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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to Johnson & Johnson's second-quarter 2024 earnings conference call. (Operator Instructions) This call is being recorded. (Operator Instructions) I would now like to turn the conference over to Johnson & Johnson. Please go ahead.

Jessica Moore - *Johnson & Johnson - Vice President - Investor Relations*

Hello, everyone. This is Jessica Moore, Vice President of Investor Relations for Johnson & Johnson. Welcome to our company's review of the second-quarter business results and our full-year financial outlook for 2024.

A few logistics before we get into the details. As a reminder, you can find additional materials, including today's presentation and associated schedules on the Investor Relations section of the Johnson & Johnson website at investor.jnj.com.

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 the 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 2023 Form 10-K which is available at investor.jnj.com and on the SEC's website. Additionally, several of the products and compounds discussed today are being developed in collaboration with strategic partners or licensed from other companies. This slide acknowledges those relationships.

Moving to today's agenda, I will start by reviewing the second quarter sales and P&L results for the corporation as well as highlights related to our two businesses. Joe Wolk, our CFO, will then provide additional business and financial commentary before sharing an overview of our cash position, capital allocation priorities, and guidance for 2024.

Joaquin Duato, our Chairman and CEO will then provide some closing remarks before we open it up for questions. Jennifer Taubert, John Reed, and Tim Schmidt, our Innovative Medicine and MedTech leaders will be joining us for Q&A.

To ensure we provide enough time to address your questions, we anticipate the webcast will last approximately 60 minutes. Unless otherwise stated, the financial results and guidance highlighted today reflect the continuing operations of Johnson & Johnson. Furthermore, the percentages quoted represent operational results and therefore exclude the impact of currency translation.

Turning to our second-quarter sales results, worldwide sales were $22.4 billion for the second quarter of 2024. Sales increased 6.6% with growth of 7.8% in the US and 5.1% outside of the US. Excluding the impact of the COVID-19 vaccine, sales growth was 7.2% worldwide and growth of 6.4% outside of the US. Sales growth in Europe, excluding the COVID-19 vaccine was 6%.

Turning now to earnings, for the quarter, net earnings were $4.7 billion and diluted earnings per share was $1.93 versus diluted earnings per share of $2.05 a year ago. Excluding after-tax intangible asset amortization expense and special items for both periods, adjusted net earnings for the quarter were $6.8 billion and adjusted diluted earnings per share was $2.82 representing increases of 1.6% and 10.2% respectively, compared to the second quarter of 2023.

I'll now comment on business sales performance in the quarter. Beginning with Innovative Medicine, worldwide innovative medicines sales of $14.5 billion increased 7.8% with growth of 8.9% in the US and 6.4% outside of the US.

Excluding the impact of the COVID-19 vaccine, operational sales growth was 8.8% worldwide and 8.7% outside of the US. Innovative Medicine growth was driven by our key brands and continued uptake from recently launched products with 10 assets delivering double digit growth.

We continue to drive strong sales growth across our multiple myeloma portfolio. DARZALEX growth was 21.3%, primarily driven by share gains of 4.6 points across all lines of therapy and 9.4 points in the frontline setting, as well as market growth. CARVYKTI achieved sales of $186 million with growth of 59.9%, driven by continued capacity expansion, manufacturing efficiencies, and strong demand.

TECVAYLI sales achieved $135 million in the quarter with growth of 43.5%, reflecting a strong launch in the relapse refractory setting. Demand remained strong, while sequential growth slowed due to adoption of recently approved longer duration dosing intervals.

ERLEADA continues to deliver strong growth of 32.5%, primarily driven by share gains and market growth in metastatic castrate sensitive prostate cancer. Other Oncology growth was driven by continued strong uptake of TALVEY, our GPRC5D bispecific, and RYBREVANT, our bispecific antibody for non-small cell lung cancer.

Within Immunology, we saw sales growth in TREMFYA of 30.7%, driven by market growth, share gains in PsO and PsA in favorable mix. STELARA growth of 4.9% was driven by market growth, partially offset by net unfavorable patient mix. We continue to anticipate biosimilar entry in Europe later this month, while in the US, we expect continued volume growth, largely offset by price declines as we move towards biosimilar entry in 2025.

In Neuroscience, SPRAVATO growth of 60.8% continues to be driven by increased physician and patient confidence. In Pulmonary Hypertension, OPSUMIT grew 9.1% due to share gains and market growth, partially offset by unfavorable mix. UPTRAVI growth of 8.1% was driven by market growth and share gains, partially offset by inventory dynamics. Total Innovative Medicine sales growth was partially offset by a decline in Other Neuroscience, unfavorable patient mix in XARELTO and competitive pressures in IMBRUVICA.

I'll now turn your attention to MedTech. Worldwide MedTech sales of $8 billion increased 4.4% with growth in the US of 5.7% and 3.2% outside of the US. Acquisitions and divestitures had a positive impact of 40 basis points on sales growth in the quarter.

Growth was driven by commercial execution, strength of new product introductions, and continued strong procedure volume, partially offset by performance in China and competitive pressures and US distributor stocking dynamics in Vision. In Cardiovascular, Electrophysiology delivered double digit growth of 13.4% with strong growth across all regions. Performance was driven by global procedure growth, new product uptake, and commercial execution, partially offset by the previous one-time inventory build in Asia Pacific from the prior quarter. In addition, Abiomed delivered growth of 15.4%, driven by double digit growth in all regions and continued strong adoption of Impella 5.5 and Impella RP technology. Results include $77 million associated with the acquisition of Shockwave, which closed on May 31st.

