JNJ gideon lens

Johnson & Johnson (JNJ) - Gideon-Lens Equity Research

Date: 2026-04-30. Analyst: Codex ER2 runner. Current price used for the valuation test: $227.50. Market cap from the Russell 1000 queue: approximately $548.3 billion. Fiscal year end: late December. Most recent reported quarter: Q1 FY2026 ended 2026-03-29.

VERDICT BLOCK

Verdict: PASS

Scorecard:

Gate	Result	Notes
Management	YELLOW	credible operators, but talc and acquisition ROIC cap confidence
Moat	YELLOW	real healthcare moat, but 2046 depends on reinvention
P/E <= 15 on confident EPS at TTM + 5 calendar years	FAIL	base cushion -20.0%; bull still below threshold
Compounder Score	Audited 55 / 100	55/100; JNJ is a real healthcare franchise, but the audited score is reduced for unsupported five-year ROIC/FCF/SBC fills, incomplete acquisition-inclusive ROIIC, product-dollar gaps, and a failed 20% return case.
Business Quality Score	Audited 53 / 80	53/80; moat and cash generation are supported, but business quality is capped by STELARA replacement risk, YELLOW moat/management gates, retained-MedTech pro forma uncertainty, talc litigation, and unproven deal-level returns.
20% Return UW Score	Audited 2 / 20	2/20; base and bull cases fail at 15x exit, the required NOPAT growth is far above the modeled evidence, and dividends do not repair the entry valuation.

One-line thesis (or reason to pass): Johnson & Johnson is a durable healthcare franchise, but the post-Kenvue portfolio does not clear Gideon's bar because management and moat are both YELLOW and the base-case 2031 EPS only supports about $182 per share at 15x versus today's $227.50.

Kill / trigger criteria:

- BUY trigger: price below $182.10 using base-case EPS of $12.14 at 15x, with a required additional margin of safety preferred because management and moat are not PASS.
- PASS triggers: Q2-Q3 FY2026 Innovative Medicine operational growth below 5.0% while STELARA remains a 600 bps or greater segment headwind; disclosed retained-MedTech economics after the Orthopaedics separation worse than a 17% segment IBT margin; talc litigation cash exposure or settlement process worsening enough to impair capital allocation.
- Upgrade to BUY conditions: management and moat gates improve to PASS, retained-MedTech economics are disclosed and tie to the model, and source-supported base-case EPS rises above $15.17 or the share price falls below the 15x base-EPS entry level.

Position sizing if bought: 0% today. A future BUY would start small, likely 1%-2% maximum, until the Orthopaedics separation, acquisition returns, and STELARA replacement bridge are observable rather than inferred.

Stage 0 - Time Anchor

Today is 2026-04-30. Johnson & Johnson's fiscal year ends in late December; FY2025 ended 2025-12-28. The most recently reported quarter is Q1 FY2026, ended 2026-03-29 and reported in April 2026. The TTM anchor is Q2 FY2025 plus Q3

FY2025 plus Q4 FY2025 plus Q1 FY2026, which creates a trailing twelve-month period ending 2026-03-29. The forward horizon is exactly TTM plus five calendar years, so every "FY+5" or horizon-year reference in the report means 2031-03-29, not six fiscal years from the last annual report.

Stage 1 - Disqualifier Sweep

ROIC is green/yellow: historical healthcare economics remain attractive, but post-Kenvue acquisition-heavy capital deployment needs proof. FCF conversion is green: the business still turns earnings into cash. Net debt / EBITDA is yellow: leverage is manageable but higher after recent acquisition activity. End-markets are green: medicine and procedure demand are structurally resilient. Governance is yellow: talc litigation and a combined Chair/CEO structure prevent a clean pass. AI disruption is green/yellow: regulated clinical evidence, devices, manufacturing, and procurement workflows are not easily replaced by AI, but AI can change R&D and care pathways. Pricing power is yellow: JNJ has brand, IP, and clinical evidence, but IRA, 340B, tendering, China VBP, and payer pressure limit blanket price power.

Management

The management appendix rates the gate YELLOW. Joaquin Duato and Joseph Wolk are experienced internal operators, and the post-Kenvue strategy is coherent: concentrate JNJ around Innovative Medicine and MedTech, use acquisitions to fill pipeline gaps, and preserve cash generation. The issue is not basic competence. The issue is that the strategy now depends on capital allocation proof at a time when the company is spending heavily on Abiomed, Shockwave, Intra-Cellular/CAPLYTA, Halda, and U.S. manufacturing while still carrying litigation overhangs. Disclosure quality was acceptable: the data package and management review found direct discussion of STELARA, MedTech pressure, guidance, and cash flow. Compensation and governance are also acceptable but not exceptional; the assessment flags the lack of a hard ROIC or economic-profit anchor in incentives. Talc litigation is the main reason the gate cannot reach PASS. For a 20-year compounder, a YELLOW management gate means the analyst should require either a lower price or better evidence that the acquisition cycle is producing high incremental returns.

Moat

The moat appendix also rates both the moat gate and 2046 test YELLOW. Innovative Medicine has the stronger moat today: patents, regulatory barriers, clinical evidence, prescriber familiarity, payer access, manufacturing know-how, and high segment margins. MedTech has a more mixed moat: procedure workflow, surgeon training, installed base, hospital procurement, and regulatory clearance matter, but the margin profile is weaker and Orthopaedics is being separated because it no longer fits the desired economic profile. AI disruption is not the central risk; JNJ's value is not mainly a replaceable software workflow. The more important risks are patent cliffs, price regulation, clinical substitution, hospital purchasing pressure, litigation, and whether acquired assets can become durable platforms. The 2046 version of JNJ is plausible, but it is not visible enough from today's assets to earn a clean PASS. The company must keep replacing old drugs with new ones and keep buying or building MedTech positions without overpaying.

Stage 5 Synthesis

The synthesis is the decisive quantitative failure. At the 2031-03-29 horizon, the base case projects combined revenue of $115.8 billion, segment income before tax of $37.6 billion, consolidated pretax income of $35.2 billion after corporate/unallocated/other deductions, net income of $29.7 billion, and EPS of $12.14. The required EPS for a P/E of 15 at the current $227.50 price is $15.17. Base-case EPS therefore has a -20.0% cushion. The bull case still does not clear: bull EPS is $14.48, which remains below the $15.17 threshold. That makes the valuation answer clean: JNJ fails the P/E <= 15 gate at today's price even before applying any extra discount for management and moat uncertainty.

Case	Revenue	Pretax income	Net income	EPS	EPS x 15	Versus $227.50
Bear	lower than base	below base	below base	below base	below current price	FAIL
Base	$115.8B	$35.2B	$29.7B	$12.14	$182.10	-20.0%
Bull	above base	above base	above base	$14.48	$217.20	still below current price

The segment math explains why. Innovative Medicine is modeled from a $61.954 billion TTM base to $82.5 billion in the base case, with a 38.5% segment IBT margin and $31.8 billion of segment income before tax. That assumes the company can absorb STELARA erosion and still compound the segment through oncology, immunology, neuroscience, pulmonary hypertension, and acquired assets. MedTech is modeled as retained MedTech after an estimated Orthopaedics separation adjustment. Its base case reaches $33.3 billion of retained revenue, a 17.5% segment IBT margin, and $5.8 billion of segment

income before tax. The MedTech work is useful but necessarily flagged: Orthopaedics TTM revenue, separation costs, dis-synergies, and stranded-cost allocation are not fully disclosed in the data package.

The synthesis ran all 11 tie-out checks. Arithmetic passed, but product and margin checks are data-limited because JNJ does not disclose enough product-level history or product-level margins to make every bridge independently observable. That limitation does not make the report unusable; it makes the verdict more conservative. When the base case fails and the bull case also fails, there is no need to stretch the model.

Red Team

The red team agrees with PASS. Its strongest bear argument is that the base EPS may not even be conservative because the STELARA replacement bridge depends on partially disclosed product growth, acquired contribution, and margin durability during a major pharma cliff. The most likely optimistic Stage 5 number is Innovative Medicine 2031 revenue of $82.5 billion, which requires a 5.9% CAGR despite STELARA erosion, policy pressure, and limited product-dollar disclosure. The red team's monitorable exit signal is clear: downgrade or sell if Q2-Q3 FY2026 Innovative Medicine operational growth averages below 5.0% while STELARA remains a 600 bps or greater segment headwind. MedTech adds a second fragility: the Orthopaedics separation may be strategically sensible, but retained revenue, retained margin, stranded costs, and dis-synergies are still under-disclosed.

Kill / Trigger Criteria

- Upgrade only if base-case EPS can be supported above $15.17 or the price falls below the 15x base-EPS entry level of about $182.
- Keep PASS if Innovative Medicine cannot show at least mid-single-digit operational growth through the STELARA cliff.
- Keep PASS if retained-MedTech disclosures after Orthopaedics separation do not support a clear path to a high-teens segment IBT margin.
- Keep PASS if acquisition returns remain narrative-led rather than visible in segment growth, margin, and cash conversion.
- Revisit the moat gate if 2046 durability becomes less dependent on serial acquisition and drug-cycle replacement.

Analyst Flags

The main data flags are not hidden. FMP product-segmentation endpoints have historical taxonomy mismatches around Kenvue and legacy segment labels; QF and QFR cleared this only after making the official SEC segment rows controlling for the current TTM and comparable model. Product-level revenue histories are limited, and no product-level operating margin table is available. MedTech's planned Orthopaedics separation forces an estimated retained-MedTech base because full pro forma retained revenue, stranded costs, dis-synergies, and timing details are not in the cleared data package. The synthesis uses segment income before tax rather than GAAP operating income for the segment rollups and bridges to consolidated pretax income explicitly. These flags all point in the same direction: the right answer is not to force a BUY on a familiar high-quality name, but to wait for either a lower price or cleaner evidence.

Appendix A - Company Primer

Johnson & Johnson - Company Primer

Prepared for ER2 Production Mode. Ticker: JNJ. Company: Johnson & Johnson. Date: 2026-04-30. TTM anchor: Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, ending 2026-03-29. Forward horizon: 2031-03-29. Unless otherwise noted, dollar figures are USD millions and financial data comes from the cleared quantitative foundation at `C:\Users\Admin\OneDrive\GPT\ER 2.0\Johnson & Johnson\quant_foundation.md`, which QFR verified against live FMP, SEC, and Johnson & Johnson IR sources.

Source Discipline and Reader Orientation

This primer is an orientation document, not the controlling data model. The controlling numerical source for historical revenue, segment revenue, segment income, cash flow, debt, and TTM construction is the cleared quantitative foundation. The FY2025 Form 10-K, Q1 FY2026 Form 10-Q, and Johnson & Johnson earnings releases are used here to explain the business, products, customer channels, historical comparability, and current strategic shape. Downstream segment, moat, management, synthesis, and red-team work should still source historicals from QF or a reviewed data package, not from this primer.

The central comparability issue is the Consumer Health separation. Johnson & Johnson completed the Kenvue separation process after the 2023 Consumer Health IPO and exchange offer, and the FY2025 Form 10-K states that, following the Consumer Health separation in fiscal Q3 2023, the company is organized into two reportable segments: Innovative Medicine and MedTech. The Consumer Health business is therefore not part of the current continuing-operation segment base. Historical rows that still show Consumer, Pharmaceutical, or Medical Devices labels must be read carefully: Pharmaceutical is the predecessor label to Innovative Medicine, Medical Devices is the predecessor label to MedTech, and Consumer Health/Kenvue is discontinued for the current company model.

Primary sources used for qualitative context include Johnson & Johnson's FY2025 Form 10-K, Q1 FY2026 Form 10-Q, Q4/FY2025 results release, and Q1 FY2026 results release. The FY2025 10-K source is available at https://www.sec.gov/Archives/edgar/data/200406/000020040626000016/jnj-20251228.htm. The Q1 FY2026 10-Q source is available at https://www.sec.gov/Archives/edgar/data/200406/000020040626000087/jnj-20260329.htm. The Q4/FY2025 IR release is available at https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-q4-and-full-year-2025-results. The Q1 FY2026 IR release is available at https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-q1-2026-results-raises-2026-outlook.

1. Business Overview

Johnson & Johnson is now a focused healthcare company built around two large businesses: Innovative Medicine and MedTech. The former is a global prescription medicine portfolio, and the latter is a global medical technology portfolio used in procedures, surgery, vision care, orthopaedics, and cardiovascular intervention. After Kenvue, this is no longer the old three-legged JNJ of pharmaceuticals, medical devices, and consumer staples. The current company is a healthcare innovation platform: it develops, acquires, manufactures, clinically validates, and commercializes regulated medicines and devices that physicians, hospitals, health systems, payors, and patients depend on.

Innovative Medicine sells prescription therapies across oncology, immunology, neuroscience, pulmonary hypertension, infectious diseases, and cardiovascular/metabolism/other. The customer chain is not a simple consumer transaction. The medical decision starts with physicians and treatment guidelines, is constrained by label, safety, efficacy, reimbursement, patient access, and formulary status, and is fulfilled through specialty pharmacies, wholesalers, distributors, hospitals, oncology centers, and other healthcare channels. A successful medicine has to clear clinical efficacy, regulatory approval, physician adoption, patient access, and manufacturing reliability. That produces high gross margin and strong operating leverage when a product scales, but also requires large R&D investment, long development cycles, and constant replenishment because exclusivity eventually ends.

MedTech sells devices and systems used by surgeons, interventional cardiologists, electrophysiologists, ophthalmologists, orthopaedic surgeons, hospitals, ambulatory surgery centers, and other procedural settings. Its products include cardiovascular technologies such as electrophysiology catheters, Abiomed's Impella heart pump portfolio, and Shockwave intravascular lithotripsy; surgery products such as advanced energy, biosurgery, endocutters, and wound closure; vision

products including ACUVUE contact lenses and ophthalmic surgery products; and orthopaedics products across hips, knees, trauma, spine, sports, and related categories. The buyer is usually an institution, clinician, or channel intermediary, but adoption depends heavily on clinical workflow, surgeon training, installed practice patterns, product reliability, procedure volume, contracting, and reimbursement.

The company is global. FY2025 sales by U.S. companies were $53.8 billion and international sales were $40.4 billion according to the FY2025 10-K discussion. Q1 FY2026 sales were $24.1 billion, with U.S. sales of $13.3 billion and international sales of $10.7 billion in the Q1 10-Q. That matters because foreign exchange, country-level pricing pressure, tender systems, China volume-based procurement, European reimbursement, U.S. Medicare design, biosimilar penetration, and local procedure volume can all influence reported results even when underlying clinical demand is healthy.

Johnson & Johnson also has channel concentration. The FY2025 10-K notes that three wholesalers distributing products for both segments represented approximately 21.8%, 15.5%, and 11.1% of total gross revenues in fiscal 2025. That does not mean those wholesalers create end demand; they are distribution nodes. But it means gross-to-net accruals, inventory dynamics, rebate estimates, and wholesaler ordering patterns can move reported quarterly sales around the edges, especially for Innovative Medicine.

2. Revenue Architecture

The current revenue architecture is simple at the reportable segment level and complex underneath it. QF shows TTM revenue of $96,362 through 2026-03-29. Innovative Medicine contributed $61,954, or 64.3% of TTM revenue. MedTech contributed $34,408, or 35.7% of TTM revenue. For FY2025, QF ties official segment revenue to the 10-K: Innovative Medicine revenue was $60,401, or 64.1% of FY2025 sales; MedTech revenue was $33,792, or 35.9% of FY2025 sales; total continuing-operation revenue was $94,193.

Innovative Medicine

Innovative Medicine is the larger and more profitable segment. FY2025 revenue was $60,401 and segment income before tax was $22,266, a 36.9% segment margin. TTM revenue through Q1 FY2026 was $61,954. The FY2025 10-K describes the segment as focused on oncology, immunology, neuroscience, pulmonary hypertension, infectious diseases, and cardiovascular/metabolism/other. In plain language, this is JNJ's branded prescription drug engine. It turns discovery, clinical development, regulatory approvals, manufacturing, access, and physician adoption into product revenue protected for a period by patents, data exclusivity, biologic complexity, clinical evidence, and commercial scale.

The biggest FY2025 therapeutic area was oncology at $25,380, up 22.1% from 2024. The major products included DARZALEX at $14,351, CARVYKTI at $1,887, ERLEADA at $3,574, IMBRUVICA at $2,823, RYBREVANT/LAZCLUZE at $734, TALVEY at $463, and TECVAYLI at $670. DARZALEX is the current anchor product: large, still growing, and clinically important in multiple myeloma. CARVYKTI, TECVAYLI, TALVEY, and RYBREVANT/LAZCLUZE are part of the next wave, but they are at different stages of adoption and competitive maturity.

Immunology was $15,728 in FY2025, down 11.8%, mainly because STELARA fell to $6,078 from $10,361 as biosimilar competition hit. TREMFYA grew to $5,155 and SIMPONI/SIMPONI ARIA grew to $2,668, but the key investment issue is that the segment has to outrun STELARA erosion. The 10-K explicitly says the company expects continued launches of STELARA biosimilars globally, which will continue to negatively affect STELARA sales. That is the clearest near-term revenue headwind inside the segment.

Neuroscience was $7,837 in FY2025, up 10.1%. CAPLYTA was acquired with Intra-Cellular Therapies on April 2, 2025 and contributed $700 in FY2025. SPRAVATO grew to $1,696, while the INVEGA long-acting portfolio declined to $3,810. The Intra-Cellular acquisition is strategically important because it brings CAPLYTA and a CNS pipeline into the company, but it also increased debt and adds execution risk around integration, label expansion, and commercial productivity.

Pulmonary hypertension was $4,437 in FY2025, up 3.6%. Infectious diseases was $3,241, up 6.7%. Cardiovascular/metabolism/other was $3,778, up 6.1%, with XARELTO at $2,633. Q1 FY2026 commentary adds that XARELTO sales decline was driven by continued share erosion and that OPSUMIT faces expected U.S. generic competition. The primer read-through is straightforward: Innovative Medicine is not one monolithic growth asset. It is a portfolio of growth products, mature protected products, and products under exclusivity or reimbursement pressure. The segment's durability depends on the growth assets being large enough, fast enough, and profitable enough to more than offset erosion in STELARA, IMBRUVICA, XARELTO, OPSUMIT, and older franchises.

MedTech

MedTech is the smaller segment by revenue and currently the lower-margin segment by reported segment income, but it has a different durability profile. FY2025 revenue was $33,792 and segment income before tax was $4,113, a 12.2% segment margin. TTM revenue through Q1 FY2026 was $34,408. The segment includes Surgery, Orthopaedics, Cardiovascular, and Vision. Unlike prescription medicine, MedTech revenue is tied to procedure volumes, installed product workflows, clinician familiarity, capital and disposable usage, hospital purchasing, tender dynamics, and product innovation cycles.

FY2025 Surgery revenue was $10,137, up 3.0%. This includes Advanced Surgery at $4,577 and General Surgery at $5,560. The 10-K attributes growth to portfolio strength, commercial execution, biosurgery, new products in endocutters, technology penetration, and wound closure upgrades, partly offset by China volume-based procurement and competitive pressures. This is a mature scale franchise where growth should be measured in operational share gain, procedure growth, price/mix, and product upgrades rather than explosive new-market creation.

FY2025 Orthopaedics revenue was $9,258, up only 1.1%. Hips were $1,674, knees $1,587, trauma $3,146, and spine/sports/other $2,852. The 10-K says all platforms were negatively affected by revenue disruption from a previously announced Orthopaedics restructuring, China volume-based procurement, and selling days. The Q1 FY2026 10-Q adds an important strategic update: in October 2025, the company announced its intention to separate its Orthopaedics business, with targeted completion within 18 to 24 months after the announcement. That means the current MedTech mix may change materially before the 2031 horizon. For ER2 modeling, Orthopaedics should be treated as a possible portfolio simplification event, not as a static business assumed to remain in the same structure for five years.

FY2025 Cardiovascular revenue was $8,928, up 15.8%. Electrophysiology was $5,634, Abiomed $1,751, Shockwave $1,146, and other cardiovascular $397. The 10-K attributes cardiovascular growth to procedure growth, new product performance, commercial execution, strong adoption of Impella 5.5 and Impella CP, and Shockwave coronary/peripheral portfolios. Shockwave was acquired on May 31, 2024 for total consideration of $12.6 billion, with results included in MedTech after the acquisition date. This is the segment's most obvious growth vector: cardiovascular procedure exposure, structural heart and vascular innovation, electrophysiology, and acquired category leadership.

FY2025 Vision revenue was $5,468, up 6.3%. Contact lenses/other were $3,910 and surgical was $1,558. The 10-K cites ACUVUE OASYS 1-Day performance, recent launches, strategic price actions, and ophthalmic surgical product innovation. Vision has characteristics of both consumer-like repeat usage and professional medical procedure adoption. It is more recurring than a one-off capital sale, but still subject to channel pricing, optometrist/ophthalmologist influence, brand strength, and competitive innovation.

3. Unit Economics and Margin Structure

The unit economics differ sharply by segment. Innovative Medicine has the classic branded pharma shape: high gross margin potential, high R&D and selling expense, and high operating leverage if successful products scale. MedTech has lower reported segment margin today because products often carry more manufacturing complexity, field sales and clinical support costs, acquisition amortization, restructuring, and procedure-specific competitive pressure. Both businesses require regulatory quality systems and manufacturing excellence, but the economic bottlenecks are different.

Innovative Medicine's FY2025 segment income before tax was $22,266 on $60,401 of revenue, or 36.9%. QF's 10-K-derived cost lines show cost of products sold of $15,646, selling/marketing/administrative expense of $11,375, R&D of $11,827, and other segment expense of $713. The resulting economics are attractive because successful medicines can support large revenue with relatively low unit manufacturing cost and powerful commercial leverage. The cost base, however, is front-loaded and risky: a drug must pass trials, win approval, defend intellectual property, gain reimbursement, and maintain safety confidence. Failures or delays are expensive, and eventual loss of exclusivity can compress revenue very quickly.

Innovative Medicine's margin improved from 33.2% in FY2024 to 36.9% in FY2025. The 10-K attributes the increase partly to the absence of the prior-year acquired IPR&D expense for NM26, litigation income versus prior expense, and R&D leverage, partly offset by acquisition and integration costs, unfavorable product mix, Medicare Part D redesign, transactional currency, and increased investment related to CAPLYTA. This mix of puts and takes matters: not every year of margin expansion should be capitalized at full value. Some improvement reflects lower one-time charges; some reflects real operating leverage; some may be offset by product mix and U.S. policy changes.

MedTech's FY2025 segment income before tax was $4,113 on $33,792 of revenue, or 12.2%. QF's cost lines show cost of products sold of $14,549, selling/marketing/administrative expense of $11,354, R&D of $2,838, and other segment income of $938. The lower margin is not simply structural inferiority. MedTech includes acquired assets, integration, litigation, restructuring, product line transitions, field support, clinician education, and manufacturing complexity. The 10-K says the

2025 margin improved from 11.7% in 2024, driven by factors including lower acquisition/integration costs versus the Shockwave year, absence of prior V-Wave and Laminar IPR&D items, and a gain on sale of securities, partly offset by Auris shareholder litigation expense, higher restructuring costs, tariffs, transactional currency, and macro factors in cost of products sold.

Capital intensity is also different from pure software or asset-light services. FY2025 additions to property, plant, and equipment were $4,832 at the company level. Segment additions were $2,076 for Innovative Medicine and $2,501 for MedTech. Depreciation and amortization were $3,772 for Innovative Medicine and $3,490 for MedTech. On a TTM basis, QF shows CFO of $22,870, capex of $5,072, and FCF of $17,798, or 84.6% of TTM net income. That is solid cash conversion, but not frictionless. Manufacturing networks, device production, biologics capacity, quality systems, and global distribution all need recurring capital and compliance spending.

4. Kenvue Separation and Historical Comparability

The Kenvue separation is mandatory context for any historical chart. Before the separation, Johnson & Johnson reported Consumer Health alongside Pharmaceutical and MedTech. The Consumer Health business included over-the-counter medicines and consumer brands now associated with Kenvue. After the separation, JNJ's current continuing-operation business is Innovative Medicine plus MedTech. The FY2025 10-K explains that Consumer Health results are reflected as discontinued operations through August 23, 2023, the date of the exchange offer. It also notes that JNJ no longer owns Kenvue common stock after the 2024 debt-for-equity exchange of its remaining shares.

QF handles the data problem directly. FMP's historical product/segment endpoint has mixed labels around the transition: Consumer, Pharmaceutical, and Medical Devices in older periods; Innovative Medicine and MedTech in current periods; and FMP annual endpoint rows that sometimes recast labels differently from quarterly rows. QF therefore uses official SEC reportable-segment sources for the current model and explicitly discloses mismatches. For example, FY2023 FMP annual continuing-operation rows exclude H1 Consumer, while the four-quarter endpoint includes H1 Consumer; QF records the $7,863 aggregate mismatch as a disclosed limitation rather than allowing it to pollute the current two-segment model.

The practical rule for the reader is this: compare FY2025, FY2024, FY2023, and TTM on the current two-segment continuing-operation taxonomy; treat 2022 and 2021 only if they are recast continuing-operation rows from official SEC sources; do not mix Consumer Health revenue into current JNJ revenue; and do not read pre-separation total company growth as comparable to post-separation growth without adjustment. This matters for revenue CAGR, margin trend, ROIC, and valuation. Adding Kenvue-era Consumer revenue to current JNJ would understate or overstate growth depending on the comparison window and would confuse the current business quality.

5. Recent Operating Momentum

JNJ entered 2026 with solid reported growth. QF's TTM revenue is $96,362, up from FY2025 revenue of $94,193 because Q1 FY2026 revenue of $24,062 replaced Q1 FY2025 revenue of $21,893 in the trailing window. Q1 FY2026 reported sales grew 9.9% to $24.1 billion, with operational growth of 6.4%, according to the Q1 FY2026 release and 10-Q. JNJ also raised 2026 guidance in the Q1 release, with estimated reported sales of $100.8 billion at the midpoint and adjusted EPS of $11.55 at the midpoint. Those are management guidance figures, not ER2 forecast conclusions, but they frame the starting point.

Innovative Medicine grew Q1 FY2026 sales 11.2% to $15,426, including operational growth of 7.4%. Oncology was the main growth engine. The Q1 10-Q shows oncology revenue of $6,973, up 22.8%, with DARZALEX at $3,964, CARVYKTI at $597, TECVAYLI at $202, TALVEY at $152, RYBREVANT/LAZCLUZE at $257, and ERLEADA at $949. Immunology continued to absorb STELARA biosimilar erosion, but TREMFYA growth partially offsets the pressure. Neuroscience benefited from CAPLYTA and SPRAVATO, while XARELTO continues to decline. The current segment story is therefore not "large pharma ex-growth"; it is "large pharma with a heavy LOE/biosimilar burden but real oncology and neuroscience growth assets."

MedTech grew Q1 FY2026 sales 7.7% to $8,636, including operational growth of 4.6%. Cardiovascular was $2,377 and grew 13.0%, with electrophysiology, Abiomed, and Shockwave all growing double digits. Surgery was $2,511, Vision was $1,365, and Orthopaedics was $2,383. The Q1 10-Q commentary says cardiovascular growth was driven by procedure growth, commercial execution, new product performance, and strong adoption of Impella and Shockwave, while Surgery and Vision had more modest but positive operational growth. Orthopaedics grew in Q1 but remains strategically under review for separation.

The growth algorithm is therefore a portfolio balancing act. JNJ needs oncology, neuroscience, cardiovascular MedTech, Vision, and selected device innovation to absorb STELARA biosimilar erosion, XARELTO share erosion, generic risk in

pulmonary hypertension, China procurement pressure, Medicare Part D redesign, litigation and restructuring noise, acquisition integration, and foreign exchange. The base business is too large to be transformed by one product, but several large product families can still bend the trajectory.

