson & Johnson is under no obligation to do so if market conditions are not supportive.

We approached this separation much like we do most endeavors, with financial discipline and effective cost management. It has allowed us to execute the separation with approximately $1.5 billion in after-tax separation costs incurred to date, which is less than our original estimates.

Lastly, with respect to stranded costs, as mentioned on the Q2 earnings call, the initiatives we embarked upon last summer in anticipation of the separation enabled us to eliminate a large majority of those dyssynergy costs, originally estimated to be as much as $750 million after-tax. Industry benchmarks would suggest that companies usually take about 2 to 3 years to eliminate dyssynergy costs. As a result of our team's focus and discipline, we anticipate very little deleveraging in 2024.

Slide 7: 2023 P&L Guidance

Now shifting our attention to Johnson & Johnson's updated full year 2023 guidance.

I want to make it clear that we are solely updating the 2023 financial guidance to reflect the impacts associated with the completion of the Consumer Health separation for Johnson & Johnson. Comparisons of growth and improvement highlighted in the updated August guidance exclude the Consumer Health business in both the 2023 and 2022 periods.

Starting with sales. As a reminder, our sales estimates continue to exclude contribution from the COVID-19 vaccine.

Updated August guidance now reflects sales from only the Pharmaceutical and MedTech businesses, and as a result, reported and operational sales growth were positively impacted by 0.5% to mid-points of 7.5% and 8.0% respectively, while adjusted operational sales growth was positively impacted by 0.2% to a mid-point of 6.7%.

While we do not speculate on future currency movements, utilizing the euro spot rate as of mid-July of 1.10, the anticipated negative currency impact to reported sales growth rates remains the same.

Looking across the P&L, Adjusted Pre-Tax operating margin is now expected to improve by approximately 50 basis points versus prior year driven by a stronger margin profile and mix.

Net Other Income is now anticipated to be in the range of $1.7 to $1.9 billion driven by the de-consolidation of the Kenvue Non-Controlling Interest, which was included in our July guidance, and is now captured in the reporting of discontinued operations post the separation.

With the removal of the Kenvue net debt from our Balance Sheet, which we communicated was approximately $7.2 billion as of Q2 2023, we now expect net interest income in the range of $100 to $200 million.

Finally, based on current tax law and favorable segment mix, our new estimate for the effective tax rate is in the range of 15.0% to 16.0%.

These updated estimates, excluding the Consumer Health Business, result in the company forecasting Adjusted Operational earnings per share in the range of $9.90 to $10.00 or 11.5% growth at the midpoint and Adjusted Reported earnings per share in the range of $10.00 to $10.10, or 12.5% growth at the midpoint.

Given the full year share count calculation for Adjusted earnings per share includes the proration of shares outstanding on a month-to-month basis, it is important to note that our updated estimates for 2023 reflect only a partial-year benefit equal to approximately 73.5 million shares or a $0.28 per share benefit out of the approximately 191 million net share reduction in J&J shares outstanding from the exchange offer.

If we were to model the impact of the reduction of outstanding shares through the exchange offer as of the start of the fiscal year, there would have been an incremental $0.48 per share benefit on a pro-forma basis for a total benefit of $0.76 per share.

The full benefit of the reduced outstanding share count will be reflected in our 2024 financials.

Slide 8: Johnson & Johnson + Kenvue Guidance

One litmus test we've put ourselves through and one you may also be conducting is how does the combined guidance of the now separate companies, Johnson & Johnson and Kenvue, compare against the previously issued Johnson & Johnson July Adjusted earnings per share guidance.

Detailed math can be found on this slide, but at a high level, if you take the mid-point of the updated Johnson & Johnson Adjusted Earnings guidance provided today, and arbitrarily apply the mid-point of Kenvue's Adjusted Earnings guidance their management provided during their July 20th earnings call, you will calculate a mid-point for Adjusted Earnings guidance of approximately $28.1 billion for the companies combined.

This amount divided by Johnson & Johnson's second quarter 2023 average diluted shares outstanding equates to an Adjusted earnings per share of $10.68.