Contact Lenses adjusted operational sales growth, excluding the BLINK divestiture, was 2.1%. Growth was driven by strong performance and ACUVUE OASYS 1-Day family of products, partially offset by US distributor stocking dynamics and competitive pressures, and Japan macroeconomic pressures. The BLINK divestiture negatively impacted growth by approximately 130 basis points. Surgical Vision grew 1.2%, driven by TECNIS Eyhance, our monofocal interocular lens, partially offset by China VBP and refractive softness in the US.

Surgery adjusted operational sales growth, excluding the ACCLARENT divestiture was approximately flat. Performance was driven primarily by competitive pressures in Energy and Endocutters, China VBP, prior year China recovery, EMEA tender timing across Advanced Surgery, and supply constraints and Wound Closure. This was partially offset by strength of new products. The ACCLARENT divestiture negatively impacted growth by approximately 110 basis points. Orthopedics growth of 3.3% was driven by strong performance in hips and knees due to procedure growth, strength of new products, and EMEA tender timing in knees. This growth was partially offset by competitive pressures and impacts of China VBP in Spine and Sports.

Now turning to our consolidated statement of earnings for the second quarter of 2024. I'd like to highlight a few noteworthy items that have changed compared to the same quarter of last year. Cost of product sold margin deleveraged by 60 basis points, primarily driven by product mix within Innovative Medicine and macroeconomic factors across both sectors.

We continue to invest strategically in research and development at competitive levels, investing $3.4 billion or 15.3% of sales this quarter. We invested $2.7 billion or 18.8% of sales in Innovative Medicine compared to 22.2% of sales in 2023.

As a reminder, last year included an upfront payment of $245 million associated with the AblelZeta partnership. In MedTech, R&D investment was $0.7 billion or 9% of sales, an increase driven by continued investment in strategic platforms.

Other income and expense was a net expense of $653 million in the second quarter of 2024 compared to income of $384 million in the second quarter of 2023. The increase in expense was primarily driven by costs related to the closing of the Shockwave acquisition, the loss on the completion of the debt for equity exchange of the retained stake in Kenvue, and prior year favorable intellectual property litigation settlements in MedTech. This was partially offset by the gain on the ACCLARENT divestiture.

Regarding taxes in the quarter, our effective tax rate was 18.5% versus 14.7% in the same period last year. This increase was primarily driven by unfavorable one-time international audit settlements and the continued impact from Pillar 2. Excluding special items, the effective tax rate was 18.6% versus 15.9% in the same period last year. I encourage you to review our upcoming second quarter 10-Q filing for additional details on specific tax-related matters.

Lastly, I'll direct your attention to the box section of the slide where we have also provided our income before tax, net earnings, and earnings per share adjusted to exclude the impact of intangible amortization expense and special items.

Now let's look at adjusted income before tax by segment. In the second quarter of 2024, our adjusted income before tax for the enterprise as a percentage of sales increased from 37.2% to 37.4%. Innovative Medicine margin improved from 42.3% to 44.6%, primarily driven by an upfront payment of $245 million associated with the AbelZeta partnership in 2023, partially offset by product mix and cost of products sold.

MedTech margin declined from 28.2% to 25.7%, driven by prior year favorable intellectual property litigation settlements worth approximately 300 basis points. This concludes the sales and earnings portion of the call. I'm now pleased to turn it over to Joe.

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

Thank you, Jessica, and hello, everyone. Thank you for joining today's call. Overall, Johnson & Johnson delivered solid top and bottom line as well as free cash flow growth in the quarter. Our Innovative Medicine business made great progress in the second quarter. We have strong momentum with key end market products and continue to advance our pipeline with significant clinical and regulatory milestones being attained. Our MedTech business delivered growth that fell below our expectations of growing in the upper range of our markets, which, as you recall, correlates to a weighted average market growth rate of 5% to 7% from 2022 through 2027. We came into the year thinking 2024 would be in the upper end of that range. With acceleration planned in the second half, given some of the first half dynamics Jessica outlined, we now expect growth closer to 6% for 2024. To me, this reflects the power and breadth of our company where we can more than offset quarterly volatility in one part with overperformance from another part of our business.

Before I get into the numbers, I'd like to provide some qualitative business highlights from the quarter. Starting with Innovative Medicine. In Oncology, we continue to make meaningful progress across our disease areas of focus.

Of note, we received FDA approval for CARVYKTI in earlier lines of therapy and reported positive top line overall survival results from the CARTITUDE-4 study. We also submitted a filing with the FDA for a subcutaneous formulation of RYBREVANT. We presented updated results for TAR-200 and TAR-210 and we met primary endpoints for two DARZALEX studies, CEPHEUS and AQUILA, where results will be presented at an upcoming major medical meeting.

Turning to Immunology, we achieved key milestones for TREMFYA in inflammatory bowel disease, including the presentation and filing of Phase 3 studies in ulcerative colitis and Crohn's disease as well as the filing of our subcutaneous formulation, which would make TREMFYA the only IL-23 inhibitor with a fully subcutaneous regimen.

We also expanded our Immunology portfolio with the acquisitions of Proteologix and NM26. These bispecific antibodies will further strengthen our portfolio and enhance our ability to address significant unmet need in atopic dermatitis.

