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JNJ.N - Q2 2025 Johnson & Johnson Earnings Call

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

Darren Snellgrove *Johnson & Johnson - Vice President, Investor Relations*

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

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

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

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

John Reed *Johnson & Johnson - Executive Vice President, Innovative Medicine, Research and Development*

CONFERENCE CALL PARTICIPANTS

Christopher Schott *JPMorgan Chase & Co - Analyst*

Terence Flynn *Morgan Stanley - Analyst*

Larry Biegelsen *Wells Fargo Securities LLC - Analyst*

Asad Haider *Goldman Sachs Group Inc - Analyst*

Shagun Singh *RBC Capital Markets Inc - Analyst*

Alexandria Hammond *Wolfe Research LLC - Equity Analyst*

Danielle Antalffy *UBS AG - Analyst*

Vamil Divan *Guggenheim Securities LLC - Equity Analyst*

PRESENTATION

Operator

Good morning and welcome to Johnson & Johnson's second-quarter 2025 earnings conference call. (Operator Instructions) The conference call is being recorded. (Operator Instructions) I will now turn the conference call over to Johnson & Johnson. You may begin.

Darren Snellgrove - *Johnson & Johnson - Vice President, Investor Relations*

Hello, everyone. This is Darren Snellgrove, Vice President of Investor Relations for Johnson & Johnson. I'm excited to be here today and to lead the Investor Relations team moving forward. Welcome to our 2025 second-quarter review of business results and updated financial outlook.

First, a few logistics. As a reminder, today's presentation and associated schedules are available 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're 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 2024 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. Joaquin Duato, our Chairman and CEO, will discuss our business performance and key catalysts. I will then review the second-quarter sales and P&L results. Joe Wolk, our CFO, will then close by sharing with an overview of our cash position and guidance update for 2025. Jennifer Taubert, Executive Vice President, Worldwide Chairman-Innovative Medicine; John Reed, Executive Vice President-Innovative Medicine, Research and Development; and Tim Schmid, Executive Vice President, Worldwide Chairman-MedTech, 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.

With that, I will now turn the call over to Joaquin. Thank you.

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

Thank you, Darren, and hello, everyone. I'm excited to talk about our very strong second quarter. Today's results showcase the strength of our uniquely diversified business as the only major healthcare company, operating in both the medtech and Innovative Medicine sectors.

In the second quarter, we delivered operational sales growth of 4.6% across our business. In Innovative Medicine, we reported 3.8% operational sales growth, delivering more than $15 billion in quarterly sales for the first time. No other healthcare company has grown through the loss of exclusivity of a multibillion-dollar product in the first year. In our case, STELARA. And yet, that is exactly what we are doing and for the second quarter in a row. Our performance was driven by double-digit growth across 13 brands, including DARZALEX, CARVYKTI, TECVALYI and TALVEY, as well as RYBREVANT plus LAZCLUZE, Tremfya, CAPLYTA, and Spravato.

And in MedTech, we delivered 6.1% operational sales growth with particularly strong momentum in cardiovascular, surgery, and vision. Based in our strong performance in the quarter, we are pleased to raise our full-year sales guidance by $2 billion and EPS guidance by $0.25 from $10.60 to $10.85. Results like these are the direct result of our deep and resilient portfolio. It's what makes Johnson & Johnson unique.

Today, we'll focus on the remarkable ways we are driving innovation and creating value for patients and shareholders. I will highlight the depth of our portfolio and pipeline, focusing on six areas of unmet need and where we are delivering significant growth: Oncology, immunology, neuroscience, cardiovascular, surgery, and vision. These are the spaces where we are moving the conversation from treatment to cure and where we are extending and improving lives in meaningful ways.

Let's start with Innovative Medicine and oncology where we have a bold vision to eliminate cancer. Our leading products for the treatment of blood cancers and solid tumors are built on cutting-edge scientific platforms that are transforming outcomes for patients with more than 10 products in market across 26 approved indications and over 25 treatments in late-stage development, we expect to become the number one oncology company by 2030 with sales of more than $50 billion. And when you look at our quarterly results in oncology with operational sales growth of 22.3%, you can see that we are well on our way to achieving that.

I draw your attention to three key areas of Q2 progress. First is multiple myeloma where we have developments in every line of therapy. Approximately 80% of myeloma patients today received a Johnson & Johnson may be seen at some point in their treatment journey. And in Q2, we presented several important sets of data. They include new five-year data, showing a single treatment of our CAR T therapy, CARVYKTI, has the potential to deliver long-term remission.

We also presented the first data from our investigational trispecific antibody which showed an unprecedented 100% overall response rate in heavily pre-treated patients. With results like this, we are closer than ever to our ambition of curing multiple myeloma.

Second is lung cancer where our chemotherapy-free combination of RYBREVANT plus LAZCLUZE has a projected overall survival of at least a year over the current standard of care in frontline non-small cell lung cancer with EGFR gene mutations. The intent to prescribe continues to grow among healthcare professionals which you can see in our strong quarterly sales. This is a life-changing advancement for patients, and one we are building on with a pipeline of novel therapies.

And third is bladder cancer, where we are excited to share that we have received FDA priority review for TAR-200, a first-of-its-kind drug release in system. We anticipate launching TAR-200 for high-risk non-muscle invasive bladder cancer later this year, a transformational product that harnesses

our unique expertise in both Innovative Medicine and MedTech. We expect [TARIS] (corrected by company after the call) to generate at least $5 billion in annual peak year sales.

In immunology, we have a 25-year legacy of redefining the standard of care and we are just getting started. With six products in market across 14 approved indications and many treatments in late-stage development, we are expanding treatment options for patients and restoring health for millions of people around the world. From REMICADE and SIMPONI, to STELARA and TREMFYA, and now exploring targeted oral peptides and future combinations, the growth potential of our immunology portfolio and pipeline continues to be significant.