Comparing this to our previously issued Johnson & Johnson Adjusted earnings per share guidance of $10.75 in July, which includes a net reduction in earnings per share for Kenvue's non-controlling interest, results in a $0.07 variance primarily driven by Kenvue's tax rate, which as a standalone company is higher than the tax rate applied as a segment under Johnson & Johnson, and incremental costs incurred by Kenvue associated with standing up a public company which did not impact Johnson & Johnson's adjusted earnings.

As communicated by Kenvue in their Q2 2023 earnings call, they expect those incremental stand-up costs to decrease and be offset by other productivity efforts over time.

As a reminder, and as mentioned earlier in this presentation, it is important to take into consideration the significant value that was generated for Johnson & Johnson shareholders through the cash proceeds of $13.2 billion from the Kenvue debt offering and IPO, as well as the 9.5% retained stake in Kenvue common stock.

Slide 9: Capital Allocation Strategy

Our capital allocation priorities remain in-tact for Johnson & Johnson.

We will continue to execute a strategic and disciplined approach to capital allocation, utilizing a strong credit profile and robust free cash flow generation to prioritize continued investment in internal sources of innovation, deliver competitive dividends to shareholders, assess and execute strategic, value-creating acquisitions, and evaluate share repurchases when appropriate.

I appreciate the quarterly dividend is an important component to our shareholders. As highlighted in the press release, Johnson & Johnson was able to maintain the current quarterly dividend per share while simultaneously managing future cash flow by reducing our absolute dividend payments by more than $900 million, on an annualized basis, from the reduced outstanding share count through the exchange offer.

Slide 10: Save the Date

Johnson & Johnson remains sharply focused on our industry-leading Pharmaceutical and MedTech businesses. We look forward to advancing our robust pipelines in both segments to deliver innovative treatments that solve some of the most complex health challenges for patients around the world.

We are confident in our ability to build on the momentum of the first half of the year and plan to share more about the strength of our portfolio and long-term strategy of Johnson & Johnson at our upcoming Enterprise Business Review, to be held on December 5th at the New York Stock Exchange.

Slide 11: Closing

Should you have any outstanding questions surrounding the Consumer Health Separation, please feel free to reach out to our Investor Relations team.

Thank you for your continued interest in Johnson & Johnson.

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NOTE TO INVESTORS CONCERNING FORWARD-LOOKING STATEMENTS:

This transcript contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things: future operating and financial performance, product development, and market position and business strategy. The reader is cautioned not to rely on these forward-looking statements. These statements are based on current expectations of future events. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from the expectations and projections of Johnson & Johnson. Risks and uncertainties include, but are not limited to: economic factors, such as interest rate and currency exchange rate fluctuations; competition, including technological advances, new products and patents attained by competitors; challenges inherent in new product research and development, including uncertainty of clinical success and obtaining regulatory approvals; uncertainty of commercial success for new and existing products; challenges to patents; the impact of patent expirations; the ability of the Company to successfully execute strategic plans, including restructuring plans; the impact of business combinations and divestitures; manufacturing difficulties or delays, internally or within the supply chain; product efficacy or safety concerns resulting in product recalls or regulatory action; significant adverse litigation or government action, including related to product liability claims; changes to applicable laws and regulations, including tax laws and global health care reforms; trends toward health care cost containment; changes in behavior and spending patterns of purchasers of health care products and services; financial instability of international economies and legal systems and sovereign risk; increased scrutiny of the health care industry by government agencies; the Company's ability to realize the anticipated benefits from the separation of the Company's Consumer Health business; and the New Consumer Health Company's ability to succeed as a standalone publicly traded company. A further list and descriptions of these risks, uncertainties and other factors can be found in Johnson & Johnson's Annual Report on Form

10-K for the fiscal year ended January 1, 2023, including in the sections captioned "Cautionary Note Regarding Forward-Looking Statements" and "Item 1A. Risk Factors," and in Johnson & Johnson's subsequent Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission. Copies of these filings are available online at www.sec.gov, www.jnj.com or on request from Johnson & Johnson. Any forward-looking statement made in this transcript speaks only as of the date of this transcript. Johnson & Johnson does not undertake to update any forward-looking statement as a result of new information or future events or developments.