Finally, spanning Immunology and Neuroscience, we presented positive results for nipocalimab in Sjogren's disease and myasthenia gravis, but it doesn't stop with the second quarter. We are excited for what awaits in the second half of this year with the anticipated approval and launch of both RYBREVANT plus lazertinib in frontline EGFR-positive lung cancer and TREMFYA in IBD.

We also expect data from JNJ-2113, our targeted oral peptide in psoriasis and ulcerative colitis, JNJ-4804, our co-antibody therapeutic in IBD, and nipocalimab in rheumatoid arthritis. As we continue to bring new innovations to market and execute against clinical and regulatory milestones, Innovative Medicine is well-positioned to achieve sustainable growth in both the near and long term.

Turning to MedTech, we continue to advance our pipeline, launch new commercial products, and integrate strategic acquisitions that broaden and further differentiate our portfolio.

In Cardiovascular, we are enhancing our portfolio and shifting into higher growth markets through strategic acquisitions, such as Shockwave Medical. In May, we announced the launch of our CARTO 3 Version 8 electroanatomical mapping system. This is the latest version of our 3D heart mapping system, which has machine learning capabilities that increase efficiency, reproducibility, and accuracy in maps electrophysiologists use to treat atrial fibrillation and other arrhythmias.

In Pulsed Field Ablation, we initiated the commercial launch of VARIPULSE platform in the EU and Japan, receiving early positive physician feedback in the external evaluation period. We also delivered results from the pivotal phase of the admIRE trial where the VARIPULSE platform demonstrated 85% peak primary effectiveness with minimal adverse events, short PFA application times, and low fluoroscopy exposure.

In Orthopedics, we received 510(k) FDA clearance for the clinical application of the VELYS Robotic-Assisted Solution in uni-compartmental knee arthroplasty. This is designed for both medial and lateral procedures, enabling surgeons to guide precise implant placement without a CT scan.

In Surgery, we launched the ECHELON 3000 in the US, which combines 3D stapling and gripping surface technology to enable greater staple line security. This has been shown to deliver 47% fewer leaks, reduce surgical risks, and improve surgical outcomes.

In Surgical Vision, we launched TECNIS Odyssey in the US and head into a full market launch in the second half of 2024. For the remainder of the year, we will continue to advance our Electrophysiology and Cardiovascular pipelines as we prepare for the anticipated US approval of VARIPULSE, as well as the submission of Impella ECP for regulatory approval. Within robotic surgery, we are on track to submit an investigational device exemption to the FDA for OTTAVA in the second half of the year.

Before turning to cash flow and guidance, I wanted to provide an update on the talc litigation. As announced on May 1st, the company has committed to pay ovarian claimants a present value of approximately $6.5 billion or $8 billion nominally over 25 years, resolving 99.75% of all pending talc lawsuits against the company and its affiliates in the United States.

We are currently in a voting period for the plan where for the first time claimants are able to vote for themselves for or against the plan. The last day of voting is scheduled for July 26th. It will then take a few weeks for the vote administrator to vet and tally the votes. Once that process concludes, we plan to make a public announcement on the next steps regarding a prepackaged bankruptcy filing.

Our confidence that we will reach the requisite 75% vote is bolstered by the continued support of counsel, representing the vast majority of claimants with whom the plan was developed as well as the announcement of support by additional prominent plaintiff law firms recently, including Aylstock, Keller Postman, and Miller.

Additionally, in furtherance of our goal of achieving a comprehensive solution, we finalized the previously announced agreements reached with all states that advanced health claims in the Imerys and Cyprus entities, owners of the mines that supplied talc to the company. In the second quarter, we continued to make progress with mesothelioma claimants with 95% of claimants now settled.

Turning to cash and capital allocation. We ended the second quarter with approximately $25 billion of cash and marketable securities and approximately $41 billion of debt for a net debt position of $16 billion. Free cash flow year to date was approximately $7.5 billion compared to $5.5 billion in the prior year period, which included cash flow from the Consumer Health business. During the quarter, we exited our retained stake in Kenvue, bringing the separation to a close. The net proceeds from the secondary offering was $3.6 billion.

Our capital allocation priorities remain unchanged. We maintain a strong balance sheet, which continues to enable us to strategically invest in and grow our business, while returning capital to our shareholders. Innovation remains core to our strategy. In the second quarter, we invested more than $3.4 billion or 15.3% of sales in research and development.

In terms of acquisitions and licensing during the first half of 2024 Johnson & Johnson has deployed approximately $17 billion in strategic value-creating inorganic growth opportunities. This includes Shockwave, Proteologix, and the NM26 bispecific antibody transaction announced last week as well as more than 20 other smaller complementary business development transactions. While we will always explore strategic deals of any size that can create value, we foresee modest tuck-in deals as the preferred route over the near term.

Now turning to our full year 2024 guidance. Given the moving parts associated with the acquisitions this quarter, I'll start where I usually end with earnings per share. Before the impact of recent acquisitions, our outlook for adjusted operational EPS performance is once again being increased.

As this schedule reflects, we are expecting a $0.05 per share increase in our operational performance. This would result in year-over-year EPS growth of 8.2% at the midpoint. To account for the completion of Shockwave, Proteologix, and the NM26 bispecific antibody transactions, and as previously disclosed, our adjusted operational EPS guidance now includes dilution of $0.68 per share.