For immunology, I will draw your attention to two key areas of Q2 progress. First is TREMFYA which has recently expanded into inflammatory bowel disease. TREMFYA grew 30% in the quarter. With strong uptake in Crohn's disease and ulcerative colitis, we expect it to generate at least $10 billion annually in peak year sales.

We also made important progress in our pipeline in Q2 and expect to file Icotrokinra with the FDA in the third quarter as the first targeted oral peptide to selectively block the IL-23 receptor with similar efficacy to a biologic. As a once-a-day pill, this molecule has the potential to set a new standard in the treatment of plaque psoriasis, and we look forward to sharing more in the coming months.

In neuroscience, we are building on a 17-year legacy and expect to be the number one company by the end of the decade. We are pushing boundaries in diseases like schizophrenia, depression, and Alzheimer's, which together affect one in eight people worldwide. In Q2, SPRAVATO grew 53%, delivering sustained double-digit growth and demonstrating the power of this medicine for patients living with difficult-to-treat depression.

We also completed the acquisition of Intra-Cellular Therapies this quarter. Intra-Cellular's Caplyta is approved to treat adults with schizophrenia and bipolar depression, and we are excited about the anticipated major depressive disorder approval later this year. With the addition of Caplyta, we now have five neuroscience products in market across six approved indications and eight treatments in late-stage development. Caplyta adds to Johnson & Johnson's robust lineup of therapies with $5 billion-plus potential in peak year sales and further solidifies sales growth above analyst expectations through the rest of the decade.

Turning to MedTech, and in cardiovascular specifically, we are leaders in heart recovery, circulatory restoration and electrophysiology. Cardiovascular has some of the largest unmet needs in healthcare and is one of the fastest growing spaces in MedTech. In Q2, we delivered over 22% operational sales growth over the quarter driven by new product performance in Abiomed, Shockwave, and strength in mapping in electrophysiology. Today, we're a leader in four of the largest and highest growth medtech segments within cardiovascular intervention, impacting more than 1 million patients each year.

Now let me highlight three areas of important progress from Q2. First is electrophysiology, which delivered close to 10% operational sales growth over the quarter, driven by new product performance and strength in mapping. We have now completed more than 10,000 VARIPULSE cases globally with a reported neurovascular event rate of less than 0.5%, consistent with published rates across other PFA platforms.

Second, we continue to advance our suite of cardiovascular solutions to expand our market leadership, including our dual energy THERMOCOOL SMARTTOUCH SF Catheter where we performed our first cases in Europe this quarter. It also includes OMNYPULSE where we presented strong early data that will expand our portfolio of tools for safe and streamlined ablation procedures.

Third is Shockwave's unique intravascular lithotripsy technology or IVL, which has transformed the treatment of atherosclerotic cardiovascular disease and is driving significant growth. Shockwave is expected to be our 13th billion dollar MedTech platform by the end of the year, a position that is further strengthened by a compelling body of evidence on the benefits of this technology. This includes data showing an IVL first approach can achieve excellent outcomes in female patients with complex calcified coronary artery disease.

In surgery, we have spent 140 years advancing the standard of care and today, our surgical technologies are used in most operating rooms around the world. Q2 highlights include the introduction of the Ethicon 4000 Surgical Stapler, the newest advancement in our surgical portfolio. Featuring advanced stapling technology and reloads, the ETHICON 4000 minimizes surgical leaks and bleeding, which are common and costly surgical

complications for patients and hospitals. This advanced stapling technology will be harnessed for future use exclusively on the OTTAVA Robotic Surgery System.

And as mentioned on our earnings call in April, OTTAVA completed its first clinical cases - gastric bypass surgeries performed in Houston. In our conversations with surgeons who have spent time on OTTAVA, they tell us that they are eager for the system's sophisticated architecture design features like twin motion, the surgeon-entrusted ETHICON advanced instrumentation only available in OTTAVA, and the future connection to our open digital ecosystem, POLYPHONIC. We plan to submit for an FDA de novo approval next year.

And finally, vision, where we have a deep legacy in developing transformational innovation. With quarterly growth of 4.6% across the business and 8.9% in surgical vision, the portfolio has a robust growth trajectory driven by our ACUVUE OASYS MAX One-Day Family of contact lenses and our TECNIS Odyssey and TECNIS PureSee intraocular lenses. And with the Q2 release of the first disposable multifocal lenses for people with astigmatism, we have high expectations.

You know, a few other healthcare companies can talk about that impact across as many high-growth areas as Johnson & Johnson, and none spanning both Innovative Medicine and medtech. These six examples are only a cross-section of our cutting-edge portfolio. This depth and breadth is who we are at Johnson & Johnson. It's how we grow through a major loss of exclusivity, how we have reinvented ourselves time and time again, and how we will deliver strong financial performance through the end of the decade and beyond.

The bottom line is this, Johnson & Johnson's relentless focus on innovation yields results quarter after quarter, year after year.

I will now turn the call back over to Darren.

Darren Snellgrove - *Johnson & Johnson - Vice President, Investor Relations*

Thank you, Joaquin. Moving to our financial results. Unless otherwise stated, the percentages quoted represent operational results and therefore exclude the impact of currency translation. Starting with Q2 2025 sales results. Worldwide sales were $23.7 billion for the quarter. Sales increased 4.6% despite an approximate 710-basis-point headwind from STELARA. Growth in the US was 7.8% and 0.6% outside of the US. Worldwide growth was positively impacted by 160 basis points, primarily due to the Intra-Cellular and Shockwave acquisitions.

Turning now to earnings. For the quarter, net earnings were $5.5 billion with diluted earnings per share of $2.29 versus diluted earnings per share of $1.93 a year ago. Adjusted net earnings for the quarter were $6.7 billion with adjusted diluted earnings per share of $2.77, representing a decrease of 2.1% and 1.8%, respectively, compared to the second quarter of 2024. The decrease is driven by interest associated with incremental debt from the Intra-Cellular acquisition and GP erosion from STELARA.