6. Competitive Position and Customer Value Proposition

JNJ competes in markets where credibility, scale, clinical evidence, regulatory execution, and customer access are central. In Innovative Medicine, the customer value proposition is improved patient outcomes in high-burden diseases. Oncologists, rheumatologists, psychiatrists, infectious disease specialists, cardiologists, payors, and patients care about efficacy, durability, safety, administration burden, guideline placement, biomarker fit, and cost. A medicine that provides clearly differentiated outcomes can sustain high revenue, but competition arrives through better mechanisms, combination regimens, biosimilars, generics, and payor pressure.

In MedTech, the value proposition is procedural reliability, better patient outcomes, surgeon or physician confidence, workflow integration, and hospital economics. A device company does not win only because a product is approved; it must train physicians, support cases, prove outcomes, earn preference, and fit procurement budgets. Cardiovascular illustrates the positive side: electrophysiology procedure growth, Impella adoption, and Shockwave intravascular lithotripsy can create growth where clinical value is clear and procedure volumes expand. Orthopaedics illustrates the harder side: mature markets, procurement pressure, product line complexity, and restructuring can weigh on growth and margins.

JNJ's competitive advantage is not a single patent or device. It is a repeatable set of capabilities: large-scale R&D, global regulatory operations, manufacturing and quality systems, commercial reach, physician relationships, acquisition capacity, balance-sheet access, and experience managing healthcare litigation and reimbursement complexity. The risk is that these capabilities can be offset by scale itself. Large companies can overpay for acquisitions, under-execute integrations, carry legacy product exposure, and struggle to grow fast enough when a blockbuster declines.

7. Balance Sheet, Cash Flow, and Capital Allocation Context

QF shows Q1 FY2026 cash of $21,688, total debt of $54,987, and net debt of $33,299. The debt balance increased in recent years partly because JNJ issued senior unsecured notes in fiscal Q1 2025, with proceeds used to fund the Intra-Cellular acquisition and for general corporate purposes. FY2025 acquisitions included Intra-Cellular and Halda for $17.5 billion net of cash acquired; FY2024 acquisitions included Shockwave, acquired for total consideration of $12.6 billion. JNJ therefore remains a cash-generative company, but it has actively redeployed capital into external innovation.

The capital allocation question for ER2 is whether acquired growth earns an attractive return after the purchase price, integration costs, amortization, and opportunity cost. CAPLYTA, Shockwave, Abiomed, Halda, and earlier deals can all be strategically sensible, but strategic fit is not the same as shareholder value creation. The five-year earnings model should not give full credit for acquired revenue without also reflecting debt, amortization, integration costs, R&D spending, and probability-weighted pipeline outcomes.

TTM FCF of $17,798 gives the company real flexibility. FCF conversion was 84.6% of TTM net income. That supports dividends, debt paydown, acquisitions, litigation funding, and reinvestment. But the balance sheet is not irrelevant: Q1 FY2026 net debt of $33,299 is meaningful, and the company has ongoing talc-related legal exposure, medical device litigation, policy pressure, and acquisition execution needs. JNJ's financial profile is strong for a healthcare company, but not immune to bad capital allocation or legal shocks.

8. What Matters for the 2031 Horizon

For the 2031-03-29 forward horizon, the key primer variables are:

- Innovative Medicine must replace STELARA, XARELTO, IMBRUVICA, OPSUMIT, and other mature-product erosion with oncology, neuroscience, immunology replacement, and pipeline assets.
- DARZALEX, CARVYKTI, ERLEADA, TECVAYLI, TALVEY, RYBREVANT/LAZCLUZE, TREMFYA, SPRAVATO, and CAPLYTA are more important than the legacy brand list because they determine whether the segment can grow from a $61,954 TTM base.
- MedTech margin recovery matters as much as revenue growth. A $34,408 TTM revenue segment earning roughly low-teens reported segment margin needs operating leverage, mix improvement, and cleaner restructuring/litigation to contribute meaningfully to EPS compounding.

- Cardiovascular MedTech is the clearest MedTech growth pocket, but it contains acquired assets whose returns must be tested against acquisition prices.
- Orthopaedics may not remain in the same corporate structure through the full horizon because JNJ announced its intention to separate the business in October 2025 with a targeted 18- to 24-month completion window.
- Kenvue is no longer part of the ongoing business. Any historical model that treats Consumer Health as current revenue is wrong for the post-separation JNJ thesis.
- Capital allocation discipline is central because JNJ is using acquisitions to refresh both Innovative Medicine and MedTech.

The company is not a simple defensive healthcare bond. It is a large, complex, innovation-dependent healthcare company with strong cash generation, a cleaner post-Kenvue structure, large oncology and cardiovascular growth assets, and meaningful offsets from patent/biosimilar erosion, policy pressure, litigation, restructuring, and acquisition risk. The primer conclusion is that Johnson & Johnson remains high quality in breadth, clinical relevance, and cash generation, but the ER2 decision should turn on whether the current two-segment business can compound earnings enough by 2031 to satisfy the Gideon valuation discipline after adjusting for erosion, acquired growth economics, MedTech portfolio changes, and legal/policy drag.

Appendix M - Management Assessment

Johnson & Johnson - Management Assessment

Ticker: JNJ. Company: Johnson & Johnson. Date: 2026-04-30. Fiscal year ends in late December. TTM anchor used by this ER2 run is the four quarters ending 2026-03-29. This appendix uses the DR-cleared `data_package.md` as controlling for capital allocation, financial anchors, segment history, recent management quote fragments, and transcript date checks. Primary-source supplements are the 2026 proxy statement, JNJ leadership biographies, SEC Q1 FY2026 Form 10-Q, SEC FY2025 Form 10-K, and official JNJ transaction releases.

1. Who is running the company

Johnson & Johnson is run by Joaquin Duato, Chairman and Chief Executive Officer. He became CEO on January 3, 2022, joined the Board at the same time, and became Chairman in January 2023. The company biography emphasizes that before becoming CEO he served as Vice Chairman of the Executive Committee, with responsibility for pharmaceutical and consumer health businesses as well as technology and global supply chain teams, after more than three decades inside JNJ. That matters because the current strategic shape of the company is not an outsider reset: Duato is an internal operator who already knew the legacy pharmaceutical, consumer, supply-chain, and global commercial systems before he inherited the top job.

Finance is led by Joseph J. Wolk, Executive Vice President and Chief Financial Officer. Wolk became CFO in 2018 after roles including Investor Relations, Innovative Medicine finance, MedTech global supply-chain finance, and North America Innovative Medicine CFO. JNJ's leadership page frames his role around global financial strategy, sustainable cash generation, capital allocation, and risk management. This is a positive signal for continuity. The CFO has lived through the Kenvue separation, the STELARA loss-of-exclusivity bridge, elevated M&A, and recent debt expansion; he is not newly learning the balance sheet.

The two segment leaders most relevant to the ER2 model are Jennifer L. Taubert, Executive Vice President and Worldwide Chairman, Innovative Medicine, and Tim Schmid, Executive Vice President and Worldwide Chairman, MedTech. Taubert has been with JNJ since 2005 and leads the Innovative Medicine Group Operating Committee. Her current remit covers the $60B-plus Innovative Medicine business and the commercial strategy behind Oncology, Immunology, Neuroscience, Cardiovascular/Metabolism/Other, Pulmonary Hypertension, and Infectious Diseases. Schmid leads the $30B-plus MedTech organization and has more than 30 years at JNJ, including roles in Asia Pacific MedTech and Ethicon. John C. Reed, Executive Vice President, Innovative Medicine R&D, is also material because the Innovative Medicine thesis is heavily pipeline dependent.

The Board uses a combined Chair/CEO model with a lead independent director. The 2026 proxy names Marillyn A. Hewson as Lead Independent Director and states that all directors are independent except Duato. The proxy also says the Board annually reviews whether to combine or separate the Chair and CEO roles and presents the lead independent director as a counterweight to the CEO/Chair. The structure is not ideal from a governance purist's perspective, particularly for a company with large litigation exposure, but it is partly mitigated by committee independence, a lead independent director with clear authority, and active shareholder engagement. JNJ reached out to shareholders representing roughly 58% of outstanding shares in 2025 on governance topics, which is a credible engagement process even if it does not remove the concern.

Board composition is strong on paper. The current nominee slate includes scientific, healthcare, audit, operating, government, and global industrial experience. The addition of John Morikis, retired Sherwin-Williams Chairman and CEO, in October 2025 adds supply-chain and multinational operating experience at a moment when JNJ is committing major capital to U.S. manufacturing. The Science & Technology Committee and Regulatory Compliance & Sustainability Committee are important because JNJ's downside risks are not just financial leverage but product quality, R&D productivity, healthcare compliance, and litigation.

2. Tenure and track record

Duato has been CEO for a little over four years as of 2026-04-30. That is long enough to own the current strategy, but not long enough to declare the capital allocation record fully seasoned. Three strategic decisions define the current management era.

First, Duato owns the post-Kenvue simplification. JNJ finalized the Kenvue separation in August 2023, leaving the company with two continuing segments: Innovative Medicine and MedTech. The DR-cleared data package explicitly warns against

mixing Consumer Health, Pharmaceutical, Medical Devices, Innovative Medicine, and MedTech taxonomies. On a management basis, the separation was strategically coherent: JNJ removed a slower consumer-health profile and made the enterprise more directly tied to pharmaceutical innovation, medical technology, and high-acuity healthcare. The cleaned-up FY2025 continuing-operation base was $94.193B of revenue: $60.401B Innovative Medicine and $33.792B MedTech. That is a more focused company. The remaining question is whether the resulting JNJ is also a better compounder, not merely a more exciting one.

Second, management is using M&A to refill duration. Abiomed, Shockwave, Intra-Cellular/CAPLYTA, V-Wave, Halda, and other pipeline deals show a clear bias toward cardiovascular MedTech and high-potential Innovative Medicine assets. Abiomed was announced in 2022 at an enterprise value of about $16.6B and added heart-pump exposure to MedTech. Shockwave closed in 2024 after an announced enterprise value of about $13.1B and added intravascular lithotripsy to cardiovascular. Intra-Cellular closed in 2025 and added CAPLYTA and CNS pipeline optionality. The data package records Q1 FY2026 CAPLYTA sales of $270M, Shockwave operational growth of 18.1%, and Abiomed operational growth of 14.4%. These are encouraging early indicators, but not yet proof of deal-level ROIC. The scale of capital deployed means the burden of proof should remain high.

Third, management is repositioning MedTech away from lower-return or slower areas. The Q1 FY2026 10-Q says JNJ announced its intent in October 2025 to separate Orthopaedics and targeted completion within 18 to 24 months after the announcement. It also records restructuring costs in Surgery and Orthopaedics. This is strategically consistent with management's stated six-priority framework, where Cardiovascular, Surgery, and Vision are emphasized over Orthopaedics. It is also an admission that parts of legacy MedTech have not earned the right to absorb capital. That candor is constructive, but the separation carries execution risk.

There are misses and unresolved issues. The most important is talc. Management inherited much of the historical exposure, but current leadership owns the continuing strategy. Red River Talc's prepackaged bankruptcy plan was denied in March 2025, after which JNJ said it would return to the tort system. The strategy may still produce an economically acceptable outcome, but from a governance lens it remains a yellow flag because repeated attempts to channel liabilities through bankruptcy have been controversial and have not fully resolved the overhang. The other issue is Orthopaedics underperformance. Management has been reasonably direct about one-time pressures, competitive pressures, and the need to do better, but the segment has consumed management time without producing clear compounding proof.

Wolk's finance record is mixed-positive. He has preserved a dividend-growth culture, supported large innovation spending, and kept capital available for M&A. The data package shows TTM CFO of $22.870B, capex of $5.072B, and FCF of $17.798B, plus management's FY2026 free-cash-flow outlook of about $21B. However, Q1 FY2026 total debt was $54.987B and net debt was $33.299B. That is manageable for JNJ but not trivial after recent acquisitions. The CFO deserves credit for funding strategic pivots without choking the business, but the acquisition era has reduced the margin for error.

3. Capital allocation behavior

Capital allocation is coherent but aggressive. The data package does not provide a complete five-year table for CFO, capex, buybacks, dividends, and R&D, so this assessment does not invent one. The controlled values are the TTM cash-flow figures, FY2025 segment R&D, Q1 FY2026 balance sheet, and management commentary. FY2025 segment R&D was $11.827B in Innovative Medicine and $2.838B in MedTech. TTM FCF was $17.798B. The CFO's Q1 FY2026 commentary pointed to a FY2026 free-cash-flow outlook of about $21B and a $55B U.S.-based manufacturing, technology, and R&D plan through early 2029, with about $12B invested through the end of 2025.

The strategy is internally consistent. Management says JNJ is now focused on innovative medicines and MedTech solutions, and the capital is going into those areas. The Kenvue separation reduced consumer exposure. Abiomed and Shockwave deepen cardiovascular MedTech. Intra-Cellular/CAPLYTA and Halda deepen Innovative Medicine growth options. The $55B U.S. investment plan is aligned with supply-chain resilience, tariff mitigation, tax/regulatory positioning, and capacity for next-generation medicines and devices.

The question is price discipline. Abiomed, Shockwave, and Intra-Cellular were all strategic, but none was obviously cheap. Shockwave and Abiomed are already producing high-teens or mid-teens operational growth in recent commentary, and CAPLYTA provides a near-term neuroscience revenue base with larger indication optionality. Still, purchased growth at large premiums can look smart in early revenue-growth metrics while failing on long-term capital returns. The management gate cannot give a full pass until the combined cardiovascular and neuroscience deals demonstrate durable incremental profit, not just sales growth.

Buybacks appear secondary and mostly mechanical. The Q1 FY2026 10-Q states that Q1 purchases were open-market transactions under a systematic plan to meet compensation-program needs. That is not opportunistic repurchase behavior. It is acceptable given JNJ's dividend record and reinvestment needs, but it does not add much to the capital-allocation score. The dividend remains central. In April 2026, management raised the annual dividend rate to $5.36 and described it as the 64th consecutive year of dividend growth. The dividend is a governance signal and shareholder-return pillar, but ER2 should not confuse the dividend record with high-return reinvestment proof.

4. Compensation alignment

The 2026 proxy shows a large, professionalized compensation system with a meaningful performance link. The 2025 annual incentive framework used financial and strategic goals, including operational sales, adjusted operational EPS, and free cash flow. The Board assessed that JNJ exceeded its combined financial and strategic goals in 2025, awarded Duato an annual bonus at 118.3% of target and long-term incentives at 145% of target, and increased his salary rate for 2026. The proxy also says the 2023-2025 PSUs paid out at 113.6% of target.

Long-term equity is not perfect, but it is better than a purely discretionary program. PSUs are tied to relative TSR and cumulative adjusted EPS, while options and RSUs create additional equity exposure. The weakness is that adjusted EPS and relative TSR can reward financial engineering, M&A timing, multiple expansion, and sector factor moves. The program would be stronger if it had a harder ROIC or economic-profit component, especially given the acquisition-heavy strategy. For a company buying multi-billion-dollar assets, capital returns should be explicit in pay design.

Ownership is adequate. As of February 24, 2026, the proxy lists Duato with 356,297 common shares and 1,407,667 total beneficially owned shares including options or stock units. Wolk is listed with 85,008 common shares and 548,708 total beneficially owned shares including options or stock units. Each individual and the executive/director group owns less than 1% of shares outstanding, which is normal for a company of this size. The ownership is real enough to align incentives at the margin, but JNJ is not founder-led and does not have owner-operator economics.

Governance protections are conventional and useful. The proxy describes stock ownership guidelines, compensation recoupment and clawback policies, and a mandatory recovery policy for incentive-based compensation in the three completed fiscal years before certain restatements. JNJ also prohibits hedging and pledging-style behavior under its governance policies. No compensation structure removes the risk that management overpays for acquisitions, but the package is broadly acceptable for a mega-cap healthcare company.

5. Disclosure quality and candor

Management's disclosure quality is above average on operating performance and below ideal on legal granularity. The last-eight-quarter transcript check covered Q2 FY2024, Q3 FY2024, Q4 FY2024, Q1 FY2025, Q2 FY2025, Q3 FY2025, Q4 FY2025, and Q1 FY2026. The DR-cleared package already verifies the latest four transcript dates and quote fragments. I live-checked the earlier four FMP transcript dates and terms during this M pass; each older call contained repeated discussion of guidance, STELARA, Shockwave, Abiomed, margins, competitive pressure, and free cash flow.

The strongest disclosure behavior is around STELARA. Management did not hide the headwind. The data package records a Q1 FY2026 STELARA decline of 61.7% and roughly 920 bps of Innovative Medicine drag, while also showing segment revenue still grew 7.4% operational in Q1 FY2026. In earlier calls, management repeatedly framed STELARA as the core bridge problem and explained the offset from DARZALEX, CARVYKTI, TREMFYA, SPRAVATO, RYBREVANT/LAZCLUZE, CAPLYTA, and other launches. This is the right style: name the headwind, quantify it where possible, and provide the offsetting portfolio evidence.

The MedTech discussion is also relatively direct. Tim Schmid acknowledged that Orthopaedics had one-time impacts and competitive pressure, and he stated plainly in Q1 FY2025 that performance was not satisfactory in parts of the portfolio. The Q1 FY2026 10-Q further identifies Orthopaedics separation costs, tariffs, restructuring, and Surgery/Orthopaedics program costs. The company is not pretending every MedTech problem is macro noise.

Guidance discipline appears strong over the recent window. The data package records that JNJ raised 2025 sales and EPS guidance in Q2 and Q3 FY2025, issued FY2026 guidance with reported sales midpoint of $100.5B and adjusted EPS midpoint of $11.53 in January 2026, and raised 2026 guidance in April 2026 to reported sales midpoint of $100.8B and adjusted EPS midpoint of $11.55. This cadence supports management credibility, although one year of beats and raises is not enough to prove a decade-long algorithm.

The weak point is legal candor. JNJ is clear about its position that talc claims are defensible and that it will litigate, but the language is necessarily adversarial. The company gives reserves and proceedings in SEC filings, yet investors still face a wide range of possible legal outcomes. This is not a disclosure failure in the accounting-control sense; Q1 FY2026 controls were reported effective with no material internal-control change. It is a governance risk: the legal strategy is hard for outside shareholders to underwrite.

6. Strategic coherence

The strategy is coherent: JNJ wants to be a focused healthcare innovation company built around Innovative Medicine and MedTech. Duato's corporate biography describes the company as exclusively focused on difficult health challenges through medicines and medtech solutions. The data package captures management's repeated long-range frame: a line of sight to double-digit growth, faster growth in 2026 than 2025, and a new era of accelerated growth. The strategy is supported by actual investment: Kenvue separation, pipeline R&D, cardiovascular M&A, neuroscience M&A, U.S. manufacturing spend, and Orthopaedics separation.

The coherence does not mean the strategy is low risk. The growth algorithm depends on several things happening at once: STELARA erosion must moderate, TREMFYA must become a much larger immunology pillar, oncology must keep expanding beyond DARZALEX, CAPLYTA must justify Intra-Cellular's price, cardiovascular MedTech must sustain high growth from Abiomed and Shockwave, and OTTAVA/MONARCH need to matter later in the decade. Management is giving a clear destination, but the bridge is complex.

Competitive threats are partly named. In calls and filings, management has discussed biosimilar pressure, Part D redesign, electrophysiology competition, China VBP, tariffs, procedure dynamics, and Orthopaedics pressures. That is a constructive sign. The least transparent areas are product-level economics and acquired-asset ROIC. The data package explicitly notes that product-dollar histories are limited and that QF did not provide a full ROIC series. Management may be strategically coherent, but ER2 should not fill missing capital-return proof with narrative confidence.

7. Governance flags

The major governance flag is talc litigation. The Q1 FY2026 10-Q incorporates legal proceedings by reference to the financial statement notes, and the FY2025 10-K contains the broader litigation discussion. The bankruptcy route through Red River was rejected in March 2025, and the company returned to the tort system. This is not an immediate management FAIL because the issue predates Duato, the company has reserves and disclosure, and there is no current internal-control failure flagged. It is, however, enough to cap the management gate at YELLOW. A decade-long compounder cannot have a large unresolved legal overhang ignored as background noise.

Related-party disclosures are not thesis-breaking. The 2026 proxy discloses that Wolk's sister was employed by a JNJ services subsidiary and earned $245,969 in total compensation in 2025, with compensation set under ordinary employment practices, and that Kathryn Wengel's brother-in-law was a partner at a law firm that JNJ paid about $13.93M in 2025, while he did not bill services to JNJ and Wengel had no involvement in retention or payments. The proxy states these transactions were approved under the related-person policy. These are watch items, not red flags.

There is no dual-class share structure. There are no material-weakness flags in the Q1 FY2026 controls disclosure. Insider ownership is small in percentage terms but not absent. The combined Chair/CEO structure remains a governance concern, but the lead independent director and independent committees partly mitigate it.

8. Peer comparison

Against Eli Lilly's David Ricks, Duato ranks lower on visible value creation and capital allocation proof. Ricks became CEO in 2017 and Lilly's diabetes/obesity execution has created an unusually clear, organic, high-return compounding story. JNJ is more diversified and less binary, but its growth bridge requires more M&A and more offsetting of legacy headwinds.

Against Abbott's Robert Ford, Duato is roughly comparable on operational complexity but less proven post-reset. Ford has run Abbott since 2020 and has navigated diagnostics normalization, devices, nutrition, and balance-sheet discipline. Abbott's management communication is often cleaner because litigation and large pharma LOE issues are less central. JNJ has a deeper Innovative Medicine growth portfolio, but also larger legal and acquired-goodwill complexity.

Against Medtronic's Geoff Martha, Duato compares favorably on portfolio action. Medtronic has faced more activist pressure and slower perceived execution, while JNJ is actively separating Kenvue and planning Orthopaedics separation, buying into cardiovascular growth, and funding pipeline assets. In MedTech specifically, JNJ's cardiovascular moves look more decisive

than Medtronic's broader self-help story. The caveat is that JNJ paid heavily for that acceleration.

Overall, Duato is a capable internal steward, not yet a top-tier capital allocator on Gideon's standard. He ranks behind the best pharma compounder CEOs with organic blockbuster evidence, ahead of weaker diversified medtech self-help stories, and near the middle of the high-quality healthcare peer set.

9. Verdict on the management gate

Management gate: YELLOW.

Johnson & Johnson has a credible, experienced management team, a coherent post-Kenvue strategy, a strong CFO, high-quality segment leaders, and a board structure with real independent oversight. Disclosure around STELARA, MedTech pressure, guidance, and cash flow is good enough to trust the operating discussion. Capital allocation is directionally sensible: dividends are sustainable, R&D remains large, U.S. manufacturing investment has strategic logic, and recent M&A targets the right categories.

The gate is not a full PASS because the most important capital allocation decisions are not yet seasoned. Abiomed, Shockwave, and Intra-Cellular/CAPLYTA could be excellent assets, but the company paid real prices and now carries $33.299B of net debt at the Q1 FY2026 anchor. The talc litigation strategy remains a governance overhang, and the combined Chair/CEO structure is tolerable rather than best-in-class. ER2 should treat management as investable but not self-certifying. Position sizing and final verdict should require hard proof that acquired growth converts into durable incremental profit and that litigation does not impair strategic flexibility.

Sources used: DR-cleared `C:\Users\Admin\OneDrive\GPT\ER 2.0\Johnson & Johnson\data_package.md`; JNJ 2026 proxy statement, SEC DEF 14A filed 2026-03-11, https://www.sec.gov/Archives/edgar/data/200406/000020040626000063/jnj-20260309.htm; JNJ Q1 FY2026 Form 10-Q, https://www.sec.gov/Archives/edgar/data/200406/000020040626000087/jnj-20260329.htm; JNJ FY2025 Form 10-K, https://www.sec.gov/Archives/edgar/data/200406/000020040626000016/jnj-20251228.htm; JNJ leadership biographies for Duato, Wolk, Taubert, and Schmid at https://www.jnj.com/leadership; JNJ official releases for Kenvue separation, Abiomed, Shockwave, and Intra-Cellular transactions; live FMP transcript date list and earning-call-transcript checks for JNJ Q2 FY2024 through Q1 FY2026.

Appendix W - Moat and 2046 Durability

Johnson & Johnson - Moat and 2046 Durability

Prepared for ER2 Production Mode. Ticker: JNJ. Company: Johnson & Johnson. Date: 2026-04-30. Test date: 2046-04-30. TTM anchor: Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, ending 2026-03-29. This appendix uses the DR-cleared data package and QF/QFR-controlled historicals as the numerical base. Segment appendices were checked while this file was prepared, but the available `appendix_B_*` files were still in placeholder form, so they are not used as supporting evidence.

1. Moat Taxonomy Applied

Johnson & Johnson's moat is real, but it is not one moat. The post-Kenvue company is a two-segment healthcare innovation platform with $96.362 billion of TTM revenue: $61.954 billion from Innovative Medicine and $34.408 billion from MedTech. The moat is strongest where the company controls regulated, clinically validated products used in high-acuity care and reimbursed through complex healthcare channels. It is weakest where mature devices face tender pressure, surgeon preference is less locked in, pricing is visible to hospital procurement, or a pharmaceutical product has reached loss of exclusivity. The right lens is therefore not "JNJ has a patent moat." The right lens is a portfolio of regulatory, IP, evidence, manufacturing, physician workflow, payer access, procurement, and scale advantages, continuously offset by patent cliffs, biosimilars, generics, litigation, and policy pressure.

Network effects are limited. JNJ does not have a software marketplace or a data network where each new user structurally improves the product for every other user. There are local evidence and adoption loops: more physicians using a therapy or device can create more real-world experience, more comfort in guidelines, more training density, and more commercial feedback. In MedTech, surgeon familiarity with a platform, trained field support, and installed capital can reinforce adoption. In Innovative Medicine, clinical trial depth and guideline inclusion can compound physician confidence. These are not true network effects; they are reputation and evidence flywheels.

Switching costs are meaningful, especially in MedTech and chronic specialty medicine. A hospital, surgeon, electrophysiologist, or ophthalmologist does not switch procedure-critical tools casually, because switching carries training, reliability, inventory, service, outcomes, and liability risk. The same is true for physicians who have titrated a patient onto a biologic, oncology regimen, or psychiatric medicine that works. The switching cost is rarely contractual lock-in. It is clinical and workflow inertia. That is a durable source of advantage in Cardiovascular, Surgery, Vision, and parts of Innovative Medicine, but weaker in commodities, genericized molecules, tendered markets, and mature orthopaedic categories.

Scale economies are strong. JNJ spreads R&D, regulatory affairs, manufacturing quality systems, pharmacovigilance, medical affairs, market access, sales coverage, field support, and compliance infrastructure over a large global revenue base. The FY2025 10-K frames competition as global and research-intensive across all product lines, which means the ability to keep investing matters. In FY2025, Innovative Medicine carried $11.827 billion of segment R&D and MedTech $2.838 billion. That spending is not optional decoration; it is the cost of remaining relevant. Scale also gives JNJ acquisition capacity, which matters because the current growth bridge includes Intra-Cellular/CAPLYTA, Shockwave, Abiomed, Halda, and other externally sourced innovation.

Brand is useful but secondary. JNJ has a trusted corporate name, and brands such as DARZALEX, TREMFYA, SPRAVATO, CAPLYTA, Impella, Shockwave, ACUVUE, TECNIS, and ATTUNE matter in their respective channels. But in prescription drugs and devices, brand without evidence is not enough. Physicians, payers, regulators, and procurement committees care about outcomes, safety, cost effectiveness, reimbursement, and workflow. The corporate brand may help access and trust, but it cannot protect STELARA from biosimilars, XARELTO from share erosion, or a device category from China volume-based procurement.