Combined, all of this yields an updated adjusted operational EPS guidance in the range of $10 to $10.10 per share. In addition to assist with your future models, these transactions are expected to have a smaller impact of $0.33 to adjusted operational EPS in 2025.

Now to address all elements of P&L guidance for 2024. As a reminder, our sales guidance continues to exclude any impact from COVID-19 vaccine sales. We are increasing our operational sales guidance for the full year by $500 million to reflect the completion of the Shockwave acquisition.

We now expect growth in the range of 6.1% to 6.6% compared to 2023 with a midpoint of $89.4 billion or 6.4% at the midpoint. Excluding the impact from acquisitions and divestitures, we are maintaining our adjusted operational sales growth to the range of 5.5% to 6.0% compared to 2023. As you know, we don't speculate on future currency movements, we are utilizing a euro spot rate relative to the US dollar of 1.08, consistent with last quarter.

However, there have been notable strengthening of the US dollar versus other currencies, specifically the Japanese yen and Chinese yuan. As a result, we estimate an incremental negative foreign currency impact of $500 million, resulting in a full year impact of $1.2 billion. As such, combined with the Shockwave acquisition, we expect reported sales growth between 4.7% to 5.2% compared to 2023 with a midpoint of $88.2 billion or 5% growth.

Turning to the rest of the P&L. Based solely on the dilution from the transactions, we now anticipate our 2024 adjusted pretax operating margin to decline by 120 basis points more than offsetting the previously communicated 50 basis point improvement. We project net interest income between $300 million and $400 million lower than previous guidance, driven by interest expense associated with financing of our recent acquisitions.

Other income is anticipated to be in the range of $1.5 billion to $1.7 billion, an increase versus previous guidance driven by year to date performance. Our effective tax rate is now expected to be between 17.5% and 18.5% for the full year, much higher than 2023, largely due to the impact of OECD Pillar 2, as well as the non-deductible nature of the recently announced NM26 bispecific antibody acquisition.

While we do not provide guidance by segment or on a quarterly basis, I'd like to provide some qualitative considerations to support your modeling. We continue to expect Innovative Medicine sales growth to be lower in the second half of the year compared to the first half, given the anticipated entry of STELARA biosimilars in Europe beginning the last week of July. This headwind will be partially offset by continued uptake from our recently launched products. While we had COVID-19 vaccine sales in the second quarter, we do not anticipate any future sales.

Finally, it is worth noting that distribution rights for REMICADE and SIMPONI in Europe will be returned in the fourth quarter. In preparation for this transfer, we expect to limit third quarter sales in Europe.

Turning to MedTech, as previously stated, we expect growth to accelerate back in line with our long-term expectations in the second half of the year. This will be driven by recovery in Contact Lenses, evidenced by sequential monthly improvement within Q2, further expansion into high-growth segments, including the integration of Shockwave, and continued growth of new products and commercial execution across the portfolio.

As you think about our adjusted operating margin, we continue to expect it to be higher in the first half of the year compared to the second half. Again, this is due to the IPR&D charge for the NM26 bispecific antibody transaction in Q3 as well as the anticipated entry of STELARA biosimilars in Europe later this month.

Lastly, as a reminder on share count, we only expect a partial benefit in the third quarter resulting from the share count reduction following the Kenvue exchange offer in August of 2023 with the fourth quarter being neutral. As we move forward, we remain focused on advancing our differentiated portfolio and achieving key clinical and regulatory milestones across Innovative Medicine and MedTech.

We remain confident in our ability to deliver sustained growth and long-term value for patients, customers, and shareholders. With that, I am now pleased to turn the call over to Joaquin for concluding remarks before taking your questions.

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

Thank you, Joe, and hello, everyone. With a strong second quarter, I'm excited about the rest of 2024. Our Innovative Medicine business is on track for our 13th consecutive year of above-market growth. Our success is driven by a portfolio of innovative best and first-in-class medicines, many of which have the potential to change the practice of medicine.

Across the board, Oncology, Immunology, Neuroscience, we are reinventing treatment paradigms and transforming lives. As Joe mentioned, we have made significant progress across our pipeline. In particular, I would like to highlight two major milestones on the horizon that will help drive sustained growth through 2025 and beyond.

First, the approval and launch of RYBREVANT plus lazertinib for first-line treatment of EGFR-positive non-small cell lung cancer. And second, the approval and launch of TREMFYA in inflammatory bowel disease or IBD, which follows the recent presentation of data that demonstrated superiority versus STELARA.

These represent a meaningful opportunity for TREMFYA as approximately 75% of STELARA sales today come from IBD. We also have regulatory and data milestones for many of the assets that we expect to generate more than $5 billion in peak year sales.

As the pipeline and portfolio progress, so too, does our confidence in our near and long-term growth trajectory. We are confident in our ability to grow through the upcoming STELARA biosimilar entry and see accelerating momentum through the back half of the decade.

In MedTech, year-to-date adjusted operational sales growth of 5.2% reflects continued progress with the portfolio as we move into higher growth markets. As you heard from Joe, we expect MedTech growth to accelerate in the second half of the year.

Growth will accelerate through continued expansion of new products, including ACUVUE OASYS MAX 1-Day contact lenses, TECNIS ODYSSEY in the US, and VARIPULSE in Europe and Japan. Our confidence in the business outlook remains unchanged with meaningful outcomes from the DanGer Shock trial in Abiomed and the second quarter close of the Shockwave acquisition, we look forward to continued expansion into high-growth MedTech markets.