I will now comment on business sales performance in the quarter with a focus on the six areas Joaquin discussed that will drive significant growth for the enterprise. Beginning with Innovative Medicine, where our results demonstrate the depth of our expertise in oncology, immunology and neuroscience. Worldwide sales of $15.2 billion increased 3.8%, despite an approximate 1,170-basis-point headwind from STELARA, demonstrating the strength of our key brands and new launches.

Growth in the US was 7.6% and minus 1.6% outside the US. Growth outside of the US was negatively impacted by STELARA biosimilars and the COVID-19 vaccine. Acquisitions and divestitures had a net positive impact of 140 basis points on Worldwide growth due to the Intra-Cellular acquisition.

In oncology, starting with myeloma, DARZALEX growth was 21.5%, primarily driven by continued strong share gains of approximately 4.1 points across all lines of therapy, with close to 8 points in the frontline setting as well as market growth. CARVYKTI achieved sales of $439 million with growth of over 100%, driven by share gains and capacity expansion. This reflects continued strong sequential growth of 17.9% as we expand outside of the US. TECVALYI and TALVEY growth was 22.4% and 54.3%, respectively, bolstered by continued expansion into the community setting. Patient demand remains strong despite continued adoption of longer dosing intervals.

In prostate cancer, ERLEADA delivered strong growth of 21% with continued share gains and market growth. In lung cancer, RYBREVANT plus LAZCLUZE delivered sales of $179 million and growth over 100%, with sequential growth of 26.5%, driven by continued strong launch uptake. We continue to see share gains in both first and second lines of therapy.

Within immunology, TREMFYA delivered growth of 30.1%, primarily driven by share gains with continued strong uptake across recently launched IBD indications and overall market growth. STELARA declined 43.2%, driven by the impact of biosimilar competition and Part D redesign, which is in line with our expectations.

In neuroscience, SPRAVATO growth of 53% was driven by continued strong demand from physicians and patients. Long-acting injectables declined by 6.3% due to the impact of Part D redesign and unfavorable patient mix.

I'll now turn your attention to MedTech. Worldwide sales of $8.5 billion increased 6.1%, with growth of 8% in the US and 4.1% outside the US, driven by strong performance in three focus areas, cardiovascular, surgery, and vision. Acquisitions and divestitures had a net positive impact of 200 basis points on Worldwide growth, primarily due to Shockwave.

In cardiovascular, Electrophysiology delivered growth of 9.8% versus prior year, driven by strength in competitive mapping, new product performance, and procedure growth. Abiomed delivered growth of 16.9% with continued strong adoption of Impella technology. Shockwave delivered strong double-digit growth with the recent introduction of the Javelin and E8 catheters. As a reminder, the acquisition benefit of Shockwave was lapped at the end of May.

Surgery grew 1.8% despite divestitures negatively impacting results by approximately 60 basis points. Performance was primarily driven by technology penetration in wound closure and the strength of the portfolio of biosurgery. Growth was partially offset by competitive pressures in energy and the negative impact of China VBP across the portfolio.

In vision, contact lenses and other ocular products grew 2.9%, driven by strategic price actions and strong performance in the ACUVUE OASYS One-Day Family contact lenses, including the recent launch of OASYS MAX One-Day multifocal for astigmatism. Surgical vision growth of 8.9% continues to be driven by strong performance in TECNIS Odyssey, PureSee, and Eyhance.

The orthopedics business declined by 1.6%, driven by competitive pressures, the transformation program, and China VBP.

Now turning to our consolidated statement of earnings for the second quarter of 2025. I'd like to highlight a few noteworthy items that have changed compared to the same quarter a year ago. Cost of products sold deleveraged by 150 basis points, driven by product mix and amortization related to the Intra-Cellular acquisition in Innovative Medicine, as well as medtech macroeconomic factors and VBP in China.

Selling, marketing and administrative expenses improved 50 basis points, driven by corporate expense rationalization, partially offset by increased investment in recent acquisitions. Research and development expenses leveraged by 50 basis points, primarily driven by portfolio rationalization and expense phasing in MedTech. We continued our strong investment in research and development with $3.5 billion or approximately 15% of sales in Q2.

Interest income and expense was a net expense of $48 million as compared to $125 million of income in the second quarter of 2024, primarily driven by lower rates of interest earned on cash balances and a higher average debt balance associated with the Intra-Cellular acquisition.

Other income and expense was a net expense of $0.1 billion compared to an expense of $0.7 billion in the prior year, primarily driven by lower talc litigation expense in 2025 and the $0.4 billion loss on the sale of the retained stake in Kenvue shares recorded in 2024.

Regarding taxes in the quarter, our effective tax rate was 14.7% compared to 18.5% in the same period last year. I encourage you to review our upcoming 10-Q for details on the changes in taxes.

Lastly, I'll direct your attention to the boxed section of the slide where we have also provided the company's 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 for the quarter. In support of our efforts to increase financial transparency, you will again find GAAP to non-GAAP reconciliations by segment in the supplemental schedules of our press release.

Innovative Medicine margin declined from 44.6% to 42.7%, primarily driven by negative mix in cost of products sold related to STELARA. MedTech margin declined from 25.7% to 22.2% driven by macroeconomic factors of cost of products sold as well as other income.

This concludes the sales and earnings portion of the call. And I will now turn the call over to Joe.

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

Thank you, Darren, and glad to see your first earnings call is off to a good start. I look forward to you leveraging your recent experience leading the Innovative Medicine finance team to benefit Johnson & Johnson's Investor Relations function.

Hello, everyone. Thank you for joining us today. As already highlighted, we delivered a very strong second quarter, exceeding expectations on both the top and bottom lines. While our currently marketed products and platforms drove this quarter's performance, the progress across our pipeline in the first half of the year heightens our conviction to achieve, and I'd be willing to bet likely beat, the upper end of the growth targets we conveyed at our 2023 enterprise business review.