Regulatory advantage is central. JNJ operates in markets where FDA, EMA, EU MDR, post-market surveillance, quality systems, privacy, cybersecurity, and AI/data regulation raise entry barriers. The 2025 10-K notes increasing testing and documentation required for approval of new drugs and devices, including similar trends in major non-U.S. markets. This does not guarantee success, but it makes healthcare innovation a high-friction game. A new entrant must clear clinical, regulatory, manufacturing, and reimbursement gates before commercial competition even begins.

IP and patents are powerful but finite. The 10-K states that JNJ subsidiaries own or license a significant number of patents covering products, uses, formulations, and manufacturing processes, and also face challenges from third parties seeking

generic and biosimilar entry. DARZALEX and DARZALEX FASPRO accounted for about 15.0% of FY2025 company revenue; key Genmab patent families expire in the U.S. in 2029 and in parts of Europe in 2031/2032, while JNJ owns separate patent portfolios for DARZALEX formulations. STELARA, the second largest product at about 6.5% of FY2025 revenue, is already under biosimilar pressure. IP is a moat at the asset level, but a 20-year JNJ moat must be portfolio renewal, not one patent wall.

High-trust procurement is the most underappreciated moat. JNJ sells into hospitals, surgery suites, interventional labs, oncology practices, specialist channels, wholesalers, payers, and health systems. These buyers do not optimize solely for sticker price. They evaluate reliability, clinical evidence, reimbursement, supply assurance, training, service, quality systems, and risk. That trust moat is especially relevant in MedTech, where the product must work in a procedure, and in high-acuity oncology/cardiovascular medicine, where clinical failure is not tolerable. It is also exactly where litigation, recalls, or quality failures can do disproportionate damage.

2. Per-Segment Moat

Innovative Medicine has the stronger current economic moat, but it is cyclical at the product level. FY2025 revenue was $60.401 billion and segment income before tax was $22.266 billion, a 36.9% segment margin. Its moat is the combination of regulated clinical development, patents and data exclusivity, biologic manufacturing complexity, physician confidence, guideline placement, payer access, and a global commercialization machine. The evidence is margin and growth despite visible patent pressure: FY2025 Innovative Medicine revenue grew 6.0%, and Q1 FY2026 operational growth was 7.4% even with STELARA creating about a 920 basis point headwind to the segment. The durability is high over five years if oncology, TREMFYA, SPRAVATO, CAPLYTA, and the pipeline offset STELARA, XARELTO, IMBRUVICA, OPSUMIT, and other mature erosion. It is credible over ten years only if replenishment continues. It is not naturally durable for twenty years at the product level; by 2046 almost none of today's key patent-protected economics should be assumed intact. The earliest warning sign is not one failed trial. It is a two- to three-year pattern where launch assets underperform loss-of-exclusivity erosion while pricing policy expands to more products.

MedTech has a different, more procedural moat, but the current reported economics are weaker. FY2025 revenue was $33.792 billion and segment income before tax was $4.113 billion, a 12.2% segment margin. The moat lives in surgeon and physician workflow, clinical training, procedural reliability, product breadth, hospital procurement, installed support, and evidence-driven adoption. Cardiovascular is the best example: electrophysiology, Abiomed's Impella platforms, and Shockwave intravascular lithotripsy benefit from procedure growth, evidence, clinician training, and device-specific workflows. Vision also has repeat-use and professional-channel advantages, with ACUVUE and TECNIS supported by market growth, product launches, and price actions. Surgery is more mixed: scale and workflow help, but China volume-based procurement and competition in Energy and Endocutters are explicit offsets. Orthopaedics is weakest: FY2025 growth was only 1.1%, margins have been pressured, restructuring has been required, and JNJ announced an intended separation targeted within 18 to 24 months of the October 2025 announcement. The earliest warning sign is continued low-single-digit MedTech growth with no margin recovery despite cardiovascular mix improvement.

The blended company moat is weaker than the best parts of Innovative Medicine suggest. Innovative Medicine is 64.3% of TTM revenue and structurally high margin, but it requires serial innovation because exclusivity expires. MedTech is 35.7% of revenue and more workflow-durable in certain categories, but it currently earns far lower segment margin and contains mature, procurement-exposed assets. A bullish moat view based only on pharma patents misses the MedTech margin drag. A bearish view based only on STELARA misses the portfolio and procedural durability. The correct blended answer is strong healthcare franchise quality with a meaningful 2046 renewal burden.

3. Margin Persistence Evidence

The margin record supports a moat, but not a clean compounder moat. Consolidated GAAP operating margin for ten years is not available in QF and is not reconstructed here. The controlled evidence is segment income before tax. Innovative Medicine revenue increased from $51.680 billion in FY2021 to $60.401 billion in FY2025, while segment margin moved from 34.3% in FY2021 to 29.8% in FY2022, 33.3% in FY2023, 33.2% in FY2024, and 36.9% in FY2025. This is attractive persistence through patent, policy, currency, R&D, and launch-cycle pressure. Some FY2025 improvement reflects absence of prior acquired IPR&D and litigation income versus prior expense, so the 36.9% should not be treated as a permanently reset floor, but the multi-year range remains high.

MedTech revenue increased from $27.060 billion in FY2021 to $33.792 billion in FY2025, but segment margin declined from 15.6% in FY2021 to 16.2% in FY2022, 15.4% in FY2023, 11.7% in FY2024, and 12.2% in FY2025. That is not the margin

profile of an obviously widening moat. The 10-K points to acquisition/integration costs, IPR&D items, litigation, restructuring, tariffs, transactional currency, China volume-based procurement, and macro factors. Some of these are transitory, but the segment still has to prove that cardiovascular mix, product innovation, portfolio pruning, and robotics/vision launches can lift profitability. Margin persistence therefore earns a PASS for Innovative Medicine and a YELLOW for MedTech.

TTM free cash flow was $17.798 billion, or 84.6% of TTM net income. This supports the enterprise moat because JNJ can fund R&D, capex, dividends, litigation, M&A, and debt service from internal cash generation. It does not by itself prove high returns on new capital. The balance sheet had $54.987 billion of total debt and $33.299 billion of net debt at Q1 FY2026, so poor acquisition returns would erode the moat over time.

4. AI Disruption Stress Test

Innovative Medicine is not primarily a prompt-to-output workflow. AI can accelerate target discovery, protein design, trial design, patient identification, safety monitoring, and medical affairs, but it does not eliminate the need for clinical trials, regulatory approval, manufacturing validation, label negotiation, reimbursement, physician trust, and post-market safety. A foundation model with the same public literature cannot replicate DARZALEX revenue without owning the molecule, patents/licenses, manufacturing, label, evidence, sales access, and reimbursement. AI is more likely to compress parts of discovery and commercial analytics than to destroy the economics of approved specialty therapies. The risk is indirect: if AI lowers discovery costs for everyone, more competitors can attack the same targets and mechanisms faster, shortening the duration of excess returns unless JNJ's development, access, and portfolio allocation improve.

MedTech is more exposed to AI in workflow-adjacent categories, but still protected by hardware, procedure, regulation, and clinical training. AI can improve imaging, surgical planning, robotic assistance, device navigation, patient selection, inventory, and service. It can also make some differentiated features easier for competitors to copy. But a catheter, heart pump, lithotripsy balloon, intraocular lens, contact lens, wound closure product, or robotic surgery platform is not just information output. It must be manufactured, sterilized, regulated, stocked, serviced, learned by clinicians, and trusted during procedures. The moat lives in embodied technology and clinical workflow, not in generic prediction.

The segment most exposed to AI disruption is MedTech Surgery/robotics and procedure planning, because software and robotics layers can shift surgeon workflow and create platform competition. If an AI-native surgical platform becomes the procedure operating system, legacy device vendors could lose attachment points. JNJ's OTTAVA and MONARCH work are attempts to participate in that shift, but they are not yet the economic base. The most protected segment is high-acuity Innovative Medicine oncology and cardiovascular MedTech, where value depends on regulated therapeutics/devices, clinical evidence, manufacturing, and physician trust. AI changes the toolchain; it does not dissolve those chokepoints.

5. The 2046 Test

Today's date is 2026-04-30. The 20-year test date is 2046-04-30. A credible 2046 JNJ is still a global healthcare company selling regulated specialty medicines and high-acuity medical technology to physicians, hospitals, health systems, payers, and patients. It likely still reports a large Innovative Medicine business, but the product list will be almost entirely different. DARZALEX, STELARA, XARELTO, IMBRUVICA, OPSUMIT, and many current brands should be modeled as mature, genericized, biosimilarized, replaced, or much smaller by then. The 2046 Innovative Medicine business must be oncology, immunology, neuroscience, and cardio-metabolic/pulmonary assets that were discovered, licensed, or acquired after today's anchor, protected by new clinical evidence and access positions. It should still make money if JNJ remains good at selecting high-burden diseases, running trials, manufacturing biologics/cell therapies/advanced modalities, securing reimbursement, and launching through global specialty channels.

In 2046, MedTech should be a cardiovascular, surgical workflow, vision, and possibly robotics/navigation platform business, with Orthopaedics likely outside the perimeter if the announced separation is completed. The most durable MedTech assets are those used in high-acuity procedures where clinician training, reliability, service, and evidence matter more than pure price. Cardiovascular should still exist if JNJ continues to own meaningful positions in electrophysiology, mechanical circulatory support, vascular intervention, and adjacent procedures. Vision can persist if ACUVUE/TECNIS or successor platforms remain clinically and commercially relevant. Surgery can persist if the company either wins or effectively plugs into robotic and digitally guided procedure workflows. Operating margin in 2046 is more likely stable to modestly lower than today's best Innovative Medicine margin, because policy pricing, global tenders, acquisition amortization, and continuous reinvestment should absorb part of scale benefits. It could be higher than today's MedTech margin if portfolio pruning succeeds and cardiovascular/robotics mix improves.

The reason this 2046 business still makes money is not that today's patents last twenty years. They do not. The reason is that healthcare remains regulated, evidence-intensive, trust-constrained, manufacturing-heavy, and procedurally complex. JNJ's moat in 2046 would be a repeatable capability: identify clinically valuable innovation, acquire or develop it, prove it, manufacture it at quality, obtain approval, fit it into reimbursement and clinical workflow, and defend it until the next cycle. That is a plausible moat, but it is a capability moat, not a static asset moat.

The bear-case 2046 description is also plausible. In that version, JNJ becomes a lower-growth healthcare conglomerate whose pharma pipeline fails to offset LOE waves, while governments use IRA-style negotiation and international reference pricing to cap returns on successful products. MedTech remains competitive but does not recover margin because hospitals, China VBP-like systems, and robotic platform owners capture the economics. Litigation and product-liability reserves consume cash that could have funded innovation. AI-native discovery and surgical platforms do not replace JNJ directly, but they lower barriers and shift bargaining power to faster specialists and platform owners. I would assign this bear case a medium probability, not remote.

6. Competitive Threat Inventory

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
Patent cliff and biosimilar/generic erosion	Loss of exclusivity, patent challenges, court/USPTO receptivity, biosimilar and generic launches	Innovative Medicine	STELARA-like declines broaden; launch products fail to offset erosion for 6-8 quarters	High
Healthcare pricing and reimbursement pressure	IRA negotiation, Medicare Part D redesign, 340B expansion, EU/UK/Japan/China pricing systems, payer consolidation	Innovative Medicine and MedTech	Net price declines exceed volume/mix; selected-drug exposure expands to growth brands	High
Procedural platform and procurement displacement	Hospitals standardize on lower-cost devices, China VBP expands, robotic/digital workflow owners control surgeon interface	MedTech	Cardiovascular growth slows; Surgery/Orthopaedics price pressure persists; robotics launches miss adoption milestones	Medium-high

7. Pricing Power Verification

Pricing power is present but bounded. In Innovative Medicine, high clinical value can support reimbursement and net pricing while exclusivity lasts, but the 10-K is explicit that pricing, coverage, reimbursement, IRA government-established prices, Medicare redesign, and international government involvement pressure sales. XARELTO, STELARA, IMBRUVICA, and ERLEADA being included in selected-drug processes or policy discussion illustrates that successful products attract policy attention. Pharma pricing power is therefore strongest at launch and during differentiated clinical leadership, then decays as competition and policy catch up.

In MedTech, pricing power varies by category. Vision provides the cleanest positive evidence: FY2025 Vision growth was supported by market growth, ACUVUE OASYS 1-Day performance, recent launches, and strategic price actions. Cardiovascular growth is more volume/procedure and technology-driven than pure price-driven, which can still be attractive if evidence supports adoption. Surgery and Orthopaedics show the limits: China volume-based procurement, competitive pressure in Energy and Endocutters, and U.S. price pressure in Spine/Sports/Other are direct evidence that not all MedTech revenue has pricing power. Contract structures are not disclosed in the data package with enough detail to prove multi-year escalators or minimum commitments. The fair conclusion is selective pricing power, not blanket pricing power.

8. Moat Verdict

Moat gate: YELLOW. JNJ has a real healthcare moat built on regulation, IP, clinical evidence, manufacturing quality, physician workflow, payer/provider access, and global scale. Innovative Medicine passes the current moat test but requires continuous replenishment because patents and exclusivity expire; MedTech has durable procedural advantages in cardiovascular and vision but a weaker reported margin profile and procurement-exposed categories. The blended moat is investable-quality but not automatically Gideon-quality without proof that pipeline and MedTech margin recovery can outrun policy, litigation, and LOE drag.

2046 test: YELLOW. A specific 2046 JNJ can be described: a regulated specialty medicine and high-acuity medical technology company whose product list has turned over but whose clinical, regulatory, manufacturing, and procurement capabilities remain valuable. The test is not a clean PASS because the economics depend on twenty years of serial

innovation, acquisition discipline, and policy navigation, not on assets already visible today. The segment that most supports durability is Innovative Medicine's high-margin specialty portfolio, with cardiovascular MedTech as the best non-pharma durability anchor. The segment composition makes the moat weaker than a pharma-only patent-cycle analysis would imply, but stronger than a generic "large healthcare conglomerate" label would suggest.

Appendix B1 - Innovative Medicine

Innovative Medicine - Segment Deep Dive

Prepared for ER2 Production Mode Sub-Agent B. Ticker: JNJ. Company: Johnson & Johnson. Segment: Innovative Medicine. Today: 2026-04-30. TTM anchor: Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, ending 2026-03-29. Forward horizon: 2031-03-29.

0. Segment Boundary And Taxonomy Note

Innovative Medicine is Johnson & Johnson's continuing-operation pharmaceutical and biologics segment under the post-Kenvue reporting structure. The data package states that current reportable segments are only Innovative Medicine and MedTech, with Consumer Health excluded after the Kenvue separation [data_package Section 1, Reporting Structure table]. QF selected official SEC reportable-segment rows under the post-Kenvue taxonomy for FY2021-FY2025 and for the TTM anchor, so the five-year segment totals in this appendix are comparable only because QF/QFR used recast continuing-operation segment rows and avoided mixing older Consumer, Pharmaceutical, and Medical Devices endpoint labels [data_package Section 1, taxonomy flag; quant_foundation P1B controlling treatment]. The boundary warning is material: older FMP quarterly rows use predecessor labels, and the FY2023 endpoint mismatch reflects H1 Consumer revenue included in legacy quarterly rows rather than a real business residual [data_package Section 1; quant_foundation P1B]. Therefore, all historical segment dollars here come from data_package Section 3 and quant_foundation P2/P4; no historical JNJ figures were re-fetched or normalized by this segment appendix.

1. What This Segment Actually Is

Innovative Medicine is JNJ's global branded-drug business. The segment develops, licenses, manufactures, markets, and sells prescription medicines and biologics across Oncology, Immunology, Neuroscience, Pulmonary Hypertension, Cardiovascular/Metabolism/Other, and Infectious Diseases [quant_foundation P-Taxonomy, Innovative Medicine categories]. It is not a commodity generic portfolio. The economics are those of a research-driven pharmaceutical platform: patent-protected or biologically complex therapies, high clinical and regulatory risk before launch, high gross margins once products scale, material R&D expense, specialist physician detailing, payer access negotiation, patient-support infrastructure, pharmacovigilance, and lifecycle-management investment.

The customer is not a single buyer. In the United States, demand is influenced by physicians, patients, hospitals and infusion centers, pharmacy benefit managers, commercial insurers, Medicare, Medicaid, and specialty pharmacies. Outside the United States, national health systems, regional tenders, and health technology assessment bodies often have more direct pricing influence. The product is paid for per prescription, per administration, or per treatment course, depending on molecule and channel. Oncology and immunology products can carry premium pricing when they improve survival, reduce disease activity, or provide better administration convenience; however, exclusivity is finite and pricing power is constrained by payer management, biosimilar entry, Medicare negotiation, and international reference pricing.

The segment's current growth narrative is a portfolio replacement problem. STELARA, historically one of JNJ's most important immunology products, is now eroding under biosimilar pressure. The data package records that Q1 FY2026 STELARA declined 61.7% and created about a 920 bp headwind to Innovative Medicine [data_package Section 4, Growth-rate disclosures row STELARA]. Against that pressure, JNJ is leaning on oncology assets such as DARZALEX, CARVYKTI, TECVAYLI, TALVEY, RYBREVANT plus LAZCLUZE, and ERLEADA; immunology follow-ons and launches such as TREMFYA and ICOTYDE; neuroscience assets such as SPRAVATO and CAPLYTA; and the pulmonary hypertension franchise. The deep question is whether these assets can more than offset the STELARA cliff while preserving high segment income before tax margins.

The go-to-market model varies by therapeutic area. Oncology is specialist-driven and evidence-driven, often linked to NCCN guideline inclusion, biomarker testing, companion regimens, academic-center adoption, and community oncologist conversion. Immunology is broader but payer-sensitive; formularies, prior authorization, rebate architecture, and route of administration matter. Neuroscience combines specialist prescribing with behavioral-health access constraints, especially for products such as SPRAVATO. Pulmonary hypertension is a rare-disease/specialty market with high-touch diagnosis, specialist-center concentration, and durable patient support. Across all of these, JNJ benefits from global scale, manufacturing and biologics know-how, regulatory infrastructure, and capital capacity, but none of those remove the need to keep replacing mature exclusivity with new clinical differentiation.

2. Current Economics

The data package gives Innovative Medicine FY2025 revenue of $60.401B, equal to 64.1% of JNJ continuing-operation revenue, and TTM revenue ending 2026-03-29 of $61.954B, equal to 64.3% of the company total [data_package Section 1, Reporting Structure table]. FY2025 segment income before tax was $22.266B on $60.401B of revenue, a 36.9% segment margin [data_package Section 3, Innovative Medicine table; quant_foundation P2]. The most recent annual margin is unusually strong relative to the prior three years: 29.8% in FY2022, 33.3% in FY2023, 33.2% in FY2024, and 36.9% in FY2025 [data_package Section 3, Innovative Medicine table]. Q1 FY2026 transcript commentary cited an adjusted income before tax margin of 39.7% for Innovative Medicine, but the data package explicitly does not convert that into a verified four-quarter segment margin series [data_package Section 5, quarterly operating margin limitation]. This appendix therefore uses FY2025's 36.9% margin as the controlled current profit base and treats the Q1 FY2026 39.7% figure as a recency read-through, not a TTM margin.

Segment growth is not weak, but it is not yet the double-digit end-of-decade algorithm management is selling. FY2025 segment revenue grew 6.0% reported and 5.3% operational, while Q1 FY2026 accelerated to 11.2% reported and 7.4% operational [data_package Section 3 interpretation; Section 5 recent quarterly trend]. The acceleration matters because it happened while STELARA was already a major drag. At the same time, the Q1 acceleration included acquisition/divestiture help from CAPLYTA, so it cannot be treated as a clean organic run rate [data_package Section 3 interpretation].

The product-level dollar picture is intentionally limited. QF did not carry a verified multi-year product-dollar table into the cleared foundation, and the data package tells downstream subagents not to introduce product-level revenue dollars for named platforms unless the release or transcript explicitly states the number [data_package Section 4, Product And Sub-Segment Disclosure Limitations]. The dollar-disclosed Q1 FY2026 Innovative Medicine items captured in the package are DARZALEX at about $4.0B of Q1 sales with 17.8% operational growth, CARVYKTI at about $0.6B of Q1 sales with 57.4% growth, CAPLYTA at $270M of Q1 sales after the Intra-Cellular acquisition, and RYBREVANT plus LAZCLUZE at $257M of Q1 sales with 80.5% growth [data_package Section 4, dollar-disclosed rows; Section 4, growth-rate rows]. Growth-rate-only disclosures include TECVAYLI up 30.1% with 14.2% sequential growth, TALVEY up 72.8%, ERLEADA up 16.2%, TREMFYA up 63.8%, SPRAVATO up 44.5%, and STELARA down 61.7% with about a 920 bp segment headwind [data_package Section 4, Growth-rate disclosures]. Those disclosures are useful for direction, but they are not a substitute for a fully disclosed product revenue history.

Capital intensity is mixed. Innovative Medicine does not consume manufacturing capex like a semiconductor fab or heavy industrial operation, but it consumes very high R&D and launch investment. QF shows FY2025 Innovative Medicine R&D of $11.827B, SM&A of $11.375B, cost of products sold of $15.646B, other expense of $0.713B, and segment income before tax of $22.266B [quant_foundation P2, FY2025 Innovative Medicine row]. R&D was 19.6% of segment sales in FY2025, and SM&A was 18.8%. The segment's profit pool is therefore highly sensitive to both clinical productivity and commercial execution. If the pipeline does not replace STELARA, the company still carries the R&D and launch machine; if launches scale, that same machine can produce operating leverage.

3. Unit Economics

Innovative Medicine turns revenue into profit through a familiar branded-pharma funnel: high gross profit after manufacturing and royalties, then substantial R&D, sales, medical affairs, market access, regulatory, and administrative spending. FY2025 cost of products sold was $15.646B against $60.401B of Innovative Medicine revenue, implying cost of products sold at 25.9% of segment sales before considering SM&A, R&D, and other income/expense [quant_foundation P2, FY2025 Innovative Medicine row]. That is a strong gross-profit structure, but it does not automatically translate into stable segment margins because the segment must fund late-stage clinical programs, lifecycle studies, indications, label expansions, safety monitoring, and launch infrastructure.

The margin bridge in the last five years shows the operating leverage and reinvestment tension. Revenue increased from $51.680B in FY2021 to $60.401B in FY2025, a four-year CAGR of about 4.0%, but segment income before tax moved from $17.750B to $22.266B, and margin moved from 34.3% to 36.9% [data_package Section 3, Innovative Medicine table]. FY2022 was the weak point, with a 29.8% margin, and FY2025 was the strongest disclosed year in the five-year panel. The rebound after FY2022 implies the segment can absorb reinvestment and still recover margin when growth mix, cost discipline, and expense timing are favorable. It does not prove that 39%-40% is a durable through-cycle margin, especially during a launch-heavy period.

The core unit-economic advantage is clinical differentiation under exclusivity. A therapy such as DARZALEX can sustain premium pricing and high contribution if it remains standard-of-care in multiple myeloma and continues expanding use across

earlier lines and combinations. CARVYKTI, TECVAYLI, and TALVEY have different delivery and manufacturing profiles, but the same economic principle applies: high value per treated patient if clinical outcomes are differentiated, with scale depending on capacity, physician comfort, safety management, and reimbursement. RYBREVANT plus LAZCLUZE carries the economics of a lung cancer regimen with high unmet need and rapid early growth, but oncology competition can be intense and standards change quickly.

Immunology is structurally attractive but less forgiving after loss of exclusivity. STELARA shows the downside: a large, mature biologic can move from high-margin protected anchor to severe headwind once biosimilars enter. The data package's Q1 FY2026 STELARA decline of 61.7% and about 920 bp Innovative Medicine headwind is the clearest current example [data_package Section 4, STELARA row]. TREMFYA and ICOTYDE are the intended successor story. Management says TREMFYA is projected to deliver more than $10B, and ICOTYDE has the potential to be a major asset [data_package Section 6, Innovative Medicine commentary rows]. If those products scale, JNJ keeps immunology relevance and can partly redeploy the commercial infrastructure built for prior biologics. If they underperform, the fixed commercial and R&D structure weighs more heavily on segment margin.

Neuroscience has a different unit-economic profile. SPRAVATO's 44.5% growth and CAPLYTA's $270M Q1 FY2026 sales after acquisition show that this is no longer a small optionality bucket [data_package Section 4, SPRAVATO and CAPLYTA rows]. Still, neuroscience commercialization can require more patient access support, payer education, psychiatric-provider engagement, and adherence infrastructure than mature oncology or immunology products. CAPLYTA is also an acquired contribution, not a legacy organic base, so early growth must be separated from sustainable underlying Innovative Medicine productivity [data_package Section 3 interpretation; Section 4 CAPLYTA row].

The main margin-up mechanisms are mix shift toward high-growth oncology and immunology launches, manufacturing scale, less severe STELARA drag after the steepest erosion phase, and SG&A leverage if new products use existing specialist infrastructure. The main margin-down mechanisms are failed launch spending, high R&D intensity without approvals, acquired intangible amortization or deal-related costs outside segment comparability, payer rebates in crowded classes, biosimilar pressure beyond STELARA, and pricing pressure in the United States or international tenders. For the five-year model, margin should move with pipeline productivity, not just revenue growth.

4. Competitive Dynamics

Innovative Medicine competes in some of the most crowded and scientifically dynamic categories in global pharmaceuticals. In oncology, JNJ is strong in multiple myeloma through DARZALEX and newer cell therapy and bispecific assets such as CARVYKTI, TECVAYLI, and TALVEY. Its competitors include large oncology franchises from Roche, AbbVie, Bristol Myers Squibb, Pfizer, Merck, Gilead/Kite, Novartis, AstraZeneca, Amgen, Sanofi, Regeneron, and others, depending on disease and mechanism. The competitive basis is not simply price. It is survival benefit, depth and duration of response, safety profile, line-of-therapy movement, dosing convenience, manufacturing reliability for cell therapies, combination data, physician confidence, guideline inclusion, and payer access.

Multiple myeloma is a useful example of both strength and risk. DARZALEX remains a major platform, with Q1 FY2026 sales of about $4.0B and 17.8% operational growth [data_package Section 4, DARZALEX row]. That suggests JNJ still has a scaled, growing anchor, not merely a maturing legacy brand. CARVYKTI's Q1 FY2026 sales of about $0.6B and 57.4% growth show another high-growth myeloma asset [data_package Section 4, CARVYKTI row]. TECVAYLI and TALVEY are also growing quickly from disclosed rates [data_package Section 4, growth-rate rows]. The risk is that myeloma treatment standards change quickly as CAR-T, bispecifics, antibody combinations, and sequencing strategies compete for earlier use. JNJ has multiple shots, which is a moat-like portfolio feature, but the category is not protected by a single unassailable product.

In lung cancer, RYBREVANT plus LAZCLUZE had Q1 FY2026 sales of $257M and 80.5% growth [data_package Section 4, RYBREVANT plus LAZCLUZE row]. That is rapid growth from a smaller base and supports management's oncology ambition. The competitive context is tough: lung cancer is heavily contested by targeted therapies, immuno-oncology regimens, and fast-moving clinical evidence. JNJ's advantage must come from demonstrated clinical benefit in defined patient populations, not just brand scale. The base case gives this area credit as a growth contributor but does not assume every early lung-cancer opportunity becomes a dominant standard.

In immunology, STELARA erosion is the immediate fact pattern. Biosimilar entry has already created a severe decline, and the segment must replace that high-quality revenue with TREMFYA, ICOTYDE, and other immunology innovation. TREMFYA's 63.8% Q1 FY2026 growth and management's projection of more than $10B are important [data_package Section 4, TREMFYA row; Section 6 Innovative Medicine commentary]. However, immunology is one of the most competitive

therapeutic classes in pharma. AbbVie, Eli Lilly, Novartis, Pfizer, Amgen, UCB, Sanofi, Regeneron, and others can pressure share, formulary position, and net price. TREMFYA's durability will depend on differentiated efficacy and safety, label breadth, payer access, and whether it can expand beyond current indications at attractive net prices.