As you know, Johnson & Johnson is laser focused on advancing the next wave of medical innovation, we're building on a strong foundation to unlock accelerated growth with a healthy balance sheet and industry-leading investments in the best science and innovation. This enables us to move into the second half of 2024 from a position of strength. With that, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Schott, JPMorgan.

Chris Schott - *JPMorgan Chase & Co. - Analyst*

Great. Thanks so much. Appreciate the question. Maybe just a question on RYBREVANT. I know, Joaquin, you mentioned that is one of the key upcoming milestones for the company, but this does seem like a product where there's a disconnect between J&J's enthusiasm and the Street.

So maybe just enlighten us with some of the data we recently saw at ASCO on subcutaneous dosing, et cetera, the upcoming label expansion? Can you just talk about how you see RYBREVANT evolving overtime and your confidence that this product can take share in the frontline setting? Thank you.

Jennifer Taubert - *Johnson & Johnson - Executive Vice President, Worldwide Chairman, Innovative Medicine*

Hi, Chris, it's Jennifer and thanks so much for the question. Real quick before I get into that one, I just wanted to give a quick shout-out to all my internal Innovative Medicine colleagues around the world for a terrific quarter.

Our first $14 billion-plus quarter that we hit and over 10 products with double-digit growth. So really, really a tremendous quarter and looking-forward to a great half of the year as well. So we are very excited about RYBREVANT plus lazertinib and the data that we're seeing and really believe that it's going to have a significant place in frontline non-small cell lung cancer.

As we've discussed before, there is a significant unmet need in frontline non-small cell lung cancer with about a quarter of patients never even making it to second-line therapy. So a lot of patients that are there with high unmet medical need, when we take a look at the data that we've been able to generate in terms of PFS and when you add to that, the new data that we brought forward on our sub-Q dosing, we think together, we're going to have a really winning combination for patients in that frontline setting.

So high unmet need, really spectacular results that we're seeing and the sub-Q dosing we think is going to be a great combination.

Operator

Larry Biegelsen, Wells Fargo.

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

Good morning. Thanks for taking the question. Tim, maybe we can do a deeper dive into MedTech. Just talk about what drove the reduction in the expected growth for MedTech in 2024? And how are you thinking about the Medtech end-markets in the second half and which J&J businesses do you see improving in the second half and why? Thank you.

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

Larry, thank you for the question. Let me be very clear, we remain absolutely committed to delivering solid growth in the full-year for 2024. And Larry, when you actually look at '24 Q2, it was a tougher quarter for us. And we knew this, given the fact that at this time last year around the second quarter, we saw the opening up of the China market, which as you know is an important market for us and that was expected. That was actually, by the way, last year, our fastest-growing quarter.

Now in all transparency, as you heard initially in the comments earlier, there have been two businesses that have or two areas of our business that have performed below expectations. Number one is Vision and secondly, our performance in China, which right now is a very volatile market. Now in Vision, we initially announced in the first quarter some challenges with distributor stocking dynamics here in the US, some competitive pressures, as well as some macroeconomic challenges in Japan.

What gives me confidence in the turnaround of that business is that we actually saw sequential improvement through the second quarter. Some of those stocking dynamic dynamics I mentioned bled into April, but month-on-month, we saw strong rebound of that business, in fact, to the end of the quarter back to historical levels.

And so as we look to the back half of the year, while it's been a slower start there, we're very confident that we're going to be able to bring that business back to historical norms, driven primarily by innovation. Our ACUVUE OASYS 1-Day MAX portfolio and that global launch as well as the addition of our premium IOLs with TECNIS PureSee in Asia-Pac and EMEA as well as ODYSSEY here in the US, and so we believe we've got that under control.

When I look to the back half onto answer your question more directly, the reason we are confident is firstly, not only the return to more normalized growth within Vision, but in Surgery, by the way, all that business was also was impacted by a slower start, especially in China. We see that starting to normalize. And also remember in our surgery business, the results were impacted by the divestiture of ACCLARENT last year.

And so normalized growth -- our adjusted operational growth was actually closer to flat. We see that continuing to grow at low-single-digit through the back half of the year. We're proud of the solid results in Ortho and see that continuing to be driven by strong results within hips, 6%; in knees, almost 10%, driven by tremendous innovation, especially in VELYS.

And then more broadly, I'll end with our real confidence in the growth of our Cardiovascular portfolio. And remember, Larry, that we've got an EP business that's $5 billion today, grew 21% last year, 19% for the first-half of the year. In fact, in the second quarter, in the face of competition, here in the US we grew that business 16%. And so we're very confident in our ability to grow that leadership position.

And then finally, the addition of Abiomed still continuing to grow ahead of our deal expectations, 15.4%. I think that's going to be bolstered by the landmark results, the first time in 25 years, where we have the DanGer Shock study showing survivability benefits of Impella, which will continue to open new markets for that portfolio.

And then finally, I'll end with how delighted we are to inch very, very short order, welcome Shockwave to Johnson & Johnson. We closed that transaction in record timing and are really excited by the fact that we will shortly announce that they will be the 13th business with sales in excess of $1 billion annually. And so for all those reasons, Larry, while a tougher second quarter primarily due to comps, we remain very confident in a solid 2024.