As previously mentioned by Joaquin and Darren, the Innovative Medicine business continues to grow through STELARA's loss of exclusivity driven by our in market portfolio. We continue to advance our pipeline, attaining significant clinical and regulatory milestones that will help drive sustained and accelerating growth through the back half of the decade.

In MedTech, while we still have work to do, we saw improvement over first quarter results driven by strong performance in the cardiovascular portfolio, surgical vision, and wound closure in surgery. We remain focused on higher growth markets, enhancing competitiveness to gain market share and executing against our transformation initiatives to improve margins.

Let's get into some of the financial commentary, starting with our cash position. Free cash flow to the first half of 2025 exceeded $6 billion, which accounts for elevated tax payments related to the final annual TCJA toll tax payment when compared to the first half of 2024. We ended the second quarter with $19 billion of cash and marketable securities and $51 billion of debt for a net debt position of $32 billion. These figures include the debt raised for the $14.5 billion Intra-Cellular acquisition which closed on April 2.

Regarding talc litigation, we expect the Daubert hearing to commence this fall and look forward to the court reexamining the junk science the mass tort plaintiffs' bar has funded to promote baseless talc claims against Johnson & Johnson.

Turning to our full-year guidance for 2025. Driven by the strength of our first half performance, we are increasing our operational sales guidance for the full year by approximately $900 million. We are now expecting operational sales growth for the full year to be in the range of 4.5% to 5% with a midpoint of $92.9 billion or 4.8%, representing a full point better when compared to prior guidance.

Excluding the impact from acquisitions and divestitures, our adjusted operational sales growth is now expected to be in the range of 3.2% to 3.7% compared to 2024. As you know, we don't speculate on future currency movements, and last quarter, we utilized the euro spot rate relative to the US dollar of $1.11. The US dollar has weakened across all major currencies since April. Last week, the euro spot rate relative to the US dollar was $1.17. We estimate an incremental positive foreign currency impact of $1.1 billion versus previous guidance. As such, we now expect reported sales growth between 5.1% to 5.6% with a midpoint of $93.4 billion or 5.4%.

Currently, our guidance does not include the impact of the most favored nation concept. With respect to MFN, we share the administration's goal that American patients should pay less by addressing the real drivers of higher US costs, including middlemen driving up prices and foreign markets not paying their fair share.

Turning to other notable items on the P&L. At the beginning of the year, we guided to an approximate 300 basis points improvement in operating margin. Despite what you may have calculated on a year-to-date basis, we remain confident and reiterate our operating margin guide for the full year. This is due to efficiency programs designed for margin improvement as well as non-recurring one-time IPR&D charges that occurred in the second half of 2024. This expected improvement also takes into consideration the dilution from the Intra-Cellular transaction as well as what we know today about the impact of tariffs on our business.

During our first quarter conference call, we anticipated an impact from tariffs in 2025 to be approximately $400 million. Based on the current tariff landscape, we now anticipate the impact to be approximately $200 million, exclusively related to our MedTech business. We will look to reinvest the differential to continue to accelerate our pipeline and further power the launch of our new products. Those on the market with new indications and those with near-term anticipated approvals. We continue to monitor what the future years' impact could be from tariffs on our business.

For net interest expense, we now project between zero and $100 million, an improvement from the previous guidance, primarily driven by higher interest earned on cash balances. Our effective tax rate is now expected to be in the range of 17% to 17.5% for the full year with the increase largely due to an adjustment to the company's global tax reserves. We are pleased that the One Big Beautiful Bill Act provides certainty for our previously announced $55 billion commitment to invest here in the United States. This includes provisions such as permanent expensing for domestic R&D spend, permanent bonus depreciation, and 100% expensing of qualified production property, including our newly planned facility in North Carolina.

We also welcome the improvements that were made to the international tax system. For your modeling, it is worth noting that the tax rate on foreign earnings known as GILTI is increasing by approximately 2% from a statutory rate of 10.5% to 12.6%. This will result in an approximate 1% increase to our global effective tax rate in 2026.

Turning to earnings per share, we are pleased to increase our reported adjusted earnings per share estimate by $0.25 to $10.85 or 8.7% at the midpoint, for a range of $10.80 to $10.90, which is a combination of operational improvement and the favorable foreign currency dynamics I referenced earlier. Embedded in that is $0.08 of adjusted operational earnings per share, increasing our guidance to $10.68 or 7% at the midpoint.

I'll now provide some qualitative considerations on phasing for your models. We continue to expect both Innovative Medicine and MedTech operational sales growth to be higher in the second half of the year versus the first half.

Regarding Innovative Medicine, we maintain the assumption that STELARA's biosimilar competition will accelerate throughout the year with erosion similar to HUMIRA's in year two, which is still our proxy, with the additive unfavorable impact of Part D redesign.

Turning to MedTech, we anticipate an acceleration in growth to be driven by the increased adoption of newly launched products in cardiovascular, surgery, and vision. We continue to expect normalized procedure volumes and typical seasonality patterns throughout the remainder of the year.

Beyond our financial commitments and what Joaquin has already referenced, we are excited for the expected pipeline progress in the remainder of 2025. In Innovative Medicine, this includes expected approvals in TAR-200 in non-muscle invasive bladder cancer, subcutaneous RYBREVANT for non-small cell lung cancer in the US, TREMFYA subcutaneous induction for ulcerative colitis, and CAPLYTA for adjunctive major depressive disorder. Anticipated filings for approval include Icotrokinra in psoriasis and TREMFYA in psoriatic arthritis. As far as data readouts, we are planning for RYBREVANT in head and neck cancer and Icotrokinra in ulcerative colitis as well as head-to-head data versus Sotyktu in psoriasis.