Neuroscience is a more concentrated growth option for JNJ than it used to be. SPRAVATO's 44.5% Q1 FY2026 growth and CAPLYTA's acquired Q1 sales of $270M put the category on the segment map [data_package Section 4]. Competitors include other branded psychiatric therapies, generic standard-of-care options, neuromodulation, and behavioral-health alternatives. Pricing power is real when a medicine addresses unmet need and has differentiated evidence, but payer management can be heavy. CAPLYTA also brings integration risk: acquisition-driven growth can look clean in reported segment sales before proving that the asset compounds under JNJ ownership.

Pulmonary hypertension is an attractive specialty area because diagnosis and treatment are specialist-led, patient cohorts are concentrated, and clinical expertise matters. JNJ's pulmonary hypertension products were not given separate dollar rows in the cleared data package, so this appendix treats the area as a durable specialty contributor rather than assigning unverified product-level dollars. Competition can come from other pulmonary arterial hypertension therapies, generic erosion in mature products, and novel mechanisms. The moat is patient support, specialist relationships, evidence, and breadth of portfolio, not sheer size.

The segment has pricing power, but it is not absolute. Branded-drug pricing power is highest when the product is under exclusivity, clinically differentiated, and hard to substitute. It collapses when patents expire, biosimilars enter, or payer alternatives become good enough. The STELARA erosion demonstrates that JNJ's pricing power is product-specific and time-limited. The portfolio-level question is whether JNJ can repeatedly move from expiring protected assets into the next protected assets before the old profit pool fades.

5. Moat At The Segment Level

Innovative Medicine's segment moat is a portfolio-and-capability moat, not a single-product moat. The strongest components are R&D scale, therapeutic-area depth, regulatory experience, global commercial infrastructure, specialty-market access, biologics manufacturing, clinical-trial execution, physician relationships, and balance-sheet capacity to acquire or license missing assets. These advantages matter because most competitors cannot match JNJ's breadth and funding capacity across oncology, immunology, neuroscience, and pulmonary hypertension at the same time.

The moat is strongest in areas where JNJ has multiple linked assets in the same disease ecosystem. Multiple myeloma is a clear case: DARZALEX, CARVYKTI, TECVAYLI, and TALVEY give JNJ more than one way to participate as treatment sequencing evolves. A single product can lose position; a portfolio can adapt. Oncology commercial relationships also compound because hematologists and oncologists who already use one JNJ therapy are more reachable for combinations, earlier-line trials, and newer mechanisms. That does not guarantee share, but it lowers the friction of adoption.

Immunology is more mixed. STELARA was a high-quality moat asset before biosimilar erosion, but the erosion itself proves that biologic moats eventually expire. The replacement moat depends on TREMFYA and ICOTYDE. TREMFYA's current growth and management's more-than-$10B projection are meaningful, but management projections are not realized revenue [data_package Section 6, TREMFYA row]. ICOTYDE is an option, not yet a proven segment profit pool [data_package Section 6, ICOTYDE row]. The moat here is JNJ's ability to transition prescribers, payers, and patients to next-generation immunology assets before biosimilar economics hollow out the old base.

Neuroscience is an emerging moat contributor but not yet as proven. SPRAVATO and CAPLYTA add growth and category breadth, but the segment's long-term defense will require evidence, access, adherence support, and lifecycle expansion. Acquired assets can strengthen the moat if JNJ improves development and commercialization; they can also dilute returns if purchased at high prices or if growth disappoints after integration.

The durability of the segment moat over five to ten years is credible but not unquestioned. JNJ has the scale to keep investing through cycles, and FY2025 Innovative Medicine R&D of $11.827B is a large reinvestment base [quant_foundation P2]. The issue is not willingness to spend. It is the conversion rate from spending into approved products that can replace erosion and defend margins. A segment with 36%-39% income-before-tax margins can compound if the pipeline is productive. The same segment can de-rate quickly if late-stage assets fail, if payer pressure rises, or if launches only replace revenue at lower net margins.

The segment passes the basic moat test but not the "unbreakable" test. The base case assumes JNJ's therapeutic-area breadth and current launch set are enough to produce mid-to-high single-digit revenue growth from the TTM base and modest margin expansion. The bull case requires management's end-of-decade double-digit framing to become visible in reported

Innovative Medicine growth after STELARA erosion moderates. The bear case assumes the moat is real but insufficient to fully offset biosimilar drag, pricing pressure, and launch investment.

6. Historical Growth Rates Reproduced From Data Package

The table below reproduces the historical segment revenue and margin data from the cleared data package. Product-level multi-year revenue histories are not available in QF/D, so no product-dollar history is fabricated. Named product rows are limited to the specific current disclosures captured by the data package.

Product / sub-segment	FY2023 rev	FY2024 rev	FY2025 rev	3-yr CAGR / trend	Most recent YoY or growth disclosure	Data package cite
Innovative Medicine total segment	$54.759B	$56.964B	$60.401B	4.7% FY2022-FY2025 CAGR; 4.0% FY2021-FY2025 CAGR	FY2025 reported +6.0%; Q1 FY2026 operational +7.4%; TTM revenue $61.954B	data_package Section 3 Innovative Medicine revenue row; Section 5 recent quarterly trend; quant_foundation P4
Segment income before tax	$18.246B	$18.919B	$22.266B	12.5% FY2022-FY2025 CAGR from depressed FY2022 base	FY2025 margin 36.9%; Q1 adjusted IBT margin 39.7% disclosed but not converted to TTM	data_package Section 3 Innovative Medicine income and margin rows; Section 5 margin limitation
DARZALEX	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 sales about $4.0B; operational growth 17.8%	data_package Section 4 dollar-disclosed rows
CARVYKTI	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 sales about $0.6B; growth 57.4%	data_package Section 4 dollar-disclosed rows
CAPLYTA	not in legacy JNJ base	not in legacy JNJ base	not in legacy JNJ base	Acquired contribution; not an organic legacy CAGR	Q1 FY2026 sales $270M after Intra-Cellular acquisition	data_package Section 4 dollar-disclosed rows; Section 3 interpretation
RYBREVANT plus LAZCLUZE	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 sales $257M; growth 80.5%	data_package Section 4 growth-rate rows
TECVAYLI	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 growth 30.1%; sequential growth 14.2%	data_package Section 4 growth-rate rows
TALVEY	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 growth 72.8%	data_package Section 4 growth-rate rows
ERLEADA	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 growth 16.2%	data_package Section 4 growth-rate rows
TREMFYA	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 growth 63.8%; management projection above $10B peak-year sales	data_package Section 4 growth-rate rows; Section 6 Innovative Medicine commentary
SPRAVATO	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 growth 44.5%	data_package Section 4 growth-rate rows
STELARA	not separately disclosed	not separately disclosed	not separately disclosed	[DATA GAP: no multi-year product-dollar history in QF/D]	Q1 FY2026 declined 61.7%; about 920 bp headwind to Innovative Medicine	data_package Section 4 growth-rate rows

Arithmetic tie-out for the segment total: FY2023 revenue of $54.759B grew to FY2024 revenue of $56.964B; $54.759B x 1.040 = $56.949B, within rounding of the data package's 4.0% YoY row. FY2024 revenue of $56.964B grew to FY2025 revenue of $60.401B; $56.964B x 1.060 = $60.382B, within rounding of the data package's 6.0% YoY row. FY2022 revenue of $52.563B grew to FY2023 revenue of $54.759B; $52.563B x 1.042 = $54.771B, within rounding of the data package's 4.2% YoY row. No product-level historical arithmetic is performed because the data package does not provide product-level annual dollar histories.

The three-year CAGR for Innovative Medicine total revenue is calculated from the data-package FY2022 base and FY2025 endpoint: $60.401B / $52.563B over three years = 4.7% CAGR. The four-year FY2021-FY2025 CAGR is $60.401B / $51.680B over four years = 4.0%. These are segment-level calculations only. They should not be interpreted as product CAGRs for oncology, immunology, neuroscience, pulmonary hypertension, or any individual brand.

7. Management Guidance Quoted From Data Package

The relevant management commentary in the data package is directionally bullish, but it must be tested against the actual segment base rate and STELARA erosion.

Data package row	Quote fragment	Topic	Segment interpretation
Section 6, Enterprise / Multi-Segment, Q1 FY2026 / 2026-04-14, Joaquin Duato	"line of sight to double-digit growth"	Enterprise growth	This supports a bull-case revenue algorithm, but it is not yet the observed base rate. Q1 FY2026 adjusted operational growth was 5.3% at the enterprise level and Innovative Medicine operational growth was 7.4% [data_package Section 5].
Section 6, Enterprise / Multi-Segment, Q4 FY2025 / 2026-01-21, Joaquin Duato	"growth in 2026 will be faster than in 2025"	2026 acceleration	The segment model should allow acceleration in FY2026, but not simply extrapolate Q1 reported growth because CAPLYTA acquisition contribution and STELARA erosion distort the organic baseline.
Section 6, Enterprise / Multi-Segment, Q3 FY2025 / 2025-10-14, Joaquin Duato	"a new era of accelerated growth"	Strategic positioning	This is a management framing statement. It earns some weight because Q2-Q4 2025 and Q1 2026 trends did improve, but the model must still carry a bear case in which launches do not bridge the STELARA gap.
Section 6, Enterprise / Multi-Segment, Q2 FY2025 / 2025-07-16, Joaquin Duato	"elevated growth in the second half"	Second-half 2025 setup	The data package says Q3/Q4 releases directionally validated the claim, so near-term acceleration is not purely aspirational.
Section 6, Innovative Medicine, Q1 FY2026 / 2026-04-14, Joaquin Duato	"TREMFYA is projected to deliver more than $10 billion"	Immunology peak-year sales	TREMFYA must be modeled as a major STELARA offset, but the current revenue base is not disclosed in QF/D. This appendix treats it as a growth driver rather than assigning a fabricated historical base.
Section 6, Innovative Medicine, Q1 FY2026 / 2026-04-14, Joaquin Duato	"ICOTYDE has the potential to be one"	New immunology launch	ICOTYDE is a future immunology option. It supports the bull case more than the bear case because current sales are not disclosed.
Section 6, Innovative Medicine, Q4 FY2025 / 2026-01-21, Joaquin Duato	"expect to exceed $50 billion"	Oncology 2030 aspiration	Oncology is the largest long-duration growth engine in management's framing. The model should treat oncology as a portfolio, not just DARZALEX.
Section 6, Innovative Medicine, Q1 FY2026 / 2026-04-14, Jennifer Taubert	"investing big in ICOTYDE"	Launch investment	Some near-term expense pressure should be treated as intentional launch spending. Margin expansion is possible, but not automatic, during a launch-heavy period.

8. Forward Growth Assumptions

The forward horizon is exactly five calendar years from the TTM end date: 2026-03-29 to 2031-03-29. Because the data package does not provide verified multi-year product-dollar histories, this appendix does not create fake product base sales. Instead, it builds a driver bridge from the verified TTM segment revenue of $61.954B. The bridge uses disclosed product commentary and growth rates to size directional contribution, but the only historical dollar base used for the segment is the QF/D segment TTM figure [data_package Key Findings; quant_foundation P4]. The output is therefore a segment forecast with explicit product and therapeutic-area drivers, not a fabricated product-level P&L.

Base Case Growth Assumptions

Driver	Historical anchor	Latest disclosure	Mgmt FY+1 / long-range guide	Base TTM-to-2031 treatment	Justification
Segment base	4.7% FY2022-FY2025 segment CAGR; FY2025 +6.0%	Q1 FY2026 Innovative Medicine operational +7.4%; TTM revenue $61.954B	Growth in 2026 faster than 2025; enterprise line of sight to double-digit growth	Segment revenue grows to $82.5B, 5.9% CAGR	This sits above the trailing three-year segment CAGR because Q1 growth accelerated despite STELARA, but below management's double-digit framing because STELARA, payer pressure, and launch execution remain real.

Driver	Historical anchor	Latest disclosure	Mgmt FY+1 / long-range guide	Base TTM-to-2031 treatment	Justification
STELARA biosimilar erosion	No product-dollar history in QF/D	Q1 FY2026 declined 61.7%; about 920 bp Innovative Medicine headwind	No direct offset guidance except broader TREMFYA/ICOTYDE immunology ambitions	Severe negative contribution in years 1-2, moderating after the steepest cliff	Base assumes the headwind remains visible through the early forecast period but becomes less incremental by 2028-2031 as the remaining base shrinks.
Oncology portfolio	Segment-level history only; no oncology dollar table in QF/D	DARZALEX about $4.0B Q1 sales +17.8%; CARVYKTI about $0.6B +57.4%; TECVAYLI +30.1%; TALVEY +72.8%; RYBREVANT/LAZCLUZE $257M +80.5%; ERLEADA +16.2%	Management expects oncology to exceed $50B around 2030	Strong positive contribution, but growth decelerates from current rates as large assets scale	Base gives oncology the largest growth contribution because disclosed growth is broad across myeloma and lung cancer, while recognizing that 50%+ growth rates on smaller products cannot persist for five full years.
Immunology ex-STELARA	Segment-level history only; no product-dollar table	TREMFYA +63.8%; ICOTYDE approved in plaque psoriasis as a growth option	TREMFYA projected above $10B; ICOTYDE framed as potentially very large	Positive contribution that offsets part, not all, of STELARA loss by 2031	Base assumes TREMFYA scales meaningfully and ICOTYDE contributes later, but not enough to make immunology riskless.
Neuroscience including CAPLYTA and SPRAVATO	No multi-year product-dollar table in QF/D	CAPLYTA $270M Q1 sales after acquisition; SPRAVATO +44.5%	No segment-level neuroscience target in D	Positive mid-single-digit segment contribution from acquired and organic assets	Base treats CAPLYTA as a real addition but separates acquisition contribution from legacy organic growth.
Pulmonary hypertension and other mature areas	No product-dollar table in QF/D	No recent product growth rate in D for pulmonary hypertension	No specific pulmonary hypertension guide in D	Low-single-digit to modest positive contribution	Specialty durability supports the base, but lack of current product disclosures prevents aggressive modeling.

The base case produces $82.5B of Innovative Medicine revenue at the 2031-03-29 horizon. The implied 5.9% CAGR is intentionally close to, but above, the recent segment history. It requires JNJ to convert current product momentum into sustained growth while absorbing the remaining STELARA erosion. It does not require the full management double-digit algorithm at the segment level.

Bull Case Growth Assumptions

Driver	Historical anchor	Latest disclosure	Mgmt FY+1 / long-range guide	Bull TTM-to-2031 treatment	Justification
Segment base	4.7% FY2022-FY2025 CAGR	Q1 FY2026 operational +7.4%	Enterprise line of sight to double-digit growth	Segment revenue grows to $91.5B, 8.1% CAGR	Bull assumes Q1 acceleration is an early sign of the end-of-decade algorithm rather than a one-quarter acquisition-assisted lift.
STELARA biosimilar erosion	No product-dollar history in QF/D	Q1 decline 61.7%; 920 bp headwind	TREMFYA/ICOTYDE offset framework	Headwind fades faster after the initial cliff and becomes a smaller drag by 2028	Bull does not deny the cliff; it assumes the incremental year-over-year pressure becomes less relevant as newer immunology assets scale.
Oncology portfolio	Segment-level history only	Multiple high-growth product disclosures	Oncology aspiration above $50B	Oncology supplies the majority of incremental revenue	Bull assumes DARZALEX remains robust, CARVYKTI capacity and adoption improve, bispecifics broaden, lung cancer growth continues, and ERLEADA keeps contributing.
Immunology ex-STELARA	Segment-level history only	TREMFYA +63.8%; ICOTYDE option	TREMFYA above $10B; ICOTYDE potential large asset	TREMFYA and ICOTYDE together more than offset the residual STELARA decline by the outer years	The bull case requires management's immunology replacement story to work, not merely stabilize.
Neuroscience including CAPLYTA and SPRAVATO	No multi-year product-dollar history	CAPLYTA $270M Q1; SPRAVATO +44.5%	No explicit neuroscience target in D	Neuroscience becomes a visible growth pillar	Bull assumes JNJ expands indications/access and improves CAPLYTA productivity after acquisition.
Pulmonary hypertension and other mature areas	Segment-level history only	No recent product row in D	No specific guide in D	Stable to modestly positive	Bull assumes mature specialty franchises avoid sharp pricing or volume erosion.

The bull case produces $91.5B of horizon revenue, an 8.1% CAGR. This still does not require every management aspiration to hit perfectly, but it does require oncology and immunology to perform at a high level simultaneously. The bull case is plausible only if the visible high-growth assets remain clinically and commercially differentiated while STELARA becomes a

fading denominator effect rather than a continuing thesis-breaker.

Bear Case Growth Assumptions

Driver	Historical anchor	Latest disclosure	Mgmt FY+1 / long-range guide	Bear TTM-to-2031 treatment	Justification
Segment base	4.7% FY2022-FY2025 CAGR	Q1 FY2026 operational +7.4%	Management expects faster growth	Segment revenue grows to $70.8B, 2.7% CAGR	Bear assumes current acceleration is partly acquisition and timing, while pricing pressure, launch costs, and biosimilar erosion keep the net segment algorithm below history.
STELARA biosimilar erosion	No product-dollar history in QF/D	Q1 decline 61.7%; 920 bp headwind	No direct STELARA rescue guide	Larger and more persistent negative contribution	Bear assumes STELARA's loss is not cleanly replaced and that payer pressure spreads to adjacent immunology economics.
Oncology portfolio	Segment-level history only	Strong growth disclosures	Oncology aspiration above $50B	Growth continues but decelerates more sharply	Bear assumes myeloma and lung cancer competition, capacity constraints, or slower guideline uptake reduce the conversion of current growth rates into durable revenue.
Immunology ex-STELARA	Segment-level history only	TREMFYA +63.8%; ICOTYDE option	TREMFYA above $10B	Partial offset only	Bear assumes TREMFYA grows but does not fully replace STELARA economics, and ICOTYDE is slower or less profitable than hoped.
Neuroscience including CAPLYTA and SPRAVATO	No multi-year product-dollar history	CAPLYTA $270M Q1; SPRAVATO +44.5%	No explicit guide	Adds revenue but not enough to move the segment CAGR materially	Bear assumes acquisition contribution helps reported growth but does not produce outsized organic compounding.
Pulmonary hypertension and other mature areas	Segment-level history only	No recent product row in D	No specific guide	Flat to slight erosion	Bear assumes mature specialty products face normal lifecycle pressure.

The bear case produces $70.8B of horizon revenue, a 2.7% CAGR. That is not a collapse scenario. It is the scenario in which JNJ remains a good pharmaceutical company but not a strong compounding engine from today's base because the pipeline only partially offsets STELARA and pricing pressure.

9. Forward Operating Margin Assumptions

The controlled current margin anchor is FY2025 segment income before tax margin of 36.9% [data_package Section 3 Innovative Medicine table; quant_foundation P2]. The data package also records Q1 FY2026 adjusted income before tax margin of 39.7%, but explicitly states that QF does not provide a verified four-quarter segment operating-margin table [data_package Section 5, quarterly operating margin limitation]. Therefore, this appendix projects horizon segment income before tax margin rather than a GAAP operating margin, and it flags the naming difference for synthesis. All references to operating margin in the summary table below mean segment income before tax margin as reported in QF/D unless the synthesis agent later maps segment income before tax to consolidated operating income.

Margin Case Table

Case	Current anchor	2031 margin	Change vs FY2025	Mechanism
Bear	36.9% FY2025 segment IBT margin	35.5%	-140 bps	STELARA high-margin erosion, launch spending, payer pressure, and R&D intensity more than offset mix benefits from oncology and neuroscience.
Base	36.9% FY2025 segment IBT margin	38.5%	+160 bps	Oncology and immunology growth mix, fading incremental STELARA drag, scale leverage, and disciplined SM&A more than offset ICOTYDE/CAPLYTA launch investment.

Case	Current anchor	2031 margin	Change vs FY2025	Mechanism
Bull	36.9% FY2025 segment IBT margin	40.5%	+360 bps	Strong oncology mix, high-value immunology replacement, neuroscience scale, and existing global commercial infrastructure create operating leverage close to but still only modestly above the Q1 adjusted margin read-through.

The base case margin expansion is not a free assumption. It requires the revenue mix to improve toward assets with differentiated clinical value and away from mature eroding products. It also requires management to convert launch investment into sales rather than simply adding SG&A and R&D. FY2025 Innovative Medicine R&D was $11.827B and SM&A was $11.375B [quant_foundation P2]. Those are large fixed and semi-fixed spending pools. If revenue grows to $82.5B while R&D and SM&A grow slower than sales, 38.5% segment margin is achievable. If launch spending must rise in line with revenue or faster, margin expansion will be much more limited.

The bull case margin of 40.5% is deliberately below a simple extrapolation of Q1's 39.7% adjusted IBT margin plus five years of scale leverage. Q1 is a single quarter, adjusted, and not a verified TTM margin series in QF/D [data_package Section 5]. A 40.5% horizon margin requires several things to happen at once: oncology must carry a large share of incremental revenue; TREMFYA/ICOTYDE must replace STELARA with attractive net economics; CAPLYTA and SPRAVATO must scale without disproportionate commercial cost; and R&D productivity must be high enough that spending intensity does not rise materially. That is possible, but it is a bull case.

The bear case margin of 35.5% assumes that the segment remains profitable and advantaged but loses some mix quality. STELARA erosion can remove a high-contribution base while replacement products are still launch-heavy. Biosimilar and payer pressure can also affect net pricing in adjacent immunology classes. Oncology competition can require continued trial spending and market access concessions. If those pressures coincide, revenue can still grow but margin can fall.

[DATA GAP: product-level operating margins are not disclosed in QF/D. This appendix does not assign product-level margins to DARZALEX, CARVYKTI, TREMFYA, SPRAVATO, CAPLYTA, STELARA, or any other asset.]

10. Segment Rollup

The rollup starts from the verified TTM Innovative Medicine segment revenue of $61.954B [quant_foundation P4; data_package Key Findings]. Because product-level historical dollar bases are not disclosed, the revenue bridge below presents incremental driver contributions rather than false product base sales. The arithmetic ties to the case totals, and the case totals are the numbers synthesis should use for the segment unless a reviewer requires a different top-down convention.

Revenue Bridge From TTM To 2031-03-29

Driver bridge item	Bear contribution	Base contribution	Bull contribution	Modeling note
TTM Innovative Medicine revenue	$61.954B	$61.954B	$61.954B	Verified segment TTM revenue from QF P4
STELARA biosimilar erosion	-$7.5B	-$5.0B	-$3.0B	Explicit negative bridge from Q1 61.7% decline and 920 bp segment headwind; not a product revenue history
Oncology growth portfolio	+$9.2B	+$14.0B	+$17.5B	DARZALEX, CARVYKTI, TECVAYLI, TALVEY, RYBREVANT/LAZCLUZE, ERLEADA; supported by current growth disclosures and oncology aspiration
Immunology ex-STELARA	+$3.8B	+$6.3B	+$8.8B	TREMFYA and ICOTYDE replacement contribution; current growth and management projection support upside
Neuroscience including CAPLYTA and SPRAVATO	+$2.1B	+$3.8B	+$4.9B	CAPLYTA acquired contribution plus SPRAVATO growth

Driver bridge item	Bear contribution	Base contribution	Bull contribution	Modeling note
Pulmonary hypertension, infectious disease, cardiovascular/metabolism/other, mature portfolio	+$1.2B	+$1.4B	+$1.3B	Durable but lower-growth residual specialty/mature contribution
Horizon Innovative Medicine revenue	$70.8B	$82.5B	$91.5B	Rounded case totals; each ties within 1% to bridge sum

Arithmetic: Bear bridge equals $61.954B - $7.5B + $9.2B + $3.8B + $2.1B + $1.2B = $70.754B, rounded to $70.8B. Base bridge equals $61.954B - $5.0B + $14.0B + $6.3B + $3.8B + $1.4B = $82.454B, rounded to $82.5B. Bull bridge equals $61.954B - $3.0B + $17.5B + $8.8B + $4.9B + $1.3B = $91.454B, rounded to $91.5B.

Segment Income Before Tax Rollup

Case	Horizon revenue	Horizon segment IBT margin	Horizon segment income before tax	Implied revenue CAGR from TTM
Bear	$70.8B	35.5%	$25.1B	2.7%
Base	$82.5B	38.5%	$31.8B	5.9%
Bull	$91.5B	40.5%	$37.1B	8.1%

Operating income arithmetic: $70.8B x 35.5% = $25.1B; $82.5B x 38.5% = $31.8B; $91.5B x 40.5% = $37.1B. The base case adds roughly $9.5B of segment income before tax versus FY2025's $22.266B [data_package Section 3]. That requires both revenue growth and margin expansion. The bear case still exceeds FY2025 segment income because revenue growth offsets some margin erosion. The bull case requires JNJ to convert the launch cycle into a materially larger and higher-margin segment profit pool.

11. Key Risks And Wildcards

STELARA erosion exceeds replacement speed - bear risk. The clearest segment-specific risk is that STELARA's biosimilar decline remains too large for TREMFYA, ICOTYDE, oncology, and neuroscience to offset in time. The data package's Q1 FY2026 61.7% decline and 920 bp segment headwind already show the magnitude [data_package Section 4]. If the headwind remains large for longer than expected or causes broader payer pressure in immunology, the bear case becomes more likely.

Oncology growth rates decelerate faster than expected - bear/base risk. The oncology portfolio has the strongest disclosed growth facts, but high growth from smaller products naturally decelerates. CARVYKTI, TECVAYLI, TALVEY, and RYBREVANT/LAZCLUZE need capacity, evidence, reimbursement, and physician uptake. If myeloma or lung cancer competitors change standards faster than JNJ adapts, the model's largest positive bridge item is too high.

TREMFYA and ICOTYDE do not become a true immunology replacement engine - bear risk. Management's TREMFYA above-$10B projection and ICOTYDE enthusiasm are meaningful but not achieved revenue in QF/D [data_package Section 6]. The risk is not that these products fail entirely; it is that they grow at lower net price, narrower label breadth, or higher commercial cost than required to replace STELARA economics.

CAPLYTA acquisition contribution is mistaken for durable organic compounding - base/bear risk. CAPLYTA's $270M Q1 FY2026 sales are real, but the data package explicitly says this is an acquired contribution and should not be treated as an organic legacy base [data_package Section 4; Section 3 interpretation]. If integration is merely additive rather than compounding, neuroscience contributes but does not reshape segment growth.

Pricing and reimbursement pressure - all cases. Innovative Medicine's premium economics depend on clinical differentiation and access. U.S. payer controls, Medicare pricing pressure, international reference pricing, tendering, and biosimilar substitution can reduce net price even when volume grows. This primarily affects the bear case, but it also caps bull-case margin.

R&D productivity - all cases. FY2025 Innovative Medicine R&D was $11.827B [quant_foundation P2]. Sustained R&D at this scale is a moat only if it produces approvals, indications, and durable products. If late-stage programs disappoint, the company keeps the expense without the revenue bridge.

Regulatory and safety events - bear risk. Oncology, immunology, neuroscience, and pulmonary hypertension products can face label restrictions, safety signals, manufacturing observations, or delayed approvals. A single major product issue may not

break JNJ, but several would weaken the segment bridge.

Bull wildcard: portfolio breadth compounds. The upside case is not one miracle product. It is the possibility that DARZALEX remains strong, CARVYKTI and bispecifics expand, RYBREVANT/LAZCLUZE scales, TREMFYA and ICOTYDE replace immunology economics, SPRAVATO and CAPLYTA grow, and the pulmonary hypertension/mature portfolio stays durable. That combination would make management's accelerated-growth language credible.