Operator

Louise Chen, Cantor Fitzgerald.

Louise Chen - *Cantor Fitzgerald & Co. - Analyst*

Hi, thank you for taking my question. Wanted to ask you about your Phase 3 nipocalimab data that you presented recently. And how do you compare and contrast the efficacy and durability of your product versus other FcRns and mechanisms of actions on the market? Thank you.

John Reed - *Johnson & Johnson - Executive Vice President of Innovative Medicine, R&D*

Yeah, John Reed here. Thanks for that question. Well, we're really excited about the data in Sjogren's with nipocalimab. The data we delivered shows really sustained disease control, which is so important by our dosing regimen as compared to some of the intermittent dosing regimens used by others.

And the consistent efficacy we've seen across all primary, secondary endpoints, et cetera is really compelling. It's a guess that we may be on the first advanced therapy for Sjogren's that disease has ever seen.

As you know, that's a very prevalent disorder affecting its estimated 4 million people around the world, perhaps 1 million in the United States, 90% of the people impacted are women right in the prime of life. So we're really excited about the possibility of bringing forward the first advanced therapy for that disorder.

Jennifer Taubert - *Johnson & Johnson - Executive Vice President, Worldwide Chairman, Innovative Medicine*

Maybe I can add-in a couple of things on nipocalimab as well because we're really excited by what we're seeing from all the data that's coming out. And over the last 18 months, we've demonstrated clinical effect in actually four auto-antibody driven diseases and we are the only FcRn blocker

that's in development where we've got proof-of-concept in all three segments of auto-antibody driven diseases from rare auto-antibody to prevalent room to maternal fetal.

So as we take a look at all the data that's coming forward as we're bringing this to market, we are even more content today in terms of confidence that this is a $5 billion-plus asset for us.

Operator

Rick Wise, Stifel.

Rick Wise - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Good morning, everybody. If I could talk a little bit about the EP business. Obviously, this is the first full quarter where we're really seeing a broader launch of a competitive PFA system. You updated us on your system.

But maybe if you could give us more color broadly on the impact you're seeing on EP growth and the outlook for the second-half, and help us better understand how this launch and the launch of CARTO 3 Version 8 launch is being affected here.

I'm assuming mapping growth was strong, but maybe -- I don't know, maybe the catheter business was pressured by the competitive system. Can you help give us that macro color and maybe the specific impact on Biosense Webster. Thank you.

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

Of course, Rick and thank you for the question. And Rick, I'd start with firstly, recognizing that we believe that PFA is really good for electrophysiology and really good for patients. It is a tailwind for the entire market.

And as I mentioned earlier, that's a $5 billion market for us today, growing 19% year to date. And let me be clear, we clearly see some competition, especially here in the US, especially between now and the time that we bring our PFA technology to market, we're confident.

While we don't control the timing, we expect to have that by the end of the year or early next year. As you know, we already have and are commercializing our PFA technology in EMEA and in Japan, and we are very fortunate to actually benefit from a very global EP business.

What gives us confidence in the future is that we believe that while PFA has a role to play in the portfolio, so does RF. From everything we're hearing from EPs around the world, what they like about PFA is the relative safety of the technology, but they also like about RF, which by the way, we have 20-years of leadership in safety and clinical efficacy, is the durability of that product. In fact, even today, Rick, here in the US, for every five procedures where PFA is used, RF is used in conjunction.

And so we believe that leadership position that we built over the last 20-years will continue, both in RF and then obviously, we're excited by the launch of our PFA technology. You'll know that at the HRS conference in May, we announced the results of our admIRE study, which showed the 86% relative effectiveness, primary effectiveness of our PFA technology. And we are going to continue to employ the same strategy we did in RF, which is building out a broad portfolio of PFA offerings, both in dual energy, focal, large focal, and single shot.

Did you know that today, the number one used catheter on the market is our STSF catheter within RF. And you'll know that in the first quarter of this year, we announced an application for a CE mark for our dual energy catheter. This will be one catheter used, both for RF and PFA technology. And so we've got a lot of reasons to believe.

And I think to touch on your point on CARTO, one of the benefits of our portfolios, not just our energy source om catheters, it really is the installed base of 5,500 CARTO systems around the world. We just Version 8 of that software. It is best-in-class in the market. And that's also complemented

by highly trained clinical specialists in every cath lab around the world who are supporting EPs each and every day. And so once again, PFA is a good thing for the marketplace, it's a tailwind, and we expect to continue to benefit on that. Thank you.

Operator

Terence Flynn, Morgan Stanley.

Terence Flynn - *Morgan Stanley - Analyst*

Great. Thanks for taking the question. Two parts for me on IRA. Was just wondering if you can offer any perspective on the impact of IRA negotiation for STELARA and XARELTO as we're getting close to the disclosure of the pricing decision. And then also Part D redesign in 2025, just some high-level thoughts? And the second part of the question relates to your confidence that DARZALEX FASPRO will be looked at separately than DARZALEX just given the hyaluronidase component there. Thank you.

Jennifer Taubert - *Johnson & Johnson - Executive Vice President, Worldwide Chairman, Innovative Medicine*

Thanks so much for the question. Maybe I'll answer the second part first. We do have very good confidence that DARZALEX FASPRO is treated separately than DARZALEX IV. And so yeah, we continue forward with that strong perspective on that.