In MedTech, we continue to make progress with our clinical trials for our OTTAVA Robotic Surgical System. In our cardiovascular portfolio, we are planning regulatory submission for Dual Energy THERMOCOOL SMARTTOUCH SF Catheter for cardiac arrhythmia in the US; an Impella ECP submission in heart rate recovery, as well as Javelin and Shockwave E8 launches in circulatory restoration outside of the US.

In orthopedics, we will be launching ATTUNE Revision Hinge and a new plating system called VOLT in the US. We will also be launching the ETHICON 4000 Stapler with 3D reloads in surgery and the ACUVUE OASYS MAX in vision for astigmatism.

In summary, I trust you agree the results delivered in the first half are evidence that our portfolio has the breadth and depth that enables us to attain growth even in the face of a major LOE where very few, if any, other company could. The clinical advancements provide a robust base for accelerated top line growth, not just for the remainder of this year but for the back half of the decade.

We're confident that the strength of our business model enables Johnson & Johnson to navigate a dynamic external environment while delivering on our financial commitments. This is directly attributable to the hard work and dedication of our 138,000 colleagues who focus daily on advancing our pipeline, increasing market share, and progressing breakthrough treatments to patients that create long-term value for our shareholders. Thank you.

And with that, we are happy to take your questions. Kevin, will you please provide instructions for those seeking to participate in the Q&A?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Christopher Schott, J.P. Morgan.

Christopher Schott - *JPMorgan Chase & Co - Analyst*

Great. Thanks very much for the question. J&J also reported a very strong top line beat despite the STELARA LOE. Any color you might have in terms of the drivers of upside to the guidance for the year as we think about how much is the Innovative [Medicine] (added by company after the call) business versus MedTech? And any particular franchise in those businesses that's driving that growth? Thank you.

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

Good morning, Chris, and thank you very much for the question. I would say both are contributing in terms of the strong performance. And in fact, I would say this is a great opportunity for Jennifer And Tim, to address some of the strength that we saw in our second quarter results, as you saw, and credit to Jennifer and her team achieving the first $15 billion quarter despite $1.2 billion of year-on-year erosion in the quarter from STELARA. I don't think any other company can do that.

And then Tim a notable improvement from what we reported in Q1. That gives us a lot of enthusiasm for the balance of this year. As you heard in my earlier comments, we expect both businesses to actually continue that momentum and growth better in the second half than the first half. But why don't I turn it over to Jennifer and Tim to give you some insights from their perspective.

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

Thanks so much, Joe, and good morning, everybody. And Joe, you stole my thunder on the over $15 billion and our first $15 billion quarter. Importantly, if you take a look at the 90% of our business that is not STELARA, we actually had extraordinarily robust growth of 15.5% growth, really demonstrating the strength across our portfolio. We had 13 brands that were growing double digits. And as we take a look at those, the vast majority of those are not only our growth drivers for today and tomorrow. But are also key growth drivers out through the end of the decade.

So still have the notable drivers there. So first in oncology, DARZALEX continues to perform very well. CARVYKTI performed well, ERLEADA. And we're really pleased with the launch uptakes thus far on RYBREVANT plus LAZCLUZE in non-small cell lung cancer. In immunology, TREMFYA is off to a great start in ulcerative colitis and also Crohn's disease and across neuroscience on both SPRAVATO and CAPLYTA, both had really, really strong performance for the quarter.

So as I mentioned, 13 brands with double-digit growth. I won't go into all of those, but really, really strong across the base of our business and we're really excited and throughout the rest of this year because we've got a number of them additional catalysts that are coming through with additional approvals and such. Tim?

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

Thank you, Jennifer. And Chris, to your question. I mean for MedTech, we were happy with our Q2 operational growth of 6.1%. This is a 4.4% sequential improvement over the first quarter. I think you note the primary contributors. Certainly, cardiovascular 22% growth. We are by far and away now one of the largest and certainly the fastest growing medtech company in cardiovascular, not only on the back of the success of the Abiomed and Shockwave acquisitions, but also the tremendous improvements you saw in our Electrophysiology business which, by the way, has $5 billion base. And so tremendous performance is there.

We also saw great results in vision primarily driven both by contact lenses as well as almost double-digit growth in surgical vision and then continued solid growth in surgery, especially on the back of our performance in wound closure and biosurgery, both of those businesses, multibillion-dollar businesses, by the way, growing close to 7%.

And as we look to the back half, what gives us confidence in continued acceleration is a couple of things. Firstly, it's important to remember that Q1 and Q2 had difficult prior-year comparators. But more importantly, what gives us confidence that the further acceleration as we continue to shift our portfolio into higher growth markets and really bring truly differentiated innovation to market. In cardiovascular that will continue with Abiomed which continues to add to our portfolio.

But more importantly, the evidence based around the benefits of Impella continues to impress, both with the DanGER shock study and the recent ACC and AHA guidelines supporting Impella use in patients with cardiogenic shock.

Shockwave, two new products launch, E8 as well as Javelin, which will further drive outperformance specifically in the peripheral space. And then with EP, you're going to see continued performance of VARIPULSE, and we'll add to that with the addition of the Dual Energy ST SF catheter in the European Union. In Vision, this is a true turnaround story. We're seeing tremendous results, especially with our TECNIS and PureSee IOLs.

And just to put that in context, in the US, we had our second consecutive quarter of double-digit growth, growing 13%. And then in the back half of the year, you'll also see the launch of the ACUVUE OASYS MAX 1-DAY multifocal for astigmatism. There's a lot there.

Well, this is the world's first and only daily disposable lens for people with both astigmatism and presbyopia. Surgery, we continue to see performance -- we expect continued performance on the back of SURGIFLO, ETHIZIA, and STRATAFIX.

And then I will call out that while our ortho performance was softer than we would like, we have strong reasons to believe in continued acceleration through the remainder of the year, with roughly 18 510(k) approvals last year, close to 40 outside of the US. And so big launches coming our way, especially in the areas where we face the most competition.