Summary Table

Case	Segment TTM+5y Revenue	Segment TTM+5y segment IBT margin	Segment TTM+5y segment income before tax	Probability
Bear	$70.8B	35.5%	$25.1B	25%
Base	$82.5B	38.5%	$31.8B	50%
Bull	$91.5B	40.5%	$37.1B	25%

Modeling flags for synthesis: the summary table uses segment income before tax margin and segment income before tax because QF/D report segment income before tax to the CODM rather than GAAP segment operating income [quant_foundation P2]. [DATA GAP: no verified product-level historical revenue table.] [DATA GAP: no verified TTM quarterly segment margin table.] [DATA GAP: no product-level operating margins.] [DATA GAP: no segment-by-geography allocation.]

Appendix B2 - MedTech

MedTech - Segment Deep Dive

Company: Johnson & Johnson Ticker: JNJ Segment: MedTech Date: 2026-04-30 TTM anchor: Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, ending 2026-03-29 Forward horizon: 2031-03-29

0. Segment Boundary And Taxonomy Note

Johnson & Johnson's current continuing-operation reporting structure has two reportable segments: Innovative Medicine and MedTech. The MedTech segment includes medical technology across Cardiovascular, Surgery, Vision, and Orthopaedics. The taxonomy is not clean if old FMP rows are mixed with current rows because the Kenvue/Consumer Health separation and older "Medical Devices" labels create a known historical boundary. The data package instructs downstream segment appendices to use the official recast/current segment rows selected by QF for FY2021-FY2025 and the SEC-derived quarterly segment rows for the TTM anchor, not legacy Consumer, Pharmaceutical, or Medical Devices endpoint rows [data_package.md lines 31-43; quant_foundation.md lines 146-156].

The second boundary issue is forward-looking and material: on October 14, 2025, Johnson & Johnson announced its intent to separate Orthopaedics into a standalone DePuy Synthes company. JNJ said the separation is intended to shift MedTech toward higher-growth and higher-margin markets and that, after completion, JNJ will retain leadership positions in Cardiovascular, Surgery, and Vision within MedTech, alongside three Innovative Medicine priority areas. The same release stated that Orthopaedics generated approximately $9.2 billion of FY2024 sales and would address a $50 billion-plus global market opportunity as a standalone company ([JNJ Orthopaedics separation release, Oct. 14, 2025](https://www.jnj.com/media-center/press-releases/johnson-johnson-announces-intent-to-separate-its-orthopaedics-business)). This appendix therefore models the 2031-03-29 horizon on a retained-MedTech basis, excluding separated Orthopaedics, while also showing the bridge from the current TTM segment total that still includes Orthopaedics. [REVIEWER NOTE: data gap - the data package does not provide Orthopaedics TTM revenue, FY2025 Orthopaedics revenue, pro forma retained-MedTech revenue, separation costs, dis-synergies, or retained stranded cost allocation.]

1. What MedTech Actually Is

MedTech is JNJ's device, procedure, and surgical technology business. Its customers are hospitals, ambulatory surgery centers, electrophysiology labs, interventional cardiologists, cardiac surgeons, orthopedic surgeons, ophthalmologists, optometrists, health systems, group purchasing organizations, distributors, and patients indirectly through physician choice and reimbursement systems. The segment does not sell one homogeneous device category. It bundles installed clinical relationships, physician training, regulated devices, software-enabled procedure workflows, implants, instruments, and consumables.

The current JNJ priority framework treats Cardiovascular, Surgery, and Vision as the long-term retained MedTech focus areas, with Orthopaedics being separated before the forward horizon. Cardiovascular includes electrophysiology, Biosense Webster, Abiomed heart recovery, Shockwave intravascular lithotripsy, and related cardiovascular intervention assets. Surgery includes legacy surgical instruments, stapling, energy, biosurgery, and robotics options such as OTTAVA and MONARCH. Vision includes contact lenses, other vision products, and surgical vision platforms such as TECNIS. Orthopaedics, currently under DePuy Synthes, includes joint reconstruction, trauma, extremities, spine, sports medicine, enabling technology, and the VELYS digital surgery portfolio, but it is not part of the retained 2031 case in this appendix.

Pricing is a mix of implant/device price, procedure volume, instrument pull-through, recurring consumables, equipment placements, hospital contracting, reimbursement economics, and region-specific tendering. The business is more exposed to hospital purchasing and clinical trial evidence than Innovative Medicine. A new device can command premium pricing if it changes outcomes, procedure time, complication rates, or physician workflow, but many mature implant and surgical categories are subject to hospital value analysis, tenders, volume-based procurement, and rep-service intensity. This is why the margin model cannot simply assume pharmaceutical-style operating leverage.

The go-to-market model is clinical and procedural. Sales representatives and clinical specialists support physician training, case coverage, implant selection, device use, and hospital conversion. This creates switching friction, but it also makes operating expenses sticky. A cardiovascular device that enters a lab workflow can be durable because physicians train on it and hospitals standardize inventory. A commodity orthopedic implant or mature surgical tool can face tougher price pressure because hospitals can benchmark products and vendors. Robotics can deepen lock-in if it becomes an operating-room

platform, but it can also depress margins during launch because systems require R&D, regulatory work, surgeon training, service infrastructure, and commercial field investment before meaningful revenue arrives.

2. Current Economics

MedTech generated $33.792 billion of FY2025 revenue, or 35.9% of JNJ continuing-operation revenue, and $34.408 billion of TTM revenue through 2026-03-29, or 35.7% of JNJ TTM revenue [data_package.md lines 35-39, 249-257]. FY2025 segment income before tax was $4.113 billion, a 12.2% segment margin, compared with $3.740 billion and 11.7% in FY2024 and $4.669 billion and 15.4% in FY2023 [data_package.md lines 82-91; quant_foundation.md lines 162-178]. The current reported margin base is therefore below the five-year high and materially below Innovative Medicine.

The segment's recent growth rate is positive but not yet a high-single-digit algorithm. FY2025 MedTech revenue grew 6.1% reported and 5.4% operational. Q1 FY2026 MedTech revenue was $8.636 billion, up 7.7% reported and 4.6% operational. The last four quarters show revenue of $8.541 billion in Q2 FY2025, $8.430 billion in Q3 FY2025, $8.801 billion in Q4 FY2025, and $8.636 billion in Q1 FY2026 [data_package.md lines 127-141; quant_foundation.md lines 217-221]. The quarterly operating-margin table is not available in QF. The data package notes Q1 FY2026 transcript commentary of 22.3% adjusted income before tax margin for MedTech, but explicitly says not to convert that into a four-quarter historical margin series [data_package.md lines 139-140]. This appendix uses FY2025 segment margin as the controlled current segment margin and treats Q1 adjusted margin as directional evidence, not as a TTM margin base.

The data package does not provide a verified multi-year product-dollar table for MedTech platforms. It captures product and product-group growth rates: Shockwave Q1 FY2026 operational growth of 18.1%, Abiomed operational growth of 14.4%, Electrophysiology growth of 9.5%, Surgery growth of 1.2%, Contact lenses and other Vision products growth of 2.7%, Surgical Vision growth of 6.0%, and Orthopaedics growth of 3.2% [data_package.md lines 97-123]. It also records that TECNIS PureSee had nearly 0.5 million eyes globally referenced in the Q1 transcript, which is an adoption marker rather than a revenue disclosure [data_package.md lines 104-106].

The current economics are best described as a mixed-growth medical technology portfolio in transition. Cardiovascular is the growth engine. Surgery and Vision are contributors but less smooth. Orthopaedics is sizable, slower, and on a path to leave the consolidated MedTech perimeter before the horizon. Profitability is depressed by procedure mix, China volume-based procurement, tariffs, launch investment, robotics commercialization, and the cost structure needed to support clinical adoption. The key investment question is whether the retained MedTech portfolio, after Orthopaedics separation, can move from a low-teens reported segment margin toward a high-teens retained margin without requiring so much launch spending that the revenue acceleration is offset.

3. Unit Economics

MedTech revenue turns into profit through a different mechanism than pharmaceuticals. The first layer is procedure volume. Electrophysiology cases, heart recovery procedures, IVL procedures, surgical procedures, cataract and refractive procedures, contact lens usage, and orthopedic implant surgeries all require patient flow. Volume is tied to demographics, disease prevalence, procedure capacity, reimbursement, physician adoption, and hospital staffing. There is less single-product exclusivity than in a patented drug, but more physical workflow friction than in a commodity supply business.

The second layer is device or implant pricing. Premium devices earn pricing when the clinical benefit is visible enough to justify cost: shorter procedure times, fewer complications, lower readmissions, better navigation, improved lesion treatment, easier training, or expanded treatable patient populations. Shockwave's intravascular lithotripsy is a good example of a differentiated device expanding a clinical use case. Abiomed's Impella heart pump is a platform with clinical evidence and high-acuity use cases. Electrophysiology benefits from mapping, ablation, and workflow integration. Vision can earn premium mix through higher-end intraocular lenses and contact lens innovation. Mature orthopedic implants and some legacy surgical tools have weaker pricing because hospitals and payers can pressure vendors.

The third layer is gross margin and support cost. Devices can be high gross margin, but field support, clinical specialists, surgeon education, quality systems, manufacturing, sterilization, service, and inventory are material. New platforms also carry launch inefficiency. Robotics is especially relevant. OTTAVA and MONARCH can create platform economics if they gain adoption, but before adoption they require engineering, regulatory, capital equipment, training, service, and commercial build-out. That is why this appendix does not model robotics as an immediate margin windfall. It is a long-duration option that can improve share and mix after adoption, while depressing margin during the launch period.

The fourth layer is portfolio mix. Removing Orthopaedics should mechanically shift retained MedTech toward Cardiovascular, Surgery, and Vision. Management says the separation should increase top-line growth and operating margins, but the actual result depends on the assets and costs that remain with JNJ. If Orthopaedics carries below-average growth and lower or less scalable margins, separation is accretive to retained growth and margin. If it carries important shared manufacturing, quality, sales, or corporate absorption benefits, the retained company may need to absorb stranded costs. The data package does not include a pro forma margin bridge, so the model uses a conservative margin step rather than assuming all low-margin drag disappears.

The fifth layer is regional pricing. China volume-based procurement and tendering can pressure Orthopaedics and some surgical categories. U.S. cardiovascular innovation can be more resilient if devices improve outcomes in high-cost procedures. Vision is mixed: contact lenses can show brand and channel durability, but competition and consumer discretionary behavior affect volumes; surgical vision depends on procedure recovery, premium lens adoption, and ophthalmology capacity. The retained portfolio can grow faster than total MedTech if cardiovascular remains strong, but it is not immune to procedure cycles or payer pressure.

4. Competitive Dynamics

Cardiovascular is the most strategically important MedTech battleground for JNJ. Competitors include Abbott, Boston Scientific, Medtronic, Edwards Lifesciences, and specialized device companies across electrophysiology, structural heart, intervention, heart recovery, and peripheral intervention. JNJ's edge is not that it owns every cardiovascular device category. The edge is that it has assembled several high-growth platforms: Biosense Webster in electrophysiology, Abiomed in heart recovery, Shockwave in IVL, and Laminar as an option in left atrial appendage elimination. JNJ's Shockwave acquisition materials described cardiovascular intervention as one of the fastest-growing global medtech markets and said Shockwave complements Abiomed and Biosense Webster in high-growth cardiovascular intervention categories ([Shockwave acquisition announcement](https://www.investor.jnj.com/files/doc_news/2024/04/FINAL-JNJ-SWAV-Press-Release-1.pdf); [Shockwave completion release](https://www.investor.jnj.com/files/doc_news/Johnson--Johnson-Completes-Acquisition-of-Shockwave-Medical-2024.pdf)).

Electrophysiology is attractive because atrial fibrillation is common, procedures are complex, and lab workflow matters. Mapping systems, ablation catheters, physician familiarity, clinical evidence, and installed lab infrastructure create switching costs. The competitive risk is that pulsed-field ablation and next-generation systems can shift share if one company's platform is materially faster, safer, or easier. The data package records Electrophysiology Q1 growth of 9.5%, which is already above the segment average [data_package.md lines 119-123]. That supports a premium forward growth assumption, but not a straight-line assumption that all cardiovascular lines grow in the teens through 2031.

Shockwave and Abiomed have different competitive profiles. Shockwave's IVL position is differentiated because it addresses calcified lesions in coronary and peripheral artery disease, and JNJ's acquisition materials called the platform first-to-market and commercially available across CAD and PAD. Abiomed's heart recovery platform benefits from high-acuity clinical use and evidence generation, but it also depends on physician confidence, indications, outcomes data, hospital economics, and procedure volume. The data package captures Q1 FY2026 growth of 18.1% for Shockwave and 14.4% for Abiomed, both well above total MedTech [data_package.md lines 104-105]. These are not disclosed dollar bases in the data package; they are growth signals.

Surgery competes against Medtronic, Intuitive Surgical, Stryker, Olympus, Becton Dickinson, Boston Scientific in selected tools, and many focused instrument and robotics companies. JNJ has legacy strength in stapling, energy, biosurgery, and surgical workflow, but the growth and margin outcome depends heavily on whether OTTAVA and MONARCH become clinically relevant platforms rather than expensive launch projects. Intuitive remains the reference competitor in soft-tissue robotic surgery. Hospitals do not need another robot unless it improves workflow, cost, access, instrumentation, or surgeon experience. JNJ's advantage is a broad surgical presence and installed relationships; the risk is that robotics commercialization arrives late into a market where rivals already have scale.

Vision competes against Alcon, Bausch + Lomb, CooperCompanies, EssilorLuxottica in parts of vision care, and other ophthalmology device companies. Vision has two different economic models: contact lenses and surgical vision. Contact lenses can compound through innovation, replacement cycles, channels, and brand trust, but growth is not explosive. Surgical Vision can benefit from premium intraocular lenses and cataract procedure demographics. The data package records contact lenses and other Vision products growing 2.7% in Q1 FY2026 and Surgical Vision growing 6.0% [data_package.md lines 121-122]. That split implies Vision is not one uniform growth engine.

Orthopaedics competes with Stryker, Zimmer Biomet, Smith & Nephew, Medtronic in spine, and numerous focused orthopedic companies. It has deep surgeon relationships and a broad portfolio, but its growth profile has been lower than Cardiovascular and it is more exposed to implant pricing, tendering, mix, hospital purchasing, and procedure cycles. JNJ's separation announcement frames DePuy Synthes as the largest comprehensive orthopaedics-focused company, with leading positions across major categories and a $50 billion-plus market opportunity, but also says JNJ is shifting toward higher-growth and higher-margin markets. That is effectively management's admission that Orthopaedics is less central to the retained JNJ compounding case.

5. Segment-Level Moat

The MedTech moat is real but uneven. Cardiovascular has the strongest retained moat because complex procedure categories reward clinical evidence, physician training, installed workflow, and integrated platforms. Biosense Webster in electrophysiology, Abiomed in heart recovery, and Shockwave in IVL create specialist relationships that are not easily displaced by generic devices. The moat is not a patent cliff moat like a drug. It is a procedural and clinical-confidence moat: once a lab is trained, inventory is stocked, outcomes are known, and physicians trust a device, switching requires a clear reason.

Surgery has a moderate moat. JNJ's Ethicon heritage, instruments, stapling, energy, and OR relationships matter. However, product categories vary from differentiated to contested, and robotics changes the basis of competition. If OTTAVA becomes a credible system, the moat can deepen around installed capital equipment, instruments, surgeon training, and data-enabled workflow. If it remains a late entrant, surgery's moat is more about scale and relationships than unique technology. The base case assumes robotics is a growth option that supports later-period Surgery acceleration, not a source of immediate share reset.

Vision has a moderate moat. ACUVUE and TECNIS benefit from brand, clinical trust, manufacturing know-how, and eye-care professional relationships. The data package's PureSee adoption marker is encouraging, but not a revenue figure. Vision durability depends on whether JNJ keeps innovating in premium lenses and contact lens materials while defending against Alcon, Cooper, Bausch + Lomb, and channel pressure. The moat is durable enough for mid-single-digit growth, but not strong enough to underwrite a segment-wide high-single-digit CAGR by itself.

Orthopaedics has a legacy moat through surgeon training, implant systems, procedure familiarity, and breadth. But the planned separation changes the investment question. For retained JNJ, the Orthopaedics moat will not protect 2031 consolidated MedTech revenue because the business is expected to be outside the perimeter. The relevant retained moat is whether JNJ can reinvest capital and management attention from Orthopaedics into cardiovascular, surgery robotics, and vision with better returns. The separation improves narrative quality, but the moat test remains evidence-based: retained MedTech must show faster growth and better margins after the separation, not just a cleaner slide.

Over 5-10 years, the retained MedTech moat is good but not elite. It should support growth above global procedure volume if cardiovascular remains strong and robotics becomes credible. It is less protected than Innovative Medicine's best specialty drug franchises, and it has more operating-cost intensity. The segment can be a compounding contributor, but it is unlikely to be the sole reason JNJ clears a Gideon hurdle unless the retained margin step-up is visible and cardiovascular stays above market.

6. Historical Growth Rates Reproduced From Data Package

The historical table below uses the data package and quant foundation as the controlling sources. Product-level MedTech dollars are not reproduced because the data package explicitly does not provide a verified multi-year product-dollar table for Abiomed, Shockwave, Electrophysiology, Surgery, Vision, or Orthopaedics [data_package.md lines 93-123, 227-238]. For product groups, this appendix shows the latest growth or adoption marker only and flags the missing dollar series.

Product / sub-segment	FY2023 rev	FY2024 rev	FY2025 rev	3-yr CAGR	Most recent YoY / KPI	Data package cite
MedTech total	$30.400B	$31.857B	$33.792B	7.2% from FY2022-FY2025	FY2025 +6.1%; Q1 FY2026 operational +4.6%	data_package.md lines 82-91 and 131-137
TTM MedTech total	n/a	n/a	$34.408B TTM ending 2026-03-29	n/a	Q2-Q1 quarterly revenue sum	data_package.md lines 131-137; quant_foundation.md lines 217-221
Cardiovascular / Shockwave	not separately disclosed in D	not separately disclosed in D	not separately disclosed in D	n/a	Shockwave Q1 FY2026 operational growth +18.1%	data_package.md lines 104-105

Product / sub-segment	FY2023 rev	FY2024 rev	FY2025 rev	3-yr CAGR	Most recent YoY / KPI	Data package cite
Cardiovascular / Abiomed	not separately disclosed in D	not separately disclosed in D	not separately disclosed in D	n/a	Abiomed Q1 FY2026 operational growth +14.4%	data_package.md lines 104-105
Electrophysiology	not separately disclosed in D	not separately disclosed in D	not separately disclosed in D	n/a	Q1 FY2026 growth +9.5%	data_package.md lines 119-123
Surgery	not separately disclosed in D	not separately disclosed in D	not separately disclosed in D	n/a	Q1 FY2026 growth +1.2%	data_package.md lines 119-123
Contact lenses and other Vision products	not separately disclosed in D	not separately disclosed in D	not separately disclosed in D	n/a	Q1 FY2026 growth +2.7%	data_package.md lines 119-123
Surgical Vision	not separately disclosed in D	not separately disclosed in D	not separately disclosed in D	n/a	Q1 FY2026 growth +6.0%	data_package.md lines 119-123
Orthopaedics	not separately disclosed in D	not separately disclosed in D	not separately disclosed in D	n/a	Q1 FY2026 growth +3.2%; planned separation	data_package.md lines 119-123; JNJ Orthopaedics separation release, Oct. 14, 2025

Arithmetic check on MedTech total: FY2022 revenue of $27.427B multiplied by 1.108 equals $30.389B, which ties to FY2023 $30.400B within rounding. FY2023 revenue of $30.400B multiplied by 1.048 equals $31.859B, which ties to FY2024 $31.857B within rounding. FY2024 revenue of $31.857B multiplied by 1.061 equals $33.800B, which ties to FY2025 $33.792B within rounding. The FY2022-FY2025 CAGR is calculated as ($33.792B / $27.427B)^(1/3) - 1 = 7.2%; using the one-decimal rounded annual revenues and reported YoY rates produces a 7.2%-7.4% range. The model uses 7.2% for exact annual-dollar CAGR and cites the reported YoY growth rates from the data package.

Quarterly TTM tie-out: $8.541B + $8.430B + $8.801B + $8.636B = $34.408B. That is the base revenue for the current consolidated MedTech segment before Orthopaedics separation [quant_foundation.md lines 217-221].

[REVIEWER NOTE: data gap - product-level historical revenue dollars for Cardiovascular, Abiomed, Shockwave, Electrophysiology, Surgery, Vision, and Orthopaedics are not available in the DR-cleared data package. This appendix does not back-solve those dollars from outside sources because the task instructed not to re-fetch JNJ historical numbers and not to fabricate product dollars.]

7. Management Guidance Quoted From Data Package

Management's MedTech commentary creates three anchors for the forward model.

Period / call date	Speaker	Data package quote fragment	Topic	Interpretation
Q1 FY2026 / 2026-04-14	Tim Schmid, MedTech	"higher single-digit player"	MedTech long-term growth	Management wants MedTech to move from mid-single-digit growth toward high-single-digit growth by the end of the decade [data_package.md lines 165-172]. The base case does not give full credit because Q1 FY2026 MedTech operational growth was 4.6%, below that target.
Q1 FY2026 / 2026-04-14	Tim Schmid, MedTech	"launching not one but two"	Robotics launches	OTTAVA and MONARCH are expected to matter later in the decade, but the data package interpretation warns they should not materially accelerate near-term revenue [data_package.md lines 165-172].
Q4 FY2025 / 2026-01-21	Joaquin Duato, CEO	"FDA de novo submission of our OTTAVA"	Surgery robotics	OTTAVA has moved toward regulatory review. The model treats this as a later-horizon option with near-term investment drag [data_package.md lines 165-172].

Period / call date	Speaker	Data package quote fragment	Topic	Interpretation
Q3 FY2025 / 2025-10-14	Joaquin Duato, CEO	"six priority areas"	Focus areas	Cardiovascular, Surgery, and Vision are the retained MedTech focus areas; Orthopaedics is present in current revenue but not emphasized in the priority framework [data_package.md lines 165-172].

Enterprise-level guidance also matters. The CEO's "line of sight to double-digit growth" and "growth in 2026 will be faster than in 2025" comments are captured in the data package [data_package.md lines 147-155]. For MedTech, the relevance is that management is not satisfied with 4%-6% operational growth. The risk is that enterprise double-digit language is not segment-specific and may depend heavily on Innovative Medicine pipeline contribution rather than MedTech alone.

The Orthopaedics separation guidance is outside the data package but official. JNJ's October 14, 2025 release said the intended separation is designed to accelerate the MedTech shift toward higher-growth and higher-margin markets and that JNJ expects the separation to increase top-line growth and operating margins. It also identified Cardiovascular, Surgery, and Vision as the retained MedTech focus areas. This is central to the segment model because the horizon falls after the planned separation period. [REVIEWER NOTE: data gap - the data package does not include separation timing, transaction form, retained cost allocation, tax leakage, stranded cost, or pro forma segment margins.]

8. Forward Growth Assumptions By Product And Portfolio Pool

Because the data package does not provide product-dollar bases, the growth model has two layers. First, it states product and sub-segment growth assumptions using the data package's latest growth disclosures and management commentary. Second, it applies those assumptions to a portfolio boundary model: current MedTech TTM of $34.408B, less an analyst-estimated Orthopaedics TTM placeholder, equals retained MedTech. The Orthopaedics placeholder is based on JNJ's official FY2024 separation-release size anchor of approximately $9.2B and the data package's Q1 FY2026 Orthopaedics growth disclosure of 3.2%, not a full historical product-dollar series. [REVIEWER NOTE: data gap - no controlled TTM Orthopaedics revenue is available in the data package; retained-MedTech revenue is therefore estimated and should not be treated as disclosed.]

For scenario math, this appendix uses a retained MedTech TTM starting revenue estimate of $24.908B and a separated Orthopaedics TTM placeholder of $9.500B. The two sum to $34.408B, matching QF's TTM MedTech total. This is not a disclosed product table; it is an explicit pro forma bridge required to model a known portfolio separation before the 2031 horizon.

Base Case Growth Assumptions

Product / pool	Historical anchor	Latest YoY / KPI	Mgmt FY+1 / long-term guide	Base CAGR TTM to 2031-03-29	Justification
Retained MedTech total: Cardiovascular, Surgery, Vision	Current MedTech FY2022-FY2025 CAGR about 7.2%, but includes Orthopaedics and acquisitions	Q1 FY2026 MedTech operational +4.6%	MedTech to become a "higher single-digit player"	6.0%	Base case gives credit for cardiovascular mix and Orthopaedics exit, but haircut versus management aspiration because Q1 growth is still mid-single-digit and robotics is later-cycle.
Cardiovascular including EP, Abiomed, Shockwave	Product dollars not in D	EP +9.5%, Abiomed +14.4%, Shockwave +18.1%	Retained focus area	Above retained average	Cardiovascular is the main mix-up driver. The base assumes growth decelerates as Shockwave and Abiomed scale but remains the strongest contributor.
Surgery and robotics	Product dollars not in D	Surgery +1.2%	OTTAVA/MONARCH later-decade launches	Below retained average through early years, improving late	Surgery starts slowly because current growth is weak; robotics adds option value after regulatory and launch milestones but costs precede revenue.
Vision	Product dollars not in D	Contact/other Vision +2.7%; Surgical Vision +6.0%; PureSee adoption marker	Retained focus area	Mid-single-digit	Vision supports stability rather than segment acceleration. Surgical Vision is healthier than contact/other Vision.

Product / pool	Historical anchor	Latest YoY / KPI	Mgmt FY+1 / long-term guide	Base CAGR TTM to 2031-03-29	Justification
Orthopaedics	D lacks historical product dollars; JNJ release says FY2024 approximately $9.2B	Q1 FY2026 +3.2%	Planned separation before horizon	0% in retained JNJ horizon revenue	Excluded from retained 2031 MedTech. This is a portfolio boundary change, not an operating-growth assumption.

Base case retained revenue: $24.908B x (1.060)^5 = $33.3B at 2031-03-29. Reported JNJ MedTech horizon revenue excludes Orthopaedics because the planned separation is assumed to close before the horizon.

Bull Case Growth Assumptions

Product / pool	Historical anchor	Latest YoY / KPI	Mgmt FY+1 / long-term guide	Bull CAGR TTM to 2031-03-29	Justification
Retained MedTech total	Current total MedTech grew 6.1% in FY2025 and has higher-growth cardiovascular mix	Q1 FY2026 MedTech operational +4.6%	"higher single-digit player"	8.0%	Bull case assumes Orthopaedics separation removes the slowest large drag, cardiovascular stays double-digit for longer, and robotics begins to contribute before 2031.
Cardiovascular including EP, Abiomed, Shockwave	Product dollars not in D	EP +9.5%, Abiomed +14.4%, Shockwave +18.1%	Retained focus area	Low-double-digit contribution	Shockwave, Abiomed, and EP maintain strong adoption, and JNJ cross-sells cardiovascular platforms into procedure-heavy accounts.
Surgery and robotics	Product dollars not in D	Surgery +1.2%	OTTAVA/MONARCH launches	Mid-single-digit to high-single-digit exit rate	Bull case requires OTTAVA/MONARCH evidence and commercial launch to shift Surgery from flat/low growth toward platform growth.
Vision	Product dollars not in D	Contact/other +2.7%; Surgical Vision +6.0%	Retained focus area	Mid-single-digit plus	TECNIS and premium surgical vision help offset slower contact lens growth.
Orthopaedics	D lacks product dollars	Q1 FY2026 +3.2%	Separation	0% in retained JNJ horizon revenue	Orthopaedics excluded; bull case also assumes clean separation with limited stranded cost.

Bull case retained revenue: $24.908B x (1.080)^5 = $36.6B at 2031-03-29.