In terms of IRA and kind of what's been going on, if we take a look at Part D redesign, while we're not externally quantifying the impact at this time, what we can say is that we do anticipate a net unfavorable impact in 2025. However, as outlined at our enterprise business review last November, we do anticipate, as a business, growing 3% plus next year and then 5% to 7% out through 2030.

And these numbers are actually already included in that guidance that we provided. Same thing as it pertains to the government price setting process, we are still in that. We have received the final numbers from the government, we're not disclosing that at this time. That will be disclosed in the September timeframe.

And while we are not in alignment with IRA and the price setting process, those numbers have been included in the guidance that we provided last year at EBR, that still looks very good to us today. It's very consistent today.

John Reed - *Johnson & Johnson - Executive Vice President of Innovative Medicine, R&D*

Since you mentioned, DARZALEX. John Reed here, I thought maybe I would just remind you that actually, in this quarter, we delivered four additional positive Phase 3 studies with DARZALEX across a number of indications, including transplant ineligible frontline, including in the maintenance setting, after transplant, including smoldering condition that is as large as the entirety of diagnostically defying myeloma and in amyloidosis. So the momentum continues with DARZALEX.

Jennifer Taubert - *Johnson & Johnson - Executive Vice President, Worldwide Chairman, Innovative Medicine*

And we had 21% growth. $2.9 billion in sales and 21% growth. So yeah, DARZALEX is our single largest asset now for the corporation.

Operator

Josh Jennings, TD Cowen.

Josh Jennings - *TD Cowen - Analyst*

Hi, good morning. Thanks for taking the questions. I was hoping to just touch on MedTech and outlook for procedure volume trends in the back half. There have been some concerns that there's some tough comps on the utilization side and particularly for the Orthopaedic sector. But I was hoping to just hear your outlook and how that's blended into the acceleration in the back half, and then maybe also, if you could just touch on the pricing environment and your outlook for device pricing and where pricing stands for the MedTech portfolio? Thanks for taking the question.

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

Sure, Josh. And I think my answer to your sort of the volume question will be very brief and consistent with what we've shared before. For the most part, across the portfolio, we've seen volumes normalize. We did mention that we expected to see some tailwinds from the backlog within orthopedics in the first-half of the year. And we've seen that, but we expect that to normalize in the back half. We remain consistent in our belief in the 5% to 7% growth for our end markets and that we will perform well within that.

As it relates to pricing, inflation has not been a friend to our industry, and we have put a lot of effort into really ensuring that we can secure preferential pricing across the world. I do think we benefit from the global nature of our business. While there are pockets of cost containment efforts that we're managing, like VBP in China, we see tremendous opportunity to really secure a premium pricing, especially where we have differentiated innovation.

And especially now that we're entering or are entering areas like cardiovascular of significant unmet need, there is tremendous opportunities for us to ensure that we secure premium pricing for truly differentiated innovations, especially in areas like Electrophysiology, in Heart Recovery with Abiomed, and more recently with Shockwave. Thank you.

Operator

Dave Risinger, Leerink Partners.

David Risinger - *Leerink Partners LLC - Analyst*

Yes, thanks very much. Could you please comment on the J&J US pharma exposure to efforts by plans to extract greater rebates in 2025 than in typical years in order to offset Part D plan losses in 2025? Thanks very much.

Jennifer Taubert - *Johnson & Johnson - Executive Vice President, Worldwide Chairman, Innovative Medicine*

Thanks for the question on that. We're still in the process of working with all payers for the planned formularies and everything for 2025 and 2026. I think what's really most important is to go back to the guidance we provided at the EBR last year in November.

And as we take a look at the corporation, we have factored in and anticipated what we think will happen. And as an organization, we feel very confident in the guidance of 3% plus growth in 2025, and really, importantly, that accelerating growth out through the end of the decade, the 5% to 7% growth.

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

Dave, I'd also remind you too that over the last six years, and certainly a compliment to John, Jennifer, and the team, that innovation really underscores the success that we've had with quarter in, quarter out performance in our Innovative Medicine business.

Discounts and rebates six years ago, as compared to list price was only about 25% of that list price. Today, that number -- and this is not just the J&J number, but an industry number, gravitates towards 60%. So what we want to make sure that happens is this great innovation gets to patients and makes a difference in their lives and then they have access through the discounting that we already provide.

Operator

Danielle Antalffy, UBS.

Danielle Antalffy - *UBS Investment Bank - Analyst*

Hey, good morning, everyone. Thanks so much for taking the question. Just a quick MedTech question on China. So China, it sounds like things are evolving in China. I mean this is no surprise to anyone. But just curious about how you guys are thinking about China as a contributor going forward, given all the evolution in that market and some of the issues, VBP, things like that.

How meaningful, I mean, it's been a big growth driver for you guys historically, how do we think about China going forward? And is the strategy for J&J, does it have to change to adapt to the evolving market there? Thanks so much.

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

Thank you, Danielle, it's Joaquin. So we were one of the first companies that started to operate in China, and we've been in China for decades. So we have a history of having constructive engagements with China, and we are looking forward for that to continue.

Now we recognize the situation and we have robust business continuity planning practices in place, and we are able to mitigate any potential exposure. But we continue to see China as an important growth driver, both for our Innovative Medicine business and also for our MedTech business. Specifically, you had some questions that Tim can address on MedTech and how we see our MedTech business in China moving forward.