In hips and knees, we have the VELYS UniKnee, ATTUNE Revision Hinge as well as KINCISE 2.0. And then also in spine, we're seeing the rollout of our Spine VELYS robot well as TriALTIS, which we are confident that will continue to bolster our growth and competitiveness.

And so I think in summary, due to easier comps as well as significant new products, we're confident in continued acceleration in the back half.

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

So Chris, as you can see, it's hard to pick one particular product that gives us reason for our enthusiasm in the back half. But if I had to point and maybe pick a couple of favorite children, I would say TREMFYA.

We're just getting started with our inflammatory bowel disease, and we grew 30% in the quarter. Those indications will provide further growth. As a reminder, STELARA's had 70% of their prescriptions within IBD. Looking forward to getting the subcutaneous administration approval for lung cancer with RYBREVANT/LAZCLUZE.

And then on the medtech side, I think the really shining star, while maybe not the highest number, is the EP energy that we have going forward, either maintaining or recapturing that market leadership position; as well as expected improvement in our contact lens business. You saw about 3% growth this quarter with the launch of 1-day ACUVUE OASYS MAX that treats presbyopia and astigmatism. We think there's even higher growth ahead on the horizon.

Operator

Terence Flynn, Morgan Stanley.

Terence Flynn - *Morgan Stanley - Analyst*

You mentioned oncology target of $50 billion by end of the decade. It looks like that's well above consensus. Just wondering if you could point us to the largest deltas that you see there. I know you've talked about TAR-200 in the past, but maybe any other areas.

Then on Rybrevant subcu, can you just confirm that you've responded to the CRL and what the target review date would be for that approval.

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

Thanks. It's Jennifer again. We feel really confident in that $50 billion target for our oncology business. It's really based on the strength across the base of our business. You can take a look at multiple myeloma with DARZALEX and a lot of continued growth opportunity. CARVYKTI also a $5 billion-plus brand.

We've got TECVAYLI and TALVEY. We may come to it later a trispecific that we've started outlining and presenting data on -- so multiple myeloma, we anticipate to continue to be a stronghold.

We've got a really nice franchise in prostate cancer right now with ERLEADA that is growing very well. You mentioned TAR-200. That is probably the asset that has the biggest disconnect between our internal forecasts and what the Street expects.

We're really excited for this product and to be launching it in the second half of the year. with the ability to truly transform the treatment for non-muscle invasive bladder cancer. There has not been much innovation there in a very, very, very long time, and we think we're going to bring new hope.

The data that we've presented there looks fabulous. We've really designed this product by urologists for urologists to seamlessly fit into routine clinical practice, and we really think that we've got a winner there.

And if you just take a look, I think, boy, we see -- if you take a look at 2028 consensus, we actually see our numbers at least three times higher. So that's a big disconnect. And then again, this is oncology, there's a lot to talk about last on RYBREVANT/LAZCLUZE so a quick update.

The launch is going very well. As a reminder, RYBREVANT/LAZCLUZE is the first and only regimen that provides really clinically meaningful overall survival to patients greater than probably 12 months versus osimertinib.

If you think about new patients, newly diagnosed patients, they want to live longer, and they do not want to be using chemo in a first-line setting. And so we think we've really got the winning combination and are poised to become the new standard of care in that frontline lung cancer EGFR mutated lung cancer.

And so this is another one of our $5 billion plus assets. In terms of the launch, while we're still early in it, as Joaquin had noted, the intent to prescribe has grown consistently and we're now the number one regimen that providers are claiming that they intend to prescribe for those frontline patients.

We've done a great job of penetrating. We're already in nearly 100% of our high-priority accounts. And if we take a look really across lines of therapy, one out of every four patients across those lines of therapies now being initiated on a RYBREVANT/LAZCLUZE combination. So making really nice progress here.

So key to that continued growth is the subcu dosage. And so we have responded to the agency. This was not anything where the agency required any further clinical studies or clinical data this was a manufacturing-related question or two. So we've responded, and we're looking forward to the second half and hopefully getting approval on that.

John Reed - *Johnson & Johnson - Executive Vice President, Innovative Medicine, Research and Development*

Hey, John Reed here, if I could build just a little bit on Jennifer. We've had really great momentum in the oncology pipeline. In the last 18 months, last 1.5 years, I think we've had eight what we would call proof-of-concept readouts that gave us the confidence to now move into late-stage pivotal studies across the portfolio.

Since you asked about RYBREVANT, I would also remind you that we're in advanced studies now for colorectal cancer, which will be a huge opportunity for patients and for our portfolio. We're now moving into head and neck squamous cell carcinoma with really exciting data there in our early development program.

On the bladder cancer side, of course, TAR-200 is the star of the portfolio now, but right on its heels is TAR-210 with a targeted therapy where we've seen complete responses north of 90%. So that is an entire platform for us, and we'll be putting other payloads in those devices in the future. And then in myeloma, we've got a trispecific now coming Ramantamig .

We're never satisfied with the status quo, building on tec and tal in that if the recommended Phase 2 dose, for patients who had never seen a BCMA or GPRC5D 100% overall response rate. So we really see a great opportunity there to continue to elevate the standard care of myeloma.

And then finally, in prostate cancer. We have great momentum across our pipeline, most recently reporting, for example, an exciting bispecific T-cell engager, pasritamig that we think has enormous potential to really transform the practice of medicine in prostate. So the momentum across oncology is very robust.

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

So Joe, the guidance implies an acceleration in the top line growth in the second half of this year. Do you see the 3.5% adjusted operational growth this year is something you could accelerate from next year and do you see room to improve the operating margin next year beyond the implied, I think, 32.8% in the 2025 guidance.