Bear Case Growth Assumptions

Product / pool	Historical anchor	Latest YoY / KPI	Mgmt FY+1 / long-term guide	Bear CAGR TTM to 2031-03-29	Justification
Retained MedTech total	Current total MedTech FY2025 +6.1%; Q1 FY2026 operational +4.6%	Q1 FY2026 below high-single-digit target	Management aspiration not achieved	4.0%	Bear case assumes cardiovascular decelerates faster, Surgery remains weak, Vision remains mixed, and separation absorbs management bandwidth.
Cardiovascular including EP, Abiomed, Shockwave	Product dollars not in D	EP +9.5%, Abiomed +14.4%, Shockwave +18.1%	Retained focus area	Mid-single-digit to high-single-digit contribution	Adoption remains positive but competition, evidence requirements, reimbursement, and scale effects reduce growth.
Surgery and robotics	Product dollars not in D	Surgery +1.2%	OTTAVA/MONARCH launches	Low-single-digit	Robotics launch delays or limited adoption keep Surgery from becoming a growth engine.
Vision	Product dollars not in D	Contact/other +2.7%; Surgical Vision +6.0%	Retained focus area	Low-to-mid-single-digit	Competition and procedure softness offset premium lens adoption.
Orthopaedics	D lacks product dollars	Q1 FY2026 +3.2%	Separation	0% in retained JNJ horizon revenue	Orthopaedics excluded; bear case assumes dis-synergies and stranded costs reduce retained margin.

Bear case retained revenue: $24.908B x (1.040)^5 = $30.3B at 2031-03-29.

9. Forward Operating Margin Assumptions

The controlled current margin anchor is FY2025 segment income before tax margin of 12.2%, calculated from $4.113B of segment income before tax on $33.792B of revenue [data_package.md lines 82-91]. Q1 FY2026 adjusted MedTech margin of 22.3% appears in transcript commentary, but the data package explicitly warns not to convert it into a verified four-quarter margin series [data_package.md lines 139-140]. Therefore, the forward margin model uses FY2025 reported segment margin as the hard historical anchor and applies a pro forma retained-MedTech adjustment for Orthopaedics separation.

Margin improvement mechanisms are specific. First, Orthopaedics separation should mix retained revenue toward Cardiovascular, Surgery, and Vision, the areas management describes as higher-growth and higher-margin. Second, cardiovascular platforms should scale because EP, Abiomed, and Shockwave are differentiated and procedure-driven. Third, surgery robotics will initially pressure margins through R&D, regulatory, service, and training costs; only later does it create recurring instrument and installed-base leverage. Fourth, tariffs, China volume-based procurement, tendering, quality costs, and launch spending can absorb operating leverage. Fifth, stranded costs from separation may limit near-term margin expansion if shared infrastructure is not removed with the divested business.

Case	Current margin anchor	2031 retained MedTech margin	Change vs FY2025 reported margin	Mechanism
Bear	12.2% FY2025 segment income before tax margin	14.5%	+230 bps	Orthopaedics exit helps mix, but stranded costs, robotics investment, pricing pressure, and slower Surgery/Vision limit leverage.
Base	12.2% FY2025 segment income before tax margin	17.5%	+530 bps	Cardiovascular mix and Orthopaedics exit lift retained margin, partially offset by OTTAVA/MONARCH commercialization and tariff/procedure mix pressure.
Bull	12.2% FY2025 segment income before tax margin	20.0%	+780 bps	Cardiovascular scales, Shockwave/Abiomed/EP remain strong, robotics moves from investment phase to installed-base economics, and separation has limited stranded cost.

The base margin may look large versus FY2025, but the current reported margin includes a portfolio that management is actively reshaping. It is still below the Q1 FY2026 adjusted segment margin disclosed in commentary, which provides some directional support but is not treated as a source-verified TTM margin. The bear margin remains above FY2025 because even a difficult separation should remove some slower-growth drag, but it gives back much of the benefit to cost dis-synergies and robotics spend. The bull margin stops at 20.0% because medical devices require field support, service, training, quality systems, and ongoing R&D; this is not a software margin business.

10. Segment Rollup

The rollup is built from the portfolio boundary because product-dollar bases are not source-verified in the data package. The arithmetic is explicit:

- Start with QF-controlled TTM MedTech revenue of $34.408B.
- Deduct an analyst-estimated Orthopaedics TTM placeholder of $9.500B, based on JNJ's official FY2024 separation-release size anchor of approximately $9.2B and the data package's current Orthopaedics growth disclosure.
- Use estimated retained MedTech TTM revenue of $24.908B for the forward compound.
- Compound retained revenue for exactly five calendar years from 2026-03-29 to 2031-03-29.
- Apply retained-MedTech scenario margin to derive segment operating income / segment income before tax proxy.

Case	Retained MedTech TTM base	Revenue CAGR TTM to 2031-03-29	Segment TTM+5y revenue	Segment TTM+5y op margin	Segment TTM+5y op income	Probability
Bear	$24.908B est.	4.0%	$30.3B	14.5%	$4.4B	25%
Base	$24.908B est.	6.0%	$33.3B	17.5%	$5.8B	50%
Bull	$24.908B est.	8.0%	$36.6B	20.0%	$7.3B	25%

Arithmetic tie-out: Bear revenue = $24.908B x 1.04^5 = $30.3B; bear operating income = $30.3B x 14.5% = $4.4B. Base revenue = $24.908B x 1.06^5 = $33.3B; base operating income = $33.3B x 17.5% = $5.8B. Bull revenue = $24.908B x 1.08^5 = $36.6B; bull operating income = $36.6B x 20.0% = $7.3B. Segment totals reconcile to the modeled retained portfolio within rounding.

This rollup intentionally does not add back separated Orthopaedics in 2031. If Orthopaedics were still consolidated, total MedTech revenue would be higher, but that would contradict JNJ's announced portfolio plan. The relevant question for the Gideon model is retained JNJ earnings power, not the revenue of a business expected to be outside the company by the horizon.

11. Key Risks And Wildcards

Bear risk: the Orthopaedics separation may not close on expected terms, or it may close with more stranded cost than the market expects. The announced transaction is strategically logical, but the data package does not include pro forma cost allocation. If retained MedTech inherits shared costs without sufficient revenue, the base margin expansion is too high.

Bear risk: cardiovascular growth may decelerate faster than current Q1 disclosures imply. Shockwave and Abiomed are high-growth, but their current growth rates are not guaranteed at scale. Competitive technology, reimbursement limits, clinical evidence debates, or hospital budget pressure could reduce adoption.

Bear risk: robotics may consume capital without changing share. OTTAVA and MONARCH are important options, but Intuitive and other competitors already have installed positions. A late or underwhelming launch would leave Surgery as a low-growth business with extra cost.

Bear/base risk: Vision is not a uniform growth driver. Surgical Vision looks stronger than contact lenses and other Vision products in the latest data package disclosures, but both face competition. Vision supports the base case; it does not rescue a failed cardiovascular thesis.

Base wildcard: cardiovascular platform breadth could create more cross-selling and account-level leverage than modeled. EP, Abiomed, Shockwave, and future pipeline assets address different parts of cardiovascular procedure flow. If JNJ can convert that breadth into clinical account share, retained MedTech can approach the high-single-digit growth language.

Bull wildcard: Orthopaedics separation could improve management focus and capital allocation more than the model gives credit for. A cleaner retained MedTech portfolio may get more R&D and M&A attention in cardiovascular, surgery robotics, and vision. The bull case assumes this helps growth and margin, but not immediately.

Bear wildcard: China volume-based procurement, tariffs, and procedure mix can overwhelm mix benefits. The data package explicitly warns that segment profitability should be modeled with tariff, procedure mix, China VBP, launch investment, and robotics commercialization costs visible [data_package.md lines 82-91]. This is why the bear case margin does not move close to Q1 adjusted commentary.

Summary Table

Case	Segment TTM+5y Revenue	Segment TTM+5y Op Margin	Segment TTM+5y Op Income	Probability
Bear	$30.3B	14.5%	$4.4B	25%
Base	$33.3B	17.5%	$5.8B	50%
Bull	$36.6B	20.0%	$7.3B	25%

Reviewer-note data gaps retained for synthesis:

- [REVIEWER NOTE: data gap - the data package does not provide Orthopaedics TTM revenue, FY2025 Orthopaedics revenue, pro forma retained-MedTech revenue, separation costs, dis-synergies, or retained stranded cost allocation.]
- [REVIEWER NOTE: data gap - product-level historical revenue dollars for Cardiovascular, Abiomed, Shockwave, Electrophysiology, Surgery, Vision, and Orthopaedics are not available in the DR-cleared data package.]
- [REVIEWER NOTE: data gap - no controlled TTM Orthopaedics revenue is available in the data package; retained-MedTech revenue is therefore estimated and should not be treated as disclosed.]

Appendix S - Synthesis (Combined Earnings Model)

Johnson & Johnson - Synthesis (Combined Earnings Model)

Prepared for ER2 Production Mode Sub-Agent S. Ticker: JNJ. Company: Johnson & Johnson. Date: 2026-04-30. Current price used for the valuation gate: $227.50. Output path: `C:\Users\Admin\OneDrive\GPT\ER 2.0\Johnson & Johnson\appendix_synthesis.md`.

This synthesis builds Johnson & Johnson's combined TTM+5-year earnings model from the DR-cleared data package, the peer-reviewed Innovative Medicine appendix, the peer-reviewed MedTech appendix, the management appendix, the moat appendix, and the quantitative foundation. The critical accounting point is that the segment appendices use segment income before tax, because that is the profit measure reported to the chief operating decision maker in the quant foundation and the data package. This file therefore does not relabel segment income before tax as GAAP operating income. It builds a transparent segment-IBT-to-consolidated-pretax bridge, then applies a tax rate and share count path to derive net income and EPS.

The headline result is unfavorable at the current price. In the base case, 2031-03-29 revenue is $115.8B, segment income before tax is $37.6B, consolidated pretax income after the corporate/unallocated/other bridge is $35.2B, net income is $29.7B, and EPS is $12.14. The required EPS for a P/E of 15 at $227.50 is $15.17. Base-case EPS times 15 is $182.07, a negative 20.0% cushion. Even the bull case reaches only $14.48 of EPS and $217.26 of value at 15x, still 4.5% below the current price. The P/E 15 gate is therefore FAIL.

1. Anchors

Anchor	Value	Source / treatment
Today	2026-04-30	Orchestrator-provided anchor
Fiscal year end	Late December	Data package Section 5
TTM anchor end date	2026-03-29	QF P4 and orchestrator-provided anchor
TTM quarters	Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026	QF P4
Latest completed FY label	FY2025	Historical tie-out only
Horizon date	2031-03-29	TTM end plus exactly 5.0 calendar years
Compounding span	Exactly 5.0 calendar years	Not FY-1 plus five; not six fiscal years
Current price	$227.50	Orchestrator-provided price
TTM diluted share count	2,445.2M	QF P6, Q1 FY2026 diluted shares

The TTM base is current continuing Johnson & Johnson before the announced Orthopaedics separation has affected the reported segment boundary. That matters for MedTech. The MedTech appendix models retained MedTech after the planned Orthopaedics separation and explicitly uses an estimated retained-MedTech TTM base of $24.908B, calculated from QF-controlled TTM MedTech revenue of $34.408B less a $9.500B Orthopaedics placeholder. That placeholder is not a disclosed TTM product table. It is a pro forma bridge used because the company has announced a portfolio separation before the 2031 horizon. This synthesis preserves that limitation rather than treating Orthopaedics dollars as if they were disclosed in the data package.

2. Segment-level forward assumptions

The table below reproduces the segment appendices' forward assumptions. The segment profit term is segment income before tax, not GAAP operating income.

Segment	TTM revenue ($B)	Bear TTM+5y rev	Base TTM+5y rev	Bull TTM+5y rev	Bear IBT margin	Base IBT margin	Bull IBT margin	Source
Innovative Medicine	61.954	70.8	82.5	91.5	35.5%	38.5%	40.5%	`appendix_B_innovative_medicine.md`, Sections 8-10

Segment	TTM revenue ($B)	Bear TTM+5y rev	Base TTM+5y rev	Bull TTM+5y rev	Bear IBT margin	Base IBT margin	Bull IBT margin	Source
MedTech, retained post-Orthopaedics	24.908 estimated retained base; 34.408 reported TTM MedTech including Orthopaedics	30.3	33.3	36.6	14.5%	17.5%	20.0%	`appendix_B_medtech.md`, Sections 8-10

Innovative Medicine is the larger determinant of the model. It starts from $61.954B of TTM revenue and reaches $82.5B in the base case, a 5.9% CAGR over exactly five years. The base case is above the FY2022-FY2025 revenue CAGR of about 4.7% because Q1 FY2026 Innovative Medicine operational growth accelerated to 7.4% despite STELARA pressure. It remains below management's end-of-decade double-digit framing because the segment must absorb biosimilar erosion, payer pressure, launch spending, and execution risk in oncology, immunology, neuroscience, and pulmonary hypertension.

MedTech is modeled on a pro forma retained basis. The reported TTM MedTech revenue base is $34.408B, but the MedTech appendix deducts an estimated $9.500B Orthopaedics placeholder and compounds retained MedTech from $24.908B. Base retained revenue reaches $33.3B at the horizon, a 6.0% CAGR. The margin increases to 17.5%, helped by cardiovascular mix and Orthopaedics separation, but still burdened by surgery robotics investment, tariffs, procedure mix, China volume-based procurement, and potential stranded costs. The data package does not disclose TTM Orthopaedics revenue, separation costs, dis-synergies, or retained stranded-cost allocation. The model therefore carries MedTech as a flagged, pro forma estimate.

3. Combined revenue build

Line	Bear	Base	Bull
Innovative Medicine horizon revenue	70.8	82.5	91.5
Retained MedTech horizon revenue	30.3	33.3	36.6
Sum of horizon segment revenue	101.1	115.8	128.1
Corporate eliminations	0.0	0.0	0.0
Combined TTM+5y revenue	101.1	115.8	128.1
CAGR from reported TTM revenue of $96.362B	1.0%	3.7%	5.9%
CAGR from pro forma retained TTM revenue of $86.862B	3.1%	5.9%	8.1%

The reported-TTM CAGR and pro-forma retained-TTM CAGR answer different questions. Reported-TTM CAGR starts from $96.362B, which includes Orthopaedics. Pro-forma retained-TTM CAGR starts from $86.862B, calculated as $61.954B of Innovative Medicine plus $24.908B of retained MedTech. The retained-base CAGR is the better operating measure if the Orthopaedics separation closes before the horizon. The reported-base CAGR is the better shareholder revenue bridge from today's consolidated company to the modeled 2031 company because it includes the revenue lost through separation.

The base case therefore does not mean that Johnson & Johnson compounds all current revenue at 5.9%. It means Innovative Medicine grows at 5.9%, retained MedTech grows at 6.0%, and consolidated revenue after removing estimated Orthopaedics revenue grows from today's reported base at only 3.7% per year. This is an important distinction for the P/E gate. The retained company may be higher quality, but today's buyer is paying for the whole current equity value. Revenue that leaves the company cannot be counted in 2031 EPS unless the separation proceeds are retained and redeployed with measurable returns. The verified inputs do not provide a redeployment model, so no separation-proceeds uplift is included.

4. Segment IBT and consolidated pretax bridge

The segment appendices report horizon segment income before tax. To convert that to consolidated pretax income, this synthesis uses the TTM bridge visible in QF and D:

- QF P4 reports TTM consolidated pretax income of $24.940B.
- QF P2 provides FY2025 segment IBT margins: Innovative Medicine $22.266B / $60.401B = 36.9%; MedTech $4.113B / $33.792B = 12.2%.
- Applying those FY2025 segment margins to QF P4 TTM segment revenue gives a TTM segment IBT proxy of $27.026B: Innovative Medicine $61.954B times 36.9% plus MedTech $34.408B times 12.2%.

- The implied TTM corporate/unallocated/other bridge is therefore negative $2.086B: $24.940B consolidated pretax income less $27.026B of segment IBT proxy.
- This synthesis grows that negative bridge at 3.0% per year for five years, producing a horizon bridge of negative $2.419B.

This is not an attempt to reconstruct GAAP operating income. It is a practical bridge from segment IBT to consolidated pretax income. The data package explicitly says QF does not provide verified quarterly segment margin or full five-year GAAP operating-income tables. Using a TTM bridge keeps the model tied to the verified TTM pretax anchor and avoids pretending that segment IBT is the same thing as consolidated operating income.

Line	Bear	Base	Bull
Innovative Medicine segment IBT	25.1	31.8	37.1
Retained MedTech segment IBT	4.4	5.8	7.3
Sum of segment IBT	29.5	37.6	44.4
Corporate/unallocated/other bridge	-2.4	-2.4	-2.4
Consolidated pretax income	27.1	35.2	42.0
Segment IBT margin on horizon revenue	29.2%	32.5%	34.7%

The base case has $37.6B of segment IBT, of which 84.6% comes from Innovative Medicine. That concentration is not a rounding issue. It means the P/E gate is mostly a pharmaceutical replacement-cycle test: DARZALEX, CARVYKTI, RYBREVANT/LAZCLUZE, TECVAYLI, TALVEY, TREMFYA, ICOTYDE, CAPLYTA, SPRAVATO, and the remaining mature portfolio must more than offset STELARA and other exclusivity/pricing pressures. MedTech matters, especially for durability and diversification, but even a strong retained-MedTech outcome does not compensate for a miss in Innovative Medicine.

5. Net income and EPS build

The TTM tax rate is calculated directly from QF P4: TTM pretax income of $24.940B less TTM net income of $21.040B equals $3.900B of tax expense, or a 15.6% effective tax rate. This synthesis uses 15.6% for all cases. That rate is not a normalized multi-cycle tax study; it is the verified TTM rate in the cleared quant foundation. The tax sensitivity in Section 10 shows the impact of a 300 bp change.

Line	Bear	Base	Bull
Consolidated pretax income	27.1	35.2	42.0
Effective tax rate	15.6%	15.6%	15.6%
Net income	22.8	29.7	35.4
Diluted share count at horizon (M)	2,445.2	2,445.2	2,445.2
EPS	9.34	12.14	14.48

The base case EPS of $12.14 is materially above TTM diluted EPS of $8.65. That is a 7.0% EPS CAGR over five years, helped by Innovative Medicine margin expansion, retained-MedTech mix improvement, and a lower-quality reported-to-retained revenue denominator after the Orthopaedics separation. It still fails the valuation gate because the starting price is high enough that Johnson & Johnson needs $15.17 of 2031 EPS to trade at 15x. The model does not include speculative separation-proceeds redeployment, litigation resolution upside, or a more aggressive buyback program because those are not present in the verified inputs.

6. Share count path

The share-count path is explicit and conservative. QF P6 provides Q1 FY2026 diluted shares of 2,445.2M. The data package does not provide a complete five-year buyback or SBC table. The management appendix says buybacks appear secondary and mostly mechanical, with Q1 purchases under a systematic plan to meet compensation-program needs. Because the verified inputs do not support a durable net retirement rate, this synthesis assumes gross buybacks offset compensation issuance and uses a flat diluted share count. This is not a hidden assumption: the table below shows a zero net-reduction path.

Year	Starting share count (M)	Buyback dollars ($B)	Avg price assumed	Shares retired (M)	SBC / compensation issuance (M)	Ending share count (M)
Year 1	2,445.2	0.0 net	n/a	0.0 net	0.0 net	2,445.2
Year 2	2,445.2	0.0 net	n/a	0.0 net	0.0 net	2,445.2
Year 3	2,445.2	0.0 net	n/a	0.0 net	0.0 net	2,445.2
Year 4	2,445.2	0.0 net	n/a	0.0 net	0.0 net	2,445.2
Year 5	2,445.2	0.0 net	n/a	0.0 net	0.0 net	2,445.2

This is likely conservative if management uses FCF for material net repurchases after dividends, capex, and M&A. It may be optimistic if acquisitions are equity-funded, if compensation issuance rises, or if litigation and debt reduction absorb more cash than expected. The central point is that buybacks are not allowed to rescue the P/E gate without source support. A 5% lower share count would lift base EPS to $12.78, still below the $15.17 required EPS. A 5% higher share count would reduce base EPS to $11.56.

7. P/E 15 test

Case	EPS at TTM+5y	EPS times 15	Current price	Cushion	Pass?
Bear	9.34	140.15	227.50	-38.4%	FAIL
Base	12.14	182.07	227.50	-20.0%	FAIL
Bull	14.48	217.26	227.50	-4.5%	FAIL

Required EPS for a P/E of 15 at $227.50 is $15.17. The confident case that matters is the base case, not the bull case. The base case is short by $3.03 of EPS, or 20.0% of the valuation bar. The bull case is also short, which means the valuation gate is not a narrow miss driven by conservative inputs. Johnson & Johnson would need a stronger combination of Innovative Medicine growth, MedTech margin expansion, lower corporate drag, lower tax, net share retirement, or a lower purchase price.

At 15x the base-case EPS of $12.14, the indicated buy price is about $182. The exact model value is $182.07. Because management and moat are both YELLOW rather than GREEN, ER2 should not relax the P/E gate. The stock may still be a high-quality defensive healthcare holding for other mandates, but under the Gideon-lens rule set, the current price does not clear.

8. Reflexivity check

The reported TTM revenue anchor ties exactly. QF P4 reports TTM consolidated revenue of $96.362B. QF P4 also reports TTM Innovative Medicine revenue of $61.954B and TTM MedTech revenue of $34.408B. The segment sum is $96.362B, a 0.0% gap. FY2025 also ties: Innovative Medicine revenue of $60.401B plus MedTech revenue of $33.792B equals FY2025 consolidated revenue of $94.193B.

The profit bridge is more limited because QF/D do not provide a verified four-quarter segment IBT table or a GAAP operating-income series. The latest completed FY segment IBT sum is source-verified: FY2025 Innovative Medicine IBT of $22.266B plus MedTech IBT of $4.113B equals $26.379B. For TTM, this synthesis creates an explicit proxy by applying FY2025 segment margins to TTM revenue, then bridges to QF P4 consolidated pretax income. That proxy does not invent a new profit series; it makes the missing segment margin series visible and uses the verified consolidated pretax number as the controlling anchor.

The model is not reflexively circular in the valuation sense. It does not backsolve revenue, margin, shares, or tax to make EPS hit the P/E gate. The base case fails. If anything, the model's pro forma retained-MedTech treatment may improve quality while reducing reported revenue, which makes the revenue CAGR look lower from today's consolidated base. That is the right economic result for a divestiture.

9. In-progress FY reconciliation

Stage 0 did not treat FY2026 as effectively complete. The anchor is TTM ending 2026-03-29, not an in-progress FY2026 estimate. Therefore this check is not a full-year reconciliation gate. Still, recent guidance provides a sanity check. The data package records that Q1 FY2026 revenue was $24.062B, reported growth was 9.9%, operational growth was 6.4%, adjusted operational growth was 5.3%, and management raised FY2026 reported sales guidance to a midpoint of $100.8B with adjusted EPS midpoint of $11.55.

The base case is consistent with that near-term context but does not mechanically use FY2026 guidance as a base. Reported TTM revenue is $96.362B. FY2026 guidance midpoint of $100.8B is 4.6% above that TTM anchor. The base horizon revenue of $115.8B is a 3.7% CAGR from reported TTM revenue, or a 5.9% CAGR from retained pro forma revenue. This is not an immediate jump above the run rate. It reflects near-term guidance, the expected loss of Orthopaedics revenue from the consolidated base, and a retained-company growth algorithm that remains below management's double-digit aspiration.

10. Sensitivity

Sensitivity	Base EPS impact	Interpretation
Innovative Medicine revenue CAGR plus 200 bps, margin held at 38.5%	EPS rises to 13.20	Most important positive driver
Innovative Medicine revenue CAGR minus 200 bps, margin held at 38.5%	EPS falls to 11.13	Most important negative driver
MedTech horizon margin plus 200 bps	EPS rises to 12.38	Helpful but not decisive
MedTech horizon margin minus 200 bps	EPS falls to 11.92	Noticeable but not thesis-breaking alone
Share count 5% lower	EPS rises to 12.78	Buybacks cannot rescue the gate alone
Share count 5% higher	EPS falls to 11.56	Dilution would worsen an already failed gate
Tax rate 300 bps lower	EPS rises to 12.57	Helpful but not decisive
Tax rate 300 bps higher	EPS falls to 11.71	Meaningful but smaller than pharma growth

The verdict is driven mainly by Innovative Medicine growth and margin durability. MedTech matters for quality and diversification, and retained MedTech margin expansion is important to the bull narrative, but the enterprise EPS bridge is dominated by the larger, higher-margin pharmaceutical segment. The second most important variable is not MedTech margin; it is valuation math. Even a reasonable base-case EPS outcome cannot overcome a current price that requires $15.17 of 2031 EPS at 15x.

11. Combined earnings summary

Case	Revenue ($B)	Segment IBT ($B)	Pretax income ($B)	NI ($B)	EPS ($)	Probability	EPS times 15	vs. $227.50
Bear	101.1	29.5	27.1	22.8	9.34	25%	140.15	-38.4%
Base	115.8	37.6	35.2	29.7	12.14	50%	182.07	-20.0%
Bull	128.1	44.4	42.0	35.4	14.48	25%	217.26	-4.5%
Probability-weighted EPS	n/a	n/a	n/a	n/a	12.03	100%	180.39	-20.7%

Probability weights are 25% bear, 50% base, and 25% bull. The base is weighted highest because the data package shows real Q1 FY2026 acceleration, management has raised guidance, and the product momentum is broad, but management and moat are both YELLOW and the MedTech pro forma separation model has material data gaps. A uniform 33/33/34 split would overstate confidence in the bull case. A bear-heavy split would understate the observed Q1 growth and the quality of JNJ's regulated healthcare franchises.

Tie-out checks

- Reported-financial tie-out: PASS with profit-bridge limitation. TTM segment revenue ties exactly to consolidated TTM revenue: $61.954B plus $34.408B equals $96.362B, matching QF P4. FY2025 segment revenue also ties exactly: $60.401B plus $33.792B equals $94.193B. FY2025 segment IBT sums to $26.379B. QF/D do not provide TTM segment IBT or GAAP operating income, so this synthesis creates an explicit TTM segment-IBT proxy and bridges it to QF P4 consolidated pretax income.

- NI / shares = EPS: PASS. Bear EPS equals $22.846B net income divided by 2,445.2M shares, or $9.34. Base EPS equals $29.680B divided by 2,445.2M shares, or $12.14. Bull EPS equals $35.416B divided by 2,445.2M shares, or $14.48.

- Segment sum tie-out at horizon: PASS. Bear horizon revenue is $70.8B plus $30.3B, or $101.1B. Base is $82.5B plus $33.3B, or $115.8B. Bull is $91.5B plus $36.6B, or $128.1B. Corporate eliminations are zero because the current two reportable segments already sum to consolidated revenue in QF P4.

- Product-to-segment rollup: PASS-LIMITED. Innovative Medicine's driver bridge ties to the segment totals within rounding: base equals $61.954B less $5.0B of STELARA erosion plus $14.0B oncology, $6.3B immunology ex-STELARA, $3.8B neuroscience, and $1.4B other, or $82.454B rounded to $82.5B. MedTech's retained-pool rollup ties within rounding: $24.908B times 1.06 to the fifth power equals about $33.3B. The limitation is that product-level dollar tables are not disclosed in QF/D.

- Weighted margin check: PASS-LIMITED / not product-applicable. The segment appendices do not assign product-level margins because QF/D do not disclose product-level operating margins. The segment-level math does tie: Innovative Medicine base segment IBT is $82.5B times 38.5%, or $31.8B; MedTech base segment IBT is $33.3B times 17.5%, or $5.8B. Product-weighted margin verification is not possible from the verified source set.

- Share count path: PASS. The horizon share count is derived explicitly from the QF P6 starting point of 2,445.2M shares and a zero net retirement path. The zero path is used because verified buyback and SBC histories are unavailable and management commentary says buybacks are mostly systematic compensation-offsetting activity.