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

Sure. And Danielle, we are fortunate to have a global business with more than 50% of our revenue already out of the US. And I think that gives us the flexibility to really manage a number of challenges that occur on a quarterly and yearly basis across the world.

To Joaquin's point, we've been in China for 37 years. One of the reasons why we've been successful is our ongoing commitment in navigating multiple headwinds and opportunities. And when we look at our performance in China, remember, we had the end of COVID when we came out of lockdown, and so that has impacted the results in the second quarter.

But when you look at on the ground, what's really happening is there's two factors. Firstly, you look at the impact of VBP, which is a government-driven cost containment effort. And given our leadership position in China, we are seeing that as a short-term tailwind. We do believe the volume opportunity will far offset over time the impact we're seeing on price, but that certainly is a short-term pain that we are enduring.

That has also been exacerbated by the anti-corruption campaign. You may know that in July of last year, the government initiated an anti-corruption campaign, which actually has had an impact on both procedural volumes and engagement from healthcare professionals.

Now I must reiterate that we see this as a really good thing. We believe that any effort on behalf of any government to really build integrity and compliance into the health system is a good thing for more fair competition and aligns with our Credo and our commitment to compliance across all of the markets in which we participate in.

So it's a short-term headwind, but long-term, really good for our industry and really good for J&J. We remain absolutely committed to China. And we will continue, as we always have, to navigate some of the challenges we have on the ground with pricing and geopolitical challenges, and we remain committed to the 1.4 billion patients who rely on us each and every day. Thank you.

Operator

Chris Shibutani, Goldman Sachs.

Chris Shibutani - *Goldman Sachs Group, Inc. - Analyst*

Thank you. Good morning. Together with my colleague, David Roman, a genuine question that we had related to the MedTech market dynamics and outlook. Can you help us better understand comments that were made about a fair amount of inventory destocking that's been happening and juxtapose that and perhaps reconcile with your expectation that the demand outlook would strengthen.

We're just trying to put together this notion of inventory stocking, destocking ahead of an anticipated acceleration versus a potential deceleration or a tougher demand environment going forward? That would be helpful. Thank you.

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

Thank you. It's a good question. And the only area across the vast businesses that we have, where we have seen a destocking is really in our contact lens business. And you'll recall in the first quarter, we mentioned that on the back of some historical supply chain challenges, the distributor inventory was reduced here in the US, and we've now seen that bleed into the second quarter as mentioned earlier. And so that is the only area of significant stocking that has had a short-term impact on our business.

As I mentioned earlier, what gives us confidence is that as we look through the full second quarter, we saw sequential improvement across that portfolio. Remember that we actually serve the needs of 40 million patients. We have, by far and away, a market leadership position here in the US and globally with contact lenses. And so we see this as a blip and by no means a longer impact on our ability to continue to be leaders in contact lens. Thank you.

Jessica Moore - *Johnson & Johnson - Vice President - Investor Relations*

Thank you, Chris. Kevin, we have time for one last question.

Operator

Joanne Wuensch, Citibank.

Joanne Wuensch - *Citigroup Inc. - Analyst*

Thank you very much for taking the question. I'd like to wrap up with the Orthopaedics question. Hips and knees are growing faster than the historic rates, could you sort of unpack that a little bit and give us an idea of how much of that is patient volume, price, new products, or maybe something else? And have a great day.

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

You too, Joanne, thank you. We are so proud of frankly the resurgence of orthopaedics, and I couldn't be more grateful for the incredible effort across the world to really return as to high solid growth across the two platforms that you referenced.

Specifically within hips, and I mentioned this in the first quarter, for the first time ever, we were able to declare market leadership position in hips here in the US. And to be direct in answering your question, it is all innovation based.

It's not only continuing to drive our best-in-class implants, but it's also how we've surrounded those with enabling technologies like our VELYS Hip Navigation and KINCISE. That 6% growth you saw in the second quarter is really indicative our innovation working for patients.

On knees, another shout-out to the team, almost 10% growth. We haven't seen that historically and once again driven by innovation. In a short roughly 2.5-year period, we have launched our VELYS system for knees into more than 20 markets. We have more than 70,000 procedures, and that is the key driver of our performance.

And what gives us confidence is that we're continuing to build indications. You may know in the second quarter, we received 510(k) approval for our VELYS UniKnee. And we also are looking to build out that portfolio.

And in short order, you will see news about our commitment to really bringing robotics to other parts of the Orthopaedics portfolio, especially in spine. And so once again, it's all innovation driven, and we expect it to continue. Thank you.

Jessica Moore - *Johnson & Johnson - Vice President - Investor Relations*

Thank you, Joanne, and thanks to everyone for your questions and your continued interest in our company. We apologize to those that we couldn't get to because of time, but don't hesitate to reach out to the Investor Relations team with any remaining questions you may have. I will now turn the call over to Joaquin for some brief closing remarks.

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

Thank you, everyone, for joining the call today. I'm proud of the progress we made through the first-half of the year. And I'm also energized as we look towards the remainder of 2024 and heading to 2025. As the only company dedicated to both medical technology and pharmaceuticals, we are uniquely positioned to lead the next wave of healthcare innovation. We are entering the second-half of the year from a position of strength, advancing our diverse portfolio and pipeline to continue bringing innovation into the patients we serve. Thank you.

Operator

Thank you. This concludes today's Johnson & Johnson second quarter 2024 earnings conference call. You may now disconnect.