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

Larry, thanks for the question. In terms of overall sales guidance, we're obviously not going to provide that today. But I think when you look at these quarterly results and the momentum that we have with our in-line brands, receiving new indications, that certainly -- And then you complement that with what Jennifer, John, and Tim have outlined in terms of new product introductions, we certainly see '26 being better than '25 in terms of the growth rate based on what we know today. In terms of margin accretion, I'll reserve and keep the powder dry until we get a little bit further into this year. We still have some of the effects of Part D redesign that is impacting margins this year.

We'll have to see how tariffs play out. The raise of $0.25 per share in the outlook incorporates $200 million of costs for this year. There's an accounting function, and I don't want to get too wonky here in that some of that gets hung up on the balance sheet.

So I'd like to see a little bit more things come into view before we really comment on margins. But we certainly appreciate and live by the principle that you have come to know us for and that's growing our bottom line consistent, if not better, than our top line.

Operator

Asad Haider, Goldman Sachs.

Asad Haider - *Goldman Sachs Group Inc - Analyst*

Congrats on very solid performance in the quarter. Maybe just going back to the external environment, double-click a little bit more on your comments on pharma tariffs specifically, given this announcement last night from the President that we're going to see something by the end of the month, that's going to start off with a low tariff rate and give companies a year to build.

So what do you make of this announcement? And do you have sufficient capacity today to manufacture for the US market in the US. And how flexible is your manufacturing supply chain in the US as it relates to adjusting for any tariff impact in 2026.

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

Thank you for the question. This is Joaquin. It's hard to know what is going to happen ultimately with tariffs. But what we do know for sure is that the tax policies that just passed are already creating American jobs and driving innovation.

These very policies that just pass are the ones that have enabled our commitment to invest $55 billion in the US in the next four years. And our goal is to be able to manufacture in the US, all the medicines that are consumed in the US at the completion of that plan and we are on our way of being able to do that.

Operator

Shagun Singh, RBC Capital Markets.

Shagun Singh - *RBC Capital Markets Inc - Analyst*

So just two product questions on the medtech side. On OTTAVA, it looks like you pushed out the submission time line to 2026. Can you just elaborate on what's going on there? And then on your EP strategy, you did talk about low euro rates, but I was just wondering if you could share some feedback that you're getting from doctors around appetite for adoption of VARIPULSE. Just what are you hearing?

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

Well, thank you, Shagun. And just to clarify, we haven't pushed out our time lines at all. In fact, we've met all of the milestones that we've communicated to the market, both in terms of submission late last year, approval late last year, starting the clinical trials and patients in the first quarter of this year and our expectation that we will file for de novo submission in the first quarter of next year.

And so feel very confident about the progress that we're making on OTTAVA. I think you know clearly why we feel that we have strong differentiation in that program, both on the robot as well as our digital environment.

And we'll continue to provide updates as that comes to fruition. I would like to touch a little on EP, and I appreciate you asking that question because when we look at our performance in the second quarter, clearly, that was a major contributor. And it wasn't just the EP.

It was the 22% that we enjoyed across the cardiovascular portfolio, which is a combination of the performance the way, double-digit growth in both Abiomed and Shockwave ahead of our deal model expectations -- and improved performance in electrophysiology.

And I have to say Shagun given that we created the EP category for us, this one is very personal. And while I know that several analysts were quick to write us off earlier this year, we continue to remain very confident in our ability to retain our global market leadership position over the long term. And that growth you saw in the second quarter 10% that's of a $5 billion [annual] (added by company after the call) base, and that represented a sequential growth of over 9% versus Q1 and acceleration within the quarter.

And to your question, what drove this? It really was the continued adoption of VARIPULSE as we expanded in all commercial regions. We also started first cases in new markets like China, which is a major market for us and Australia. And the feedback from physicians has been phenomenal.

We've now surpassed 10,000 cases globally with a reported neurovascular event rate of below 0.5. This is well below what we observed in the ADMIRE IDE trial and consistent with published rates across other competitive PFA platforms.

We're also further optimizing the catheter based on real-world evidence and partnership with clinicians. In fact, we recently received FDA approval for an IFU update to incorporate an optimized flow rate, which further advances the product's performance.

We are also evaluating new ways for VARIPULSE to maximize ablation efficiencies and potentially widen its therapeutic window. I will say I'll say it very bluntly, we are confident that we have a highly competitive catheter in VARIPULSE, it provides excellent safety and precision.

It's efficient with only four ablations per vein and a smooth learning curve even for first-time users it's also important to mention that VARIPULSE accommodates competitive advantages like the only approved zero fluoro solution and deep sedation workflows, which we know are a major benefit to hospitals and patients.

And as we look beyond VARIPULSE, we are bringing to market a comprehensive portfolio of next-generation PFA catheters to address a broad range of workflows and patient needs. I think you know already that we received EU approval for our dual energy STSF catheter, the first catheter to offer both PFA and RF technology.

And we're also working on an Omnipulse large tip focal catheter and announced positive trials in the month of April. I do think it's also worth reinforcing that our strength, as we said from the very beginning, is not just down to ablation catheters, but rather the breadth of our portfolio and the end-to-end solutions we provide to our electrophysiology customers.

It's our entrenched footprint and installed base of 5,000 Carto systems, which is widely recognized as the benchmark in mapping software broad network of highly trained mappers which we continue to expand. And just to highlight this point, the strategic differentiation of Carto and our mappers has in light of the competition we face here in the US enabled us to retain our leadership in mapping US PFA cases.

And finally, it's our market-leading navigation and ultrasound catheters further strengthened with the recent launch of the Sound Star Crystal ultrasound catheter earlier this year. EP is currently, I think it's fair to say probably the most exciting category in med tech.

And let me be clear, we are not rolling over. We are, in fact, increasingly confident that our 30 years of experience and our full portfolio of offerings positions us well to continue to retain our global leadership position over the long term.

Operator

Alex Hammond, Wolfe Research.

Alexandria Hammond - *Wolfe Research LLC - Equity Analyst*

For TAR 200, can you walk us through J&J's launch strategy? Are there sales force training, supply chain, patient access, and neurologist education programs in place? And as a follow-up, how are you thinking about the ultimate patient penetration here?