- Growth plausibility: PASS. Innovative Medicine base CAGR of 5.9% is above its FY2022-FY2025 segment CAGR of 4.7%, but the appendix justifies the step-up with Q1 FY2026 7.4% operational growth, oncology momentum, TREMFYA/ICOTYDE, CAPLYTA, and STELARA headwind moderation. MedTech retained base CAGR of 6.0% is consistent with the current MedTech FY2022-FY2025 CAGR and below management's "higher single-digit" framing.

- Historical arithmetic: PASS. Innovative Medicine base revenue bridge ties to $82.5B within 1%. MedTech base arithmetic ties: $24.908B times 1.06 to the fifth power equals about $33.3B. The bear and bull case tables also tie within rounding in the segment appendices.

- Recency anchor: PASS. The model does not start above the recent run rate. Reported TTM revenue is $96.362B. FY2026 guidance midpoint cited in the data package is $100.8B, 4.6% above TTM. Base horizon revenue of $115.8B implies a reported-base CAGR of 3.7%, while the retained-base operating CAGR is 5.9% after the Orthopaedics revenue deduction.

- Below-segment bridge check: PASS. TTM segment-IBT proxy of $27.026B plus the negative $2.086B TTM corporate/unallocated/other bridge equals QF P4 TTM pretax income of $24.940B. Growing the bridge at 3.0% for five years produces a negative $2.419B horizon deduction that is applied consistently across bear, base, and bull.

- P/E 15 gate math: PASS as arithmetic, FAIL as investment gate. Required EPS is $227.50 divided by 15, or $15.17. Bear, base, and bull EPS are $9.34, $12.14, and $14.48. Their 15x values are $140.15, $182.07, and $217.26. All are below the current price.

Tie-out count: 11/11 run. Arithmetic passed in all 11 checks, with checks 4 and 5 explicitly data-limited because product-level revenue and margin disclosures are not available in QF/D. The investment gate fails because the base case and bull case do not reach the required EPS.

Key findings for the main narrative

Johnson & Johnson is a good business at the wrong price under the ER2 P/E rule. The base case has credible operating growth: Innovative Medicine gets through the STELARA cliff with oncology, immunology, neuroscience, and specialty assets; retained MedTech improves mix after Orthopaedics separation; and the company keeps tax and corporate drag near the verified TTM structure. That produces EPS growth from $8.65 TTM to $12.14 at the horizon. The problem is not that the business fails to grow. The problem is that the current price requires $15.17 of horizon EPS to clear 15x.

The MedTech treatment is the largest modeling caveat. The appendix uses a retained-MedTech base after Orthopaedics separation because the company has announced that separation before the 2031 horizon. However, the data package does not disclose TTM Orthopaedics revenue, pro forma retained-MedTech revenue, separation costs, dis-synergies, or stranded cost allocation. The $9.500B Orthopaedics placeholder is therefore an analyst estimate anchored to the segment appendix, not a disclosed product table. The synthesis preserves this caveat and does not add back separated Orthopaedics revenue in 2031.

Management gate is YELLOW. Management is credible, financially competent, and strategically coherent, but the recent M&A cycle is not yet seasoned and net debt is $33.299B at the Q1 FY2026 anchor. The dividend record is strong, but it is not proof of high-return reinvestment. The synthesis therefore does not give management credit for major buybacks, tax optimization, or acquisition synergies beyond what is visible in the segment appendices.

Moat gate and 2046 test are YELLOW. JNJ has durable healthcare advantages in regulation, clinical evidence, manufacturing, trust, procurement, and scale. Innovative Medicine is economically strong but must continuously replace patent-protected products. MedTech is more procedural and durable in some categories, but reported margins are weaker and the retained portfolio is still being reshaped. Those YELLOW gates reinforce the need to respect the price discipline rather than stretching the model to make the valuation work.

The conclusion for Stage 7 should be PASS on price unless the final red-team or reconciliation process finds a materially different source-supported EPS bridge. A WATCH stance could be justified if price falls toward the base-case 15x value, if the Enterprise Business Review provides disclosed pro forma MedTech economics and long-range segment targets, or if Innovative Medicine growth accelerates enough to make $15+ EPS visible without heroic buybacks. At $227.50, the base case is too far short.

Appendix CS - Compounder Score

Johnson & Johnson - Compounder Score

Analysis date: 2026-05-28. Company: Johnson & Johnson. Ticker: JNJ. Exchange: NYSE. Currency: USD. Fiscal year-end: late December. TTM anchor from the ER2 packet: four quarters ending 2026-03-29.

1. Executive Verdict

The evidence supports a high-quality global healthcare franchise, but not a clean 20% compounder at the current price. Johnson & Johnson has durable assets in regulated specialty medicine and high-acuity medical technology, strong cash generation, and credible management. The score is capped because the ER2 package explicitly lacks a source-verified five-year ROIC series, complete capital allocation panel, full product-dollar histories, and retained-MedTech pro forma economics after the planned Orthopaedics separation.

The valuation score is the binding problem. A live FMP quote on 2026-05-28 showed JNJ at $230.479 and market capitalization of $554.814B. Using QF's Q1 FY2026 net debt of $33.299B gives enterprise value of about $588.113B. The ER2 synthesis at $227.50 already showed base-case 2031 EPS of $12.14, worth $182.07 at 15x, and bull-case EPS of $14.48, worth $217.26 at 15x. Updating the price upward does not help. Even adding dividends, the base case is roughly negative low-single-digit annualized over five years, not 20%.

Compounder Score: 64/100. Business Quality Score: 62/80. 20% Return Underwriting Score: 2/20. Score-implied classification: Reject.

2. Data Source Map

Evidence item	Source used	Confidence	Notes
Price / market cap	Live FMP quote, 2026-05-28	High	Price $230.479; market cap $554.814B.
Enterprise value	Live market cap plus QF Q1 FY2026 net debt	Medium-high	EV estimated at $588.113B; QF net debt controls because FMP Q1 debt omitted noncurrent debt.
Income statement	QF, data_package, live FMP annual pull	Medium	QF controls TTM; FMP annual used only to fill rubric metrics missing from QF.
Balance sheet	QF Q1 FY2026, live FMP annual pull	Medium	QF SEC official debt override controls current leverage.
Cash flow	QF TTM, live FMP annual pull	Medium	QF TTM FCF $17.798B; annual pull used for SBC and longer cash conversion.
Share count	QF Q1 FY2026 and synthesis	High	2,445.2M diluted shares; synthesis assumes flat share count due buyback/SBC evidence gap.
Segment data	data_package and segment appendices	High	Official current taxonomy for Innovative Medicine and MedTech.
Management / capital allocation	appendix_management	Medium-high	Strong narrative evidence; deal-level ROIC not yet proven.
Moat / runway	appendix_moat, appendix_B files, red team	Medium-high	Real moat, but renewal and policy risks are material.
Competitors / TAM	segment appendices and red team	Medium	Useful but not enough for product-level dollar proof.

3. Key Financial and Quality Metrics

Metric	Value	Source / formula
Current price	$230.479	Live FMP quote, 2026-05-28.
Market cap	$554.814B	Live FMP quote, 2026-05-28.
Enterprise value	$588.113B	Market cap plus QF Q1 FY2026 net debt of $33.299B.
TTM revenue	$96.362B	QF P4/P6.

Metric	Value	Source / formula
TTM net income	$21.040B	QF P4/P6.
TTM FCF	$17.798B	QF P4/P6, CFO less capex.
FCF / net income	84.6%	QF P6.
FY2025 NOPAT estimate	$27.603B	FY2025 EBIT $33.552B times 1 minus FY2025 tax / pretax.
5-year median simple ROIC	19.5%	Live FMP annual pull; NOPAT / average simple invested capital. Not QF-verified.
5-year acquisition-inclusive ROIIC	24.3%	NOPAT delta 2020-2025 / capex + working capital + acquisitions. Approximate.
5-year organic ROIIC	Not reliable	Working capital and portfolio changes make the denominator artificially small.
5-year revenue CAGR	2.7%	Live FMP annual pull, 2020-2025.
5-year NOPAT CAGR	14.2%	Live FMP annual pull; helped by FY2025 rebound and special items.
5-year FCF CAGR	-0.5%	Live FMP annual pull, 2020-2025.
5-year FCF / NOPAT	113.1%	Live FMP annual pull; high but affected by unusual NOPAT years.
5-year diluted share CAGR	-1.9%	Live FMP annual pull.
FY2025 SBC / revenue	1.4%	Live FMP annual cash-flow statement.
FY2025 SBC / FCF	6.9%	Live FMP annual cash-flow statement.
EV / FY2025 NOPAT	21.3x	EV / FY2025 NOPAT estimate.
TTM FCF yield	3.2%	QF TTM FCF / live market cap.

4. Rubric Scorecard

Category	Score	Max	Rationale
Incremental returns on capital	19	25	Good simple ROIC and cash conversion, but QF did not verify a five-year ROIC bridge and acquisition-inclusive ROIIC is only mid-20s.
Reinvestment runway	16	20	Large healthcare runway and visible launch assets, offset by STELARA replacement, policy pressure, and retained-MedTech disclosure gaps.
Durability of moat	13	15	Regulation, IP, clinical evidence, manufacturing quality, scale, and physician workflow support a moat; product patents are finite.
Accounting and financial quality	8	10	Cash conversion and disclosures are solid; legal liabilities, restructuring, IPR&D, and product-level gaps cap the score.
Capital allocation	6	10	Strategy is coherent, but recent large M&A is not seasoned, buybacks look mostly mechanical, and no hard ROIC pay metric is visible.
Price and 20% return underwriting	2	20	The 20% case fails; the only credit is dividend cash return.

Business Quality Score: 62/80. Total Compounder Score: 64/100.

5. ROIIC and Reinvestment Analysis

The evidence supports above-average returns, not a fully proven high-ROIIC compounder. Using live FMP annual statements to fill a gap QF explicitly identified, simple ROIC was approximately 22.0% in FY2021, 19.5% in FY2022, 15.9% in FY2023, 18.5% in FY2024, and 28.6% in FY2025. The five-year median is about 19.5%, which earns credit but does not clear the greater-than-30% standard for a top score.

ROIIC is harder. A crude organic reinvestment denominator becomes unreliable because working-capital swings, Kenvue boundary changes, and portfolio actions make the denominator artificially small. Acquisition-inclusive ROIIC is more relevant given Abiomed, Shockwave, Intra-Cellular/CAPLYTA, and other deal activity. On an approximate 2020-2025 basis, acquisition-inclusive ROIIC is about 24.3%, good but not elite. This score is capped because deal-level ROIC is not yet proven and the ER2 data package states that a complete five-year capital allocation panel is unavailable.

6. Runway Analysis

Innovative Medicine has a real runway in oncology, immunology, neuroscience, and pulmonary hypertension. The segment appendix shows Q1 FY2026 growth in DARZALEX, CARVYKTI, RYBREVANT/LAZCLUZE, TREMFYA, SPRAVATO, and CAPLYTA. The problem is replacement quality. STELARA declined 61.7% in Q1 FY2026 and created about a 920 bp Innovative Medicine headwind. The evidence does not prove that every replacement dollar carries the same margin, net price, and capital intensity as the expiring revenue.

MedTech has runway in cardiovascular, electrophysiology, Shockwave, Abiomed, Vision, and future procedure workflow platforms, but the pro forma retained perimeter is not fully disclosed. The synthesis deducts an estimated $9.5B of Orthopaedics revenue to model retained MedTech. That is transparent, but it is still an analyst bridge rather than a disclosed retained-company margin and cost base.

7. Moat Analysis

The moat is real and mixed. Innovative Medicine benefits from patents, biologics manufacturing, clinical evidence, regulatory capability, specialist relationships, payer access, and global commercialization. MedTech benefits from procedure workflow, training, quality systems, service, clinical evidence, and hospital procurement trust. These advantages should matter for years.

The moat is not static. Patents expire, successful drugs attract policy attention, and MedTech pricing can be pressured by hospital procurement and China volume-based purchasing. The 2046 test in appendix_moat is YELLOW, not GREEN: JNJ can plausibly remain a strong regulated healthcare company in 2046, but only if it keeps renewing the portfolio through internal R&D and disciplined external innovation.

8. Accounting and Capital Allocation Analysis

Cash quality is respectable: QF reports TTM CFO of $22.870B, capex of $5.072B, FCF of $17.798B, and FCF / net income of 84.6%. FY2025 SBC was about 1.4% of revenue and 6.9% of FCF on the live FMP annual pull. SBC is a real cost, but it is not the central risk.

Capital allocation is coherent but not yet proven as high-return. Management simplified the company through Kenvue, is pursuing Orthopaedics separation, and is buying into cardiovascular and neuroscience growth. That strategy makes sense, but Abiomed, Shockwave, and Intra-Cellular were large deals at real prices. The company had Q1 FY2026 net debt of $33.299B, and talc litigation remains a governance and cash-flow overhang. Buybacks appear secondary and mostly compensation-offsetting, so they should not be used to rescue per-share underwriting.

9. 20% Return Underwriting

Case	2031 EPS	15x value	Dividends assumed	Estimated 5-year IRR	Assessment
Bear	$9.34	$140.15	$25	-6.4%	Patent, policy, MedTech, and legal risks bite.
Base	$12.14	$182.07	$29	-1.7%	Credible operating growth, but starting valuation too high.
Bull	$14.48	$217.26	$31	1.5%	Still far below 20% without multiple expansion.

The 20% case requires either a much lower entry price, a much higher EPS bridge, or terminal multiple expansion. A reverse DCF using current EV of about $588.1B, FY2025 NOPAT of about $27.6B, a 15x exit EV/NOPAT multiple, and a five-year 20% target return requires roughly 28.7% annual NOPAT growth. That is not supported by the ER2 evidence. The max buy price for a 20% five-year return using the base $182.07 terminal value and $29 of dividends is about $84.85.

10. Hard Veto Checklist

Veto	Status	Evidence
ROIIC below cost of capital	Watch	Acquisition-inclusive ROIIC appears above WACC, but deal-level proof is incomplete.
ROIC accounting artifact	Watch	Goodwill and acquisition accounting matter; QF did not verify full ROIC bridge.
Growth requires external financing	Pass	FCF is strong, though debt rose after M&A.
Share count rises materially	Pass	Diluted shares declined over five years; synthesis assumes flat going forward.
Large acquisitions without return disclosure	Watch	Abiomed, Shockwave, Intra-Cellular are strategic but not seasoned.
FCF consistently lags earnings	Pass	TTM FCF / net income is 84.6%; five-year cash conversion is acceptable.
Permanent impairment risk	Watch	Patent cliffs, policy, litigation, and MedTech procurement are real.
20% case requires multiple expansion	Fail	Base, bear, and bull fail 20% at 15x exit.
Needs flawless execution	Fail	Current price leaves little room for replacement-cycle and MedTech execution misses.
Moat cannot be explained	Pass	Regulated clinical evidence, IP, manufacturing, workflow, trust, and scale.
Accounting/governance issues impair trust	Watch	Talc litigation and related legal strategy cap confidence.
Balance sheet could wipe out equity	Pass	Debt is meaningful but not existential for JNJ.

11. Final Decision

Score-implied classification: Reject. This is not a claim that Johnson & Johnson is a bad business. It is a diagnostic conclusion that the current price and evidence set do not support a 20% compounder underwriting case. A lower price near the base-case 15x value, clearer retained-MedTech economics, seasoned acquisition returns, and source-verified ROIC/ROIIC history could move the classification toward watchlist or buy-only-at-lower-price.

Compounder Score note: 64/100; JNJ is a real healthcare quality franchise, but the score is capped by incomplete ROIC/ROIIC evidence, acquisition-heavy reinvestment, patent/policy renewal risk, and a failed 20% return case.

Business Quality Score note: 62/80; strong moat, cash conversion, scale, and runway, offset by STELARA replacement risk, MedTech margin/pro forma gaps, unresolved talc litigation, and unseasoned M&A returns.

20% Return UW Score note: 2/20; base and bull cases fail at 15x exit, reverse DCF requires about 28.7% NOPAT CAGR, and cash returns are not enough to compensate for the entry valuation.

12. Machine-Readable JSON

See `compounder_score.json`.

Appendix CSA - Scoring Audit

Johnson & Johnson - Scoring Audit

Analysis date: 2026-05-28. Company: Johnson & Johnson. Ticker: JNJ. Workdir: `C:\Users\Admin\OneDrive\GPT\ER 2.0\Johnson & Johnson`.

1. Original vs Audited Scores

Item	Original	Audited	Notes
Business Quality Score / 80	62	53	Reduced for unsupported five-year ROIC/FCF/SBC fills, incomplete ROIIC proof, and unseasoned acquisition returns.
Valuation / 20% Return UW Score / 20	2	2	Preserved. The original scorer correctly rejects the 20% case.
Total Score / 100	64	55	Reject remains the correct score-implied classification.
Classification	Reject	Reject	Threshold tests fail before and after audit.

The original score reconstructs cleanly from `compounder_score.json`: Business Quality 62/80, Valuation / 20% Return Underwriting 2/20, Total 64/100, classification Reject. Original IRRs were bear -6.45%, base -1.74%, and bull 1.50%, with a max buy price for 20% IRR of $84.85. These match the scorer's stated valuation framework using the 2026-05-28 price of $230.479, base 2031 EPS of $12.14, 15x terminal value of $182.07, and roughly $29 of dividends.

2. Score Reductions and Reasons

The biggest reduction is in Incremental Returns on Capital, from 19/25 to 14/25. QF and D explicitly say the ER2 controlled evidence set does not provide a five-year invested-capital denominator, tax-normalized NOPAT series, consolidated five-year GAAP table, or complete capital allocation panel. The scorer imported a live FMP annual pull to estimate simple ROIC, acquisition-inclusive ROIIC, five-year FCF conversion, SBC burden, share-count CAGR, and historical CAGRs. That may be useful diagnostic work, but CSA rules say a score resting outside the ER2 evidence base must be marked lower confidence unless independently source-verified. The live FMP fill is not wrong on its face, but it is not QF/QFR-controlled.

Reinvestment Runway is reduced from 16/20 to 15/20. The business has real runway in Innovative Medicine and cardiovascular MedTech, and the support files document DARZALEX, CARVYKTI, TREMFYA, SPRAVATO, CAPLYTA, Shockwave, Abiomed, and RYBREVANT/LAZCLUZE momentum. The cap remains because QF/D do not provide full product-dollar histories or product-level gross-to-net economics, STELARA fell 61.7% in Q1 FY2026 with about a 920 bp Innovative Medicine headwind, and MedTech retained economics after Orthopaedics separation rely on an analyst bridge.

Durability of Moat is reduced from 13/15 to 12/15. The moat evidence is strong enough to preserve most points: regulation, IP, clinical evidence, manufacturing, scale, physician workflow, quality systems, procurement trust, and global commercialization are supported across the appendices. The score is trimmed because appendix_moat and synthesis classify the moat/2046 test as YELLOW, not GREEN, and because product patents, policy pressure, procurement pressure, and portfolio-renewal demands make durability conditional.

Accounting and Financial Quality is reduced from 8/10 to 7/10. QF supports TTM CFO of $22.870B, capex of $5.072B, FCF of $17.798B, TTM net income of $21.040B, and FCF / net income of 84.6%. That is good current cash quality. The reduction is because CSA requires multi-year FCF conversion and SBC treatment. The scorer's five-year FCF conversion and SBC numbers came from live FMP, while D says the controlled ER2 file does not include a five-year consolidated cash-flow, share-count, buyback, dividend, or SBC panel.

Capital Allocation is reduced from 6/10 to 5/10. Management is coherent, but the decisive capital-allocation question is whether Abiomed, Shockwave, Intra-Cellular/CAPLYTA, Halda, and related innovation spending earn attractive returns after purchase price. The management appendix explicitly says the deals are encouraging but not yet proof of deal-level ROIC. Net debt of $33.299B and unresolved talc litigation further cap confidence.

3. Unsupported Claims

The claim that five-year median simple ROIC is 19.5% is not supported by QF/D. It may be derived from the scorer's live FMP annual pull, but the controlled evidence base says ROIC is not in QF and should not be inferred downstream from the data package.

The acquisition-inclusive ROIIC estimate of 24.3% is not fully auditable from the provided files. CSA rules require ROIIC to be calculated, not asserted. The scorer labels it approximate, but the appendix does not provide a detailed denominator bridge for capex, working capital, acquisitions, and portfolio changes.

The FY2025 SBC / revenue and SBC / FCF metrics are not supported by QF/D. They are reasonable to include as external diagnostic fills, but they should not receive full scoring credit without a controlled cash-flow and equity-compensation panel.

The five-year revenue, NOPAT, FCF, and share-count CAGRs are not controlled by the ER2 packet. D explicitly avoids filling those unavailable fields from an uncontrolled historical pull.

4. Calculation Errors

No material arithmetic error was found in the valuation section. At $230.479, base terminal value plus dividends is about $211.07; over five years that gives roughly -1.7% annualized. Bear and bull IRRs also tie within rounding. The base max buy price for a 20% five-year return is about $84.85, calculated as $211.07 divided by 1.2 to the fifth power.

The reverse DCF statement is directionally correct: current EV of about $588.1B, FY2025 NOPAT of about $27.6B, a 15x exit multiple, and a 20% target return require roughly high-20s annual NOPAT growth. That is far above the ER2 segment model. The NOPAT bridge is lower confidence than the EPS bridge because FY2025 EBIT and tax normalization are not the main QF-controlled valuation gate, but the conclusion is not sensitive to small changes.

5. Missing Data

The most important missing evidence is a source-verified adjusted ROIC and ROIIC bridge including goodwill, leases, R&D capitalization treatment, acquisitions, working capital, and portfolio exits. Without that bridge, the return-on-capital category cannot score like an elite compounder.

The second missing item is deal-level economic profit for Abiomed, Shockwave, Intra-Cellular/CAPLYTA, Halda, and related recent M&A. Because acquired growth is material to JNJ's renewal story, acquisition-inclusive ROIIC matters more than a clean organic narrative.

Other missing items are product-dollar histories for the STELARA replacement portfolio, retained-MedTech pro forma revenue and margin after Orthopaedics separation, stranded costs and tax leakage, multi-year SBC, buyback and share-count mechanics, and a complete multi-year FCF conversion panel.

6. Hard-Veto and Threshold Test Audit

The hard-veto audit supports the original Reject classification. The 20% return case requires a much lower entry price, much higher EPS, or multiple expansion. Base and bull cases fail at a 15x terminal multiple, so 20% underwriting should remain near the floor. The company also needs strong execution across Innovative Medicine replacement, cardiovascular MedTech, Orthopaedics separation, litigation, and large acquisition integration. That is too much required precision for a 20% compounder score.

Threshold tests after audit: total score is below 80, business quality is below 65/80, valuation score is below 15/20, base-case IRR is below 20%, bear-case IRR is below 8%-10%, hard vetoes remain, and the case does not avoid multiple-expansion dependence. ROIIC plus runway also falls below 35/45 after the ROIIC evidence haircut.

7. Final 20% Hurdle Pass/Fail

Final 20% hurdle: FAIL. The 20% case does not pass even under the scorer's own bull case. The audit preserves the original 2/20 valuation score because the scorer already treated the dividend as the only modest credit and did not let business quality offset valuation failure.

8. Dream Business / Dream Investment Classification

Classification: neither. JNJ is a high-quality regulated healthcare franchise, but the evidence does not clear the Gideon "dream business" bar because capital returns and acquisition-inclusive ROIIC are not fully proven. It is also not a dream investment at the audited price because base and bull five-year returns are far below 20% under a 15x exit discipline.

The single biggest reason JNJ does not qualify is that the current price requires an EPS and NOPAT growth bridge the ER2 evidence does not support, while the renewal story depends on large, not-yet-seasoned acquisitions and product replacement after STELARA.

9. Stage 7 Scorecard Notes

Compounder Score note: 55/100; JNJ is a real healthcare franchise, but the audited score is reduced for unsupported five-year ROIC/FCF/SBC fills, incomplete acquisition-inclusive ROIIC, product-dollar gaps, and a failed 20% return case.

Business Quality Score note: 53/80; moat and cash generation are supported, but business quality is capped by STELARA replacement risk, YELLOW moat/management gates, retained-MedTech pro forma uncertainty, talc litigation, and unproven deal-level returns.

20% Return UW Score note: 2/20; base and bull cases fail at 15x exit, the required NOPAT growth is far above the modeled evidence, and dividends do not repair the entry valuation.

10. Auditor JSON

See `compounder_score_audit.json`.

Appendix RT - Red Team

Johnson & Johnson - Red Team Appendix

Prepared by Sub-Agent RT for ER2 Production Mode. Ticker: JNJ. Company: Johnson & Johnson. Date: 2026-04-30. TTM anchor: Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, ending 2026-03-29. Forward horizon: 2031-03-29. Controlling internal files: `appendix_synthesis.md`, `appendix_B_innovative_medicine.md`, `appendix_B_medtech.md`, `appendix_management.md`, `appendix_moat.md`, and `data_package.md`.

1. The most fragile assumption

The most fragile assumption is not the valuation multiple. The valuation gate already fails. The fragile operating assumption is the Innovative Medicine replacement bridge that takes TTM revenue of $61.954B to $82.5B by 2031-03-29, a 5.9% CAGR, while expanding segment income-before-tax margin from the FY2025 controlled anchor of 36.9% to 38.5%. That line is the largest determinant of the Stage 5 model: the synthesis says Innovative Medicine contributes 84.6% of base-case segment IBT. If this line is wrong, the enterprise EPS is wrong.

The weakness is specific. The segment model explicitly deducts only $5.0B of STELARA erosion in the base case, then adds $14.0B from oncology, $6.3B from immunology ex-STELARA, $3.8B from neuroscience, and $1.4B from other. The data package gives real current momentum: DARZALEX at about $4.0B of Q1 sales and +17.8% operational growth, CARVYKTI about $0.6B and +57.4%, RYBREVANT/LAZCLUZE $257M and +80.5%, TREMFYA +63.8%, and SPRAVATO +44.5%. But most of those are either growth rates without a disclosed product-dollar history or smaller bases. The same data package gives the hard negative anchor: STELARA declined 61.7% in Q1 FY2026 and created about a 920 bp headwind to Innovative Medicine. A one-quarter portfolio acceleration during a product cliff does not prove five-year replacement economics.

The model has no verified multi-year product revenue table for STELARA, TREMFYA, oncology sub-franchises, CAPLYTA, SPRAVATO, or RYBREVANT/LAZCLUZE. It therefore cannot prove whether the positive bridge is replacing the same quality of revenue. The risk is not only that lost STELARA dollars are not replaced. The sharper risk is that they are replaced with lower net price, higher launch spending, more rebated access, and more acquired capital than the base margin assumes. A dollar of TREMFYA, ICOTYDE, CAPLYTA, or early lung-cancer revenue is not automatically equivalent to a mature protected STELARA dollar.

The EPS sensitivity is large enough to matter even though the stock already fails the gate. Stage 5 Section 10 says a 200 bp lower Innovative Medicine revenue CAGR, with margin held at 38.5%, reduces base EPS from $12.14 to $11.13, a $1.01 hit. A more direct dollar check says an $8B miss in 2031 Innovative Medicine revenue at 38.5% segment IBT margin, taxed at 15.6% and divided by 2,445.2M shares, costs about $1.06 of EPS. That would move base EPS to roughly $11.08 before any margin pressure. If the miss also reduces margin by 150 bps because replacement products need more R&D, market access, and launch expense, EPS moves closer to the bear framework. This is the primary red-team break: Stage 5 may be giving JNJ credit for a replacement machine before the product-level evidence is strong enough.

2. The most-likely-to-be-optimistic Stage 5 number

The single Stage 5 number most likely to be revised down is the $82.5B 2031 Innovative Medicine revenue line. The runner-up is the 38.5% Innovative Medicine horizon segment IBT margin, but revenue comes first because the margin assumption depends on the same product replacement cycle working.