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

So first of all, we think that there is an extraordinary opportunity here. There's 600,000 new patients that are diagnosed each year and another 400,000 that are recurrent. So we really see the opportunity as quite large.

We'll be entering in the first indication in patients that are experienced or have failed BCG. But shortly then after, we'll be expanding into that broad non-muscle invasive space. And so we do think that there's a lot of patients that are eligible for treatment.

I think this product really represents the best of what J&J can bring forward. And we have capitalized not only on the strength of innovative medicine in developing this, but also the strength of medtech with everything from the engineers to catheter development to the J&J Institute, the training that they have run -- really, really best-in-class, best in industry -- so that we can bring forward a product that will very, very quickly be able to work with urologists, with their practices and to help get this product out to patients.

So the launch -- I'm not going to go into the details around the launch planning, but suffice to say that the planning is very, very well underway and the team is very excited for what we're optimistically think is going to be a very successful launch for patients here.

Operator

Danielle Antalffy, UBS.

Danielle Antalffy - *UBS AG - Analyst*

Congrats on a really good quarter. Darren, what a great quarter to start. Just a question on medtech. I mean, you guys are already growing closer or in line with the broader market. You do have some underperformers still in medtech and surgery and orthopedics.

But you've highlighted a few avenues from a new product launch perspective and improving execution to getting those back in line with market growth. You're weathering EP headwinds. So if we look ahead to 2026, '27, is it fair to think of the medtech business as a closer to high single-digit growth business?

I mean, how do we think about the impact of these new product launches and some of the underperformers, the potential for them to reaccelerate, and what that means, given that you're already back to 5%-plus growth in medtech, even with them continuing to underperform? I hope that question makes sense.

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

No, it does, Danielle. There's firstly a couple of drivers that we're very confident will continue to perform extremely well and accelerate as we look to few years. Certainly, our performance in cardiovascular -- as I mentioned, the 22% growth in the second quarter, we believe that's going to be a constant growth driver.

Surgery, while you pointed out, has been, I'd say, underperforming relative to some of our new entrants in that space. We are very confident that we're going to build on our leadership position, both in open and laparoscopic surgery with the launch of OTTAVA, which you know is on the horizon.

I'd say the two biggest growth drivers for medtech going forward will be cardiovascular and our surgery business, especially as we enter the robotic space. We believe that our vision business will continue to be a mid-single-digit to high-single-digit performer.

And then we continue, as I mentioned earlier, to look at how we continue to improve our performance in our orthopedics and getting that to in-market performance. You know that in late ['23] (corrected by company after the call), we mentioned as part of the EBR, we would grow in that roughly 5% to 7% range at the upper range through '22 to '27 on an operational basis.

And we're very confident in our ability to deliver that. I wouldn't want to speculate beyond at this point in time. Thanks, Danielle.

Operator

Vamil Divan, Guggenheim Securities.

Vamil Divan - *Guggenheim Securities LLC - Equity Analyst*

Again, congrats on the quarter and the performance. I just had one pipeline question on the Innovative Medicine side on your co-antibody therapy 4804. I thought we might see some of the psoriatic arthritis data already this year, we didn't see that as we were hoping to see the IBD data this year.

So I'm just wondering if you could maybe give us an update on when we should expect to see those two readouts? And then just your general level of enthusiasm, I assume really some of those get in-house, had attempt to see how the competitive dynamics are playing out in the immunology space. So I'd love to just get an update sense of your perspective on 4804's potential?

John Reed - *Johnson & Johnson - Executive Vice President, Innovative Medicine, Research and Development*

Yes, John Reed here. Maybe I'll start and then others can supplement. But the 4804 studies, these are Phase 2bs, one in Crohn's disease and other colitis will be reading out sometime middle of this year. So it's nearing the time when the data may become available and then based on that, we'll make decisions about next steps.

As you know, in the earlier Phase 2a study, we saw really compelling data there that it looked like this combination of an IL-23 inhibitor together with a TNF inhibitor two products that have been in our pipeline but coming together could break through the traditional efficacy ceilings in patients with difficult-to-treat inflammatory bowel disease and give perhaps more than half of those patients the chance at sustainable complete remission.

So we're excited about this co-antibody therapeutic. It will be the first of many such approaches to trying to address these difficult-to-treat patients down the line. And so we're excited to be in a leadership role there, the first company to really begin this foray of looking at going beyond monotherapies to dual therapies to address this really complex patients.

I would say while I'm on that, though, I'm super excited about our icotrokinra, the oral targeted peptide inhibitor of the IL-23 receptor, which did achieve a compelling proof of concept in ulcerative colitis. We'll be showing those data later this year at a medical meeting.

We have begun gearing up now to do a broad Phase 3 campaign in both UC and Crohn's disease based on those compelling data. And we think we're on the cusp of being able to offer the convenience of a once-a-day pill together with efficacy on par with the best of the biologics and with a pristine safety profile lot of momentum in immunology across multiple indications, but IBD in particular.

Darren Snellgrove - *Johnson & Johnson - Vice President, Investor Relations*

Thanks, Vamil, and thanks to everyone for your questions and your interest in J&J. I will now turn the call over to Joaquin for some closing remarks.

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

Thank you for joining the call today. Our Q2 results reflect the depth and strength of our uniquely diversified business. And as you heard, we expect elevated growth in the second half of the year. We have a lot to look forward over the next six months with game-changing approvals and submissions anticipated in areas like lung and bladder cancer, major depressive disorder, psoriasis, surgery and cardiovascular.

These milestones will extend and improve lives in transformative ways and deliver significant value to patients and shareholders. Thank you for your continued interest in Johnson & Johnson and enjoy the rest of the day.

Operator

Thank you. This concludes today's conference and Johnson & Johnson Second Quarter 2025 Earnings Conference Call. You may now disconnect.