The $82.5B line is vulnerable for four reasons. First, it is above the segment's FY2022-FY2025 CAGR of about 4.7%, and above the FY2021-FY2025 CAGR of about 4.0%, even though the company is now inside a major biosimilar erosion period. Second, the Q1 FY2026 acceleration is partly acquisition-supported through CAPLYTA, and the data package warns not to treat CAPLYTA as organic legacy growth. Third, management's strongest long-range comments are directional aspirations rather than audited product-dollar bridges. The data package captures short fragments such as line of sight to double-digit growth, TREMFYA above $10B, oncology above $50B, and ICOTYDE as a major option. Those are useful management signposts, not source-verified 2031 revenue. Fourth, the policy environment is actively pushing against the assumption that successful products keep attractive net economics. CMS has already implemented negotiated prices for the first IRA cycle effective January 1, 2026, and CMS's January 27, 2026 third-cycle release selected ERLEADA for negotiation with prices effective in 2028. That does not break JNJ by itself, but it shows that the more successful and Medicare-exposed the portfolio becomes, the more it enters the policy crosshairs.

The synthesis is disciplined enough not to force the bull case. But discipline is not the same as conservatism. The base case still asks several things to be true at once: STELARA erosion must moderate after the steepest cliff, TREMFYA and ICOTYDE must become real immunology replacement engines, oncology must add the largest positive bridge while DARZALEX remains robust, CAPLYTA and SPRAVATO must contribute without turning neuroscience into a high-cost acquired-growth story, and pricing pressure must not eat the gross-to-net economics. That is a credible base case, but it is not a low-risk base case.

3. Strongest bear case, stated as a bear would state it

JNJ is being valued as if its post-Kenvue portfolio is a clean high-quality healthcare compounder, but the actual 2031 bridge is a pharmaceutical replacement cycle with a medical-device restructuring attached. STELARA has already moved from moat asset to severe headwind, and the company is asking investors to trust a basket of high-growth products whose product-dollar histories, margins, and gross-to-net economics are not disclosed in the ER2-controlled data package. At the same time, MedTech is being recast through an Orthopaedics separation without disclosed TTM Orthopaedics revenue, retained-MedTech pro forma margins, stranded costs, or separation dis-synergies. The bear case shows up within four to six quarters if Innovative Medicine operational growth falls back toward low-to-mid single digits while STELARA remains a large headwind and MedTech cannot move beyond 4%-5% operational growth. In that world, the $12.14 base EPS is not conservative; it is a favorable replacement-cycle outcome, and the already-failed P/E 15 gate is even further out of reach.

4. Cross-examination of management commentary

The first management statement to cross-examine is the enterprise claim that JNJ has line of sight to double-digit growth. The skeptical reading is simple: Q1 FY2026 adjusted operational growth was 5.3%, not double digit, and FY2025 adjusted operational growth was 4.2% per the data package's open flags. A credible acceleration story exists, but the bridge from mid-single-digit adjusted operational growth to double-digit end-of-decade framing runs through several non-linear events: STELARA moderation, multiple oncology launches sustaining growth at scale, TREMFYA/ICOTYDE expansion, CAPLYTA contribution, and MedTech mix improvement. If the statement is wrong, it should first appear in quarterly operational growth. The early warning is two consecutive quarters below 5% adjusted operational growth after Q1 FY2026, especially if Innovative Medicine is not clearly above 6% operational growth.

The second statement is the TREMFYA projection above $10B. This is the cleanest immunology offset claim, but it is not enough to know a peak-sales aspiration. The red-team question is net economics: what rebates, label breadth, access cost, commercial spending, and clinical differentiation are required to reach that number? STELARA's Q1 decline proves that a mature immunology biologic can lose protected economics quickly once the access environment changes. TREMFYA may be a great product and still fail to replace STELARA's contribution if it must buy formulary access, if ICOTYDE launch spending rises, or if competing immunology assets compress net price. If management is overpromising, the first sign will be TREMFYA growth decelerating sharply before the company can show absolute dollar scale, alongside Innovative Medicine margin failing to hold the high-30s.

The third statement is MedTech becoming a higher single-digit player. The current data do not yet support that as a run-rate. Q1 FY2026 MedTech operational growth was 4.6%, below the Q2-Q4 FY2025 MedTech growth rates in the data package. The positive assets are real: Shockwave +18.1%, Abiomed +14.4%, and electrophysiology +9.5%. But Surgery grew only 1.2%, Contact lenses and other Vision products grew 2.7%, and Orthopaedics grew 3.2%. Boston Scientific's Q1 FY2026 release is a useful peer check: its Cardiovascular segment grew 11.2% operational and organic, and its electrophysiology growth was much faster than JNJ's disclosed EP growth. That does not mean BSX wins every account, but it does show the competitive bar JNJ must clear if cardiovascular is supposed to carry retained MedTech. If the MedTech aspiration is wrong, the first sign is retained focus areas failing to accelerate before Orthopaedics exits, plus no evidence that separation improves margins net of stranded costs.

5. Stage 5 tie-out reverification

The Stage 5 arithmetic checks pass, but a red team should not confuse arithmetic with evidence quality. The recency anchor ties to the latest four quarters: Q2 FY2025 through Q1 FY2026 revenue sums to $96.362B, with Innovative Medicine at $61.954B and MedTech at $34.408B. The model does not start above the recent consolidated run rate. That is good.

The concern is trend interpretation. Q1 FY2026 looked strong at the enterprise level, with reported sales growth of 9.9%, operational growth of 6.4%, and adjusted operational growth of 5.3%. But Innovative Medicine Q1 acceleration includes the acquired CAPLYTA contribution and still faces the STELARA cliff. MedTech slowed to 4.6% operational growth in Q1 despite the higher-growth cardiovascular assets. The synthesis treats those facts with caveats, but the base model still assumes a

retained-base operating CAGR around 5.9%-6.0% through 2031. That may be reasonable; it is not de-risked.

The share-count path is not aggressive. The synthesis uses 2,445.2M shares with zero net retirement because buybacks are described as mostly systematic compensation-offsetting activity. This is not where the model is likely overstated. If anything, the red-team issue is the opposite: if acquisitions, litigation, dividends, debt reduction, U.S. manufacturing capex, and separation costs absorb cash, JNJ may not be able to use buybacks to offset operating misses. Stage 5 already shows a 5% lower share count only lifts base EPS to $12.78, still below the $15.17 requirement.

The biggest data-quality issue is the MedTech pro forma boundary. The segment appendix deducts a $9.500B Orthopaedics placeholder from QF-controlled TTM MedTech revenue to create a retained-MedTech TTM base of $24.908B. That is a transparent bridge, but it is still an analyst estimate rather than a disclosed product table. JNJ's October 14, 2025 release says the Orthopaedics separation should focus the company on higher-growth and higher-margin markets and that DePuy Synthes would become a standalone orthopaedics company. It does not supply the ER2 model with TTM Orthopaedics revenue, retained cost allocation, tax leakage, transition-service costs, or stranded overhead. If the Orthopaedics estimate is too low, 2031 JNJ revenue is overstated. If Orthopaedics carried shared cost absorption, retained MedTech margin is overstated. If the separation proceeds are redeployed poorly, the model appropriately receives no benefit, but capital allocation risk remains.

Outside peer checks sharpen this point. Boston Scientific reported Q1 2026 organic growth of 9.4%, Cardiovascular organic growth of 11.2%, and strong electrophysiology performance. Intuitive Surgical, according to MedTech Dive's Q1 2026 coverage, raised its 2026 da Vinci procedure growth outlook to 13.5%-15.5% after 18% procedure growth in 2025. Those peers are not perfect comparables to JNJ's entire MedTech segment, but they show that the high-growth procedural markets are not uncontested. JNJ cannot simply declare cardiovascular and robotics as retained priorities; it must take or defend share against companies already posting high growth from focused platforms.

6. Signal that forces an exit

The exit signal should be concrete: sell or downgrade if, over the next two reported quarters, Innovative Medicine operational growth averages below 5.0% while STELARA remains a 600 bp or greater headwind to the segment, or if management stops quantifying the STELARA headwind while segment growth decelerates below that threshold. The monitoring window is Q2 FY2026 and Q3 FY2026 earnings, with Q4 FY2026 as a confirmation point only if one quarter is distorted by timing.

This signal invalidates the thesis because the base case needs Innovative Medicine to compound at 5.9% for five years while expanding margin to 38.5%. If the segment cannot clear 5% operational growth during the early replacement period, while the headwind remains large, then the Stage 5 bridge from $61.954B to $82.5B becomes too favorable. A single quarter can be noisy. Two quarters below 5% with a persistent STELARA drag would say the replacement basket is not absorbing the cliff fast enough. The EPS impact is not cosmetic: Stage 5 says a 200 bp lower Innovative Medicine CAGR cuts base EPS by about $1.01. If that lower growth comes with margin pressure, the damage is larger.

A secondary exit signal is MedTech retained-quality proof failing after the Orthopaedics plan advances. If JNJ provides a pro forma retained-MedTech disclosure and it shows retained revenue growth below 5% with retained segment margin below 16%, the 17.5% base margin and 6.0% retained CAGR should be cut. That would not break the company by itself because Innovative Medicine dominates EPS, but it would remove the diversification and portfolio-quality argument just when the pharma replacement cycle needs help.

7. Conviction at the end of red team

Thesis does not survive as a BUY. The synthesis already says PASS because base EPS of $12.14 and bull EPS of $14.48 both fail the $15.17 P/E 15 requirement. The red team agrees with PASS and goes further: the base EPS is not obviously conservative. The most important upside bridge rests on a product replacement cycle where the negative product is large and quantified, while several positive products are represented by growth rates, aspirations, or acquired contribution rather than controlled multi-year dollar histories.

This is not a claim that JNJ is a bad business. It is a claim that the investment case is too dependent on serial execution to earn a Gideon BUY at the current price. Management is coherent but YELLOW, not GREEN. Moat and 2046 durability are YELLOW, not GREEN. MedTech separation may improve portfolio quality, but the data gap around Orthopaedics and retained margins is material. Talc litigation and policy pressure do not need to destroy the company to matter; they only need to absorb enough cash, management attention, or pricing power to reduce the margin of safety.

The final narrative should be rewritten around a stricter frame: Johnson & Johnson is a durable healthcare platform with credible assets, but today's stock price requires too much five-year operating proof. The strongest monitor is not whether management repeats double-digit language. It is whether Innovative Medicine proves, quarter by quarter, that STELARA's cliff is becoming a denominator issue rather than an ongoing profit-pool erosion problem.

Sources and evidence used

- ER2 internal files in `C:\Users\Admin\OneDrive\GPT\ER 2.0\Johnson & Johnson\`: `appendix_synthesis.md`, `appendix_B_innovative_medicine.md`, `appendix_B_medtech.md`, `appendix_management.md`, `appendix_moat.md`, and `data_package.md`.
- Johnson & Johnson, Orthopaedics separation release dated 2025-10-14: https://www.jnj.com/media-center/press-releases/johnson-johnson-announces-intent-to-separate-its-orthopaedics-business
- CMS, Medicare negotiated prices for initial price applicability year 2026: https://www.cms.gov/newsroom/fact-sheets/medicare-drug-price-negotiation-program-negotiated-prices-initial-price-applicability-year-2026
- CMS, third-cycle Medicare drug price negotiation release dated 2026-01-27: https://www.cms.gov/newsroom/press-releases/cms-announces-selection-drugs-third-cycle-medicare-drug-price-negotiation-program-including-first
- Cadwalader, Red River Talc bankruptcy analysis dated 2025-04-17: https://www.cadwalader.com/resources/clients-friends-memos/johnson--johnsons-red-river-bankruptcy-strategy-sinks-on-third-party-release-issues-voting-irregularitieswith-possible-implications-for-future-mass-tort-bankruptcy-cases
- Boston Scientific, Q1 2026 results release dated 2026-04-22: https://news.bostonscientific.com/2026-04-22-Boston-Scientific-announces-results-for-first-quarter-2026
- MedTech Dive, Intuitive Surgical Q1 2026 procedure-growth coverage: https://www.medtechdive.com/news/intuitive-surgical-lifts-2026-outlook-for-da-vinci-robot-procedure-growth/818193/

Appendix D - Data Package (raw historicals)

Johnson & Johnson - Data Package

Prepared for ER2 Production Mode Sub-Agent D. Ticker: JNJ. Company: Johnson & Johnson. Today: 2026-04-30. Fiscal year ends in late December. Latest reported quarter: Q1 FY2026, period ended 2026-03-29, reported 2026-04-14. TTM anchor: Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, ending 2026-03-29. Forward horizon: 2031-03-29.

Source Discipline And Control File

This package uses `C:\Users\Admin\OneDrive\GPT\ER 2.0\Johnson & Johnson\quant_foundation.md` as the controlling source for all historical financial and segment figures. `quant_foundation_review.md` cleared the hard gate with the verdict `QUANT FOUNDATION VERIFIED - CLEARED FOR WAVE 1`; therefore this file does not replace or re-normalize historical values from a new model. Live fetches performed in this D run were used only for source checks, management commentary, recent release verification, SEC filing verification, and FMP transcript date verification.

Live sources checked in this run:

Source	Live URL / raw file	Use
JNJ Q1 FY2026 release	https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-q1-2026-results-raises-2026-outlook	Q1 sales, segment growth, guidance, recent announcements
JNJ Q4/FY2025 release	https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-q4-and-full-year-2025-results	FY2025 sales, FY2025 segment sales, Q4 trend, 2026 guidance
JNJ Q3 FY2025 release	https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-q3-2025-results-raises-2025-sales-outlook	Q3 sales, segment trend, raised 2025 sales outlook
JNJ Q2 FY2025 release	https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-q2-2025-results-raises-2025-outlook	Q2 sales, segment trend, raised 2025 outlook
SEC Q1 FY2026 Form 10-Q	https://www.sec.gov/Archives/edgar/data/200406/000020040626000087/jnj-20260329.htm; raw `sec_jnj_2026_Q1_10q_live.htm`	Latest official quarter
SEC FY2025 Form 10-K	https://www.sec.gov/Archives/edgar/data/200406/000020040626000016/jnj-20251228.htm; raw `sec_jnj_2025_10k_live.htm`	FY2025 annual official filing and segment note
SEC Q3 FY2025 Form 10-Q	https://www.sec.gov/Archives/edgar/data/200406/000020040625000209/jnj-20250928.htm; raw `sec_jnj_2025_Q3_10q_live.htm`	Q3 official quarter
SEC Q2 FY2025 Form 10-Q	https://www.sec.gov/Archives/edgar/data/200406/000020040625000178/jnj-20250629.htm; raw `sec_jnj_2025_Q2_10q_live.htm`	Q2 official quarter
FMP transcript Q1 FY2026	`raw\fmp_JNJ_2026_Q1_transcript.json`, date 2026-04-14	Management commentary and date check
FMP transcript Q4 FY2025	`raw\fmp_JNJ_2025_Q4_transcript.json`, date 2026-01-21	Management commentary and date check
FMP transcript Q3 FY2025	`raw\fmp_JNJ_2025_Q3_transcript.json`, date 2025-10-14	Management commentary and date check
FMP transcript Q2 FY2025	`raw\fmp_JNJ_2025_Q2_transcript.json`, date 2025-07-16	Management commentary and date check
FMP annual income statement check	`raw\fmp_JNJ_income_statement_annual_D_check.json`	Self-check that FY2025 revenue ties within 1%

Note on direct downloads: `Invoke-WebRequest` to `www.investor.jnj.com` returned a Cloudflare JavaScript challenge. The JNJ media-center URLs above were fetched through the web path and contain the same earnings-release content used in this package.

DR review update on 2026-04-30: the JNJ Q1 FY2026 media-center release was live re-opened and confirmed the April 14, 2026 release date, reported sales of $24.062B, reported growth of 9.9%, operational growth of 6.4%, adjusted operational growth of 5.3%, Innovative Medicine sales of $15.426B with 7.4% operational growth, and MedTech sales of $8.636B with 4.6% operational growth. The FMP earning-call-transcript endpoint was live re-called for JNJ fiscal Q2 FY2025, Q3 FY2025,

Q4 FY2025, and Q1 FY2026 and returned dates 2025-07-16, 2025-10-14, 2026-01-21, and 2026-04-14; the Section 6 quote fragments were matched against transcript text dated to the stated calls.

1. Reporting Structure And Taxonomy

Current reportable segments are two-segment continuing operations after the Kenvue separation:

Segment	Description	FY2025 revenue ($B)	FY2025 share	TTM revenue ending 2026-03-29 ($B)	TTM share	Historical source
Innovative Medicine	Pharmaceuticals and biologics across Oncology, Immunology, Neuroscience, Pulmonary Hypertension, Cardiovascular/Metabolism/Other, and Infectious Diseases	60.401	64.1%	61.954	64.3%	Quant foundation P2/P4
MedTech	Medical technology portfolio across Cardiovascular, Surgery, Vision, and Orthopaedics	33.792	35.9%	34.408	35.7%	Quant foundation P2/P4
Total	Continuing-operation JNJ	94.193	100.0%	96.362	100.0%	Quant foundation P2/P4

Taxonomy flag: the Kenvue/Consumer Health transition is material. QF found that FMP current annual rows use `Innovative Medicine` and `MedTech`, but older quarterly rows include `Consumer`, `Pharmaceutical`, and `Medical Devices`. The current model must not mix Consumer Health, predecessor Pharmaceutical, and predecessor Medical Devices rows with the current two-segment continuing-operation model. QF's controlling treatment is to use official SEC reportable-segment sources under the post-Kenvue taxonomy: FY2025 10-K for FY2025-FY2023, FY2023 10-K recast continuing-operation rows for FY2022-FY2021, and SEC 10-Q/10-K segment rows for the TTM anchor.

The largest historical taxonomy issue is FY2023: the FMP annual endpoint reports post-Kenvue continuing-operation Innovative Medicine and MedTech, while the four-quarter endpoint includes H1 Consumer revenue of $7.863B plus predecessor labels. That difference is not a business residual; it is the known separation/taxonomy boundary. FY2022 also has mixed recast annual labels and legacy quarterly labels, including an incomplete Q4 Medical Devices row. Downstream segment appendices should treat FY2021-FY2025 segment revenue and segment income as comparable only because QF selected recast continuing-operation official rows.

Geography from the live Q4/FY2025 release: FY2025 U.S. sales were $53.752B and international sales were $40.441B, for worldwide sales of $94.193B. Q1 FY2026 U.S. sales were $13.330B and international sales were $10.732B, for worldwide sales of $24.062B. Geographic sales are reported at the enterprise level in the releases; this D file does not allocate geography by segment because QF did not create a segment-by-geography source table.

2. Consolidated Historicals Controlled By QF

QF does not provide a full five-year GAAP consolidated operating-income, EPS, share-count, capex, FCF, and ROIC panel. It provides a five-year current-taxonomy segment panel, current TTM consolidated revenue/net income/CFO/capex/FCF, FY2025 consolidated revenue/net income tie-out, Q1 FY2026 balance sheet, and share count/EPS anchors. To preserve the hard rule that D uses QF for historical financials, unavailable fields are marked `not in QF` rather than filled from a fresh historical pull.

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	TTM ending 2026-03-29	Source / note
Revenue ($B)	78.740	79.990	85.159	88.821	94.193	96.362	QF P2 segment sum; P3/P4 TTM tie-out
Segment income before tax ($B)	21.958	20.094	22.915	22.659	26.379	not in QF	Sum of QF P2 segment income before tax
GAAP operating income ($B)	not in QF	not in QF	not in QF	not in QF	not in QF	not in QF	Open gap; do not substitute
Net income ($B)	not in QF	not in QF	not in QF	not in QF	26.804	21.040	QF P3/P4
Diluted EPS ($)	not in QF	not in QF	not in QF	not in QF	11.03	8.65	QF P3/P6
Diluted shares (M)	not in QF	not in QF	not in QF	not in QF	not in QF	2,445.2 at Q1 FY2026	QF P6

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	TTM ending 2026-03-29	Source / note
CFO ($B)	not in QF	not in QF	not in QF	not in QF	not in QF	22.870	QF P4/P6
Capex ($B)	not in QF	not in QF	not in QF	not in QF	not in QF	5.072	QF P4/P6
FCF ($B)	not in QF	not in QF	not in QF	not in QF	live release est. ~$19.7B; QF does not make this controlling	17.798	QF P4/P6 for TTM; Q4 release only for release context
FCF / net income	not in QF	not in QF	not in QF	not in QF	not in QF	84.6%	QF P6
ROIC (%)	not in QF	not in QF	not in QF	not in QF	not in QF	not in QF	QF does not provide invested-capital denominator

ROIC calculation status: not computed in D. Required numerator/denominator discipline is NOPAT divided by invested capital. QF did not provide a five-year invested-capital bridge or tax-normalized NOPAT series. Downstream synthesis should not infer a five-year ROIC series from this data package.

Self-check on FY2025 revenue: the live FMP annual income-statement endpoint saved in `raw\fmp_JNJ_income_statement_annual_D_check.json` returned FY2025 revenue consistent with QF's $94.193B and the FY2025 10-K/Q4 release. This check supports source freshness; it does not create a separate historical series in D.

3. Segment Historicals

Innovative Medicine

Innovative Medicine	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue ($B)	51.680	52.563	54.759	56.964	60.401	QF P2, official recast/current segment rows
YoY growth	n/a	1.7%	4.2%	4.0%	6.0%	D calc from QF P2
Segment income before tax ($B)	17.750	15.647	18.246	18.919	22.266	QF P2
Segment margin	34.3%	29.8%	33.3%	33.2%	36.9%	QF P2

Interpretation for downstream users: Innovative Medicine is the larger segment and the main determinant of enterprise growth durability. FY2025 segment revenue grew 6.0% reported and 5.3% operational in the live FY2025 release. Q1 FY2026 accelerated to 11.2% reported and 7.4% operational, but that Q1 rate includes acquisition/divestiture help from CAPLYTA and still absorbs a large STELARA headwind. Segment appendices should separate baseline brand growth from STELARA erosion, CAPLYTA acquired contribution, and pipeline-driven launches.

MedTech

MedTech	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue ($B)	27.060	27.427	30.400	31.857	33.792	QF P2, official recast/current segment rows
YoY growth	n/a	1.4%	10.8%	4.8%	6.1%	D calc from QF P2
Segment income before tax ($B)	4.208	4.447	4.669	3.740	4.113	QF P2
Segment margin	15.6%	16.2%	15.4%	11.7%	12.2%	QF P2

Interpretation for downstream users: MedTech grew 6.1% reported and 5.4% operational in FY2025. Q1 FY2026 grew 7.7% reported and 4.6% operational. The growth narrative is concentrated in Cardiovascular, especially electrophysiology, Abiomed, and Shockwave, with Surgery and Vision acting as additional but less even contributors. Segment profitability is below Innovative Medicine and should be modeled with tariff, procedure mix, China VBP, launch investment, and robotics commercialization costs visible.

4. Product And Sub-Segment Disclosure Limitations

Johnson & Johnson discusses six priority areas: Oncology, Immunology, Neuroscience, Cardiovascular, Surgery, and Vision. QF maps these to the two reportable segments, but QF does not carry a verified product-dollar table into the cleared

foundation. Therefore D does not introduce product-level revenue dollars for DARZALEX, CARVYKTI, TREMFYA, RYBREVANT/LAZCLUZE, SPRAVATO, CAPLYTA, Abiomed, Shockwave, VARIPULSE, OTTAVA, ACUVUE, TECNIS, or other named platforms unless the release/transcript explicitly states the number in the recent-period commentary.

Dollar-disclosed or amount-disclosed items captured in this run

Segment	Product / item	Disclosure captured	Source	Modeling use
Innovative Medicine	DARZALEX	Q1 FY2026 sales of about $4.0B and operational growth of 17.8%	FMP Q1 FY2026 transcript	Confirms the largest oncology platform remains a major current growth driver
Innovative Medicine	CARVYKTI	Q1 FY2026 sales of about $0.6B and growth of 57.4%	FMP Q1 FY2026 transcript	High-growth but still smaller than DARZALEX
Innovative Medicine	CAPLYTA	Q1 FY2026 sales of $270M after Intra-Cellular acquisition	FMP Q1 FY2026 transcript	Acquired contribution; do not treat as organic legacy base
MedTech	Shockwave	Q1 FY2026 operational growth of 18.1%	FMP Q1 FY2026 transcript	High-growth cardiovascular platform
MedTech	Abiomed	Q1 FY2026 operational growth of 14.4%	FMP Q1 FY2026 transcript	Growth and evidence-driven cardiovascular platform
MedTech	TECNIS PureSee	Nearly 0.5M eyes globally referenced in Q1 transcript	FMP Q1 FY2026 transcript	Evidence of adoption, not a revenue dollar disclosure

Growth-rate disclosures without dollar revenue tables

Segment	Product / product group	Recent disclosure method	Latest growth or KPI	Source
Innovative Medicine	TECVAYLI	Q1 transcript growth rate	30.1% growth; sequential growth 14.2%	FMP Q1 FY2026 transcript
Innovative Medicine	TALVEY	Q1 transcript growth rate	72.8% growth	FMP Q1 FY2026 transcript
Innovative Medicine	RYBREVANT plus LAZCLUZE	Q1 transcript sales/growth	$257M sales and 80.5% growth	FMP Q1 FY2026 transcript
Innovative Medicine	ERLEADA	Q1 transcript growth rate	16.2% growth	FMP Q1 FY2026 transcript
Innovative Medicine	TREMFYA	Q1 transcript growth rate	63.8% growth	FMP Q1 FY2026 transcript
Innovative Medicine	SPRAVATO	Q1 transcript growth rate	44.5% growth	FMP Q1 FY2026 transcript
Innovative Medicine	STELARA	Q1 transcript headwind	Declined 61.7%; about 920 bp headwind to Innovative Medicine	FMP Q1 FY2026 transcript
MedTech	Electrophysiology	Q1 transcript growth rate	9.5% growth	FMP Q1 FY2026 transcript
MedTech	Surgery	Q1 transcript growth rate	1.2% growth	FMP Q1 FY2026 transcript
MedTech	Contact lenses and other Vision products	Q1 transcript growth rate	2.7% growth	FMP Q1 FY2026 transcript
MedTech	Surgical Vision	Q1 transcript growth rate	6.0% growth	FMP Q1 FY2026 transcript
MedTech	Orthopaedics	Q1 transcript growth rate	3.2% growth	FMP Q1 FY2026 transcript

Product disclosure limitation: product and platform growth rates are useful for directional modeling, but they are not a substitute for reportable-segment revenue dollars. Do not back-solve multi-year product revenue series from one-period growth rates in this run. No back-solved product-dollar row is included in D.

5. Most Recent Quarterly Trend

Company FY ends in late December. Most recently completed fiscal quarter at time of writing: FY2026 Q1, covering 2025-12-29 to 2026-03-29, reported on 2026-04-14 via the JNJ Q1 FY2026 release and SEC Q1 FY2026 10-Q.

Quarter	Consolidated revenue ($B)	Reported growth	Operational growth	Adjusted operational growth	Innovative Medicine revenue / op growth	MedTech revenue / op growth	Source
Q2 FY2025	23.743	5.8%	4.6%	3.0%	$15.202B / 3.8%	$8.541B / 6.1%	JNJ Q2 FY2025 release; QF P4
Q3 FY2025	23.993	6.8%	5.4%	4.4%	$15.563B / 5.3%	$8.430B / 5.6%	JNJ Q3 FY2025 release; QF P4
Q4 FY2025	24.564	9.1%	7.1%	6.1%	$15.763B / 7.9%	$8.801B / 5.8%	JNJ Q4/FY2025 release; QF P4

Quarter	Consolidated revenue ($B)	Reported growth	Operational growth	Adjusted operational growth	Innovative Medicine revenue / op growth	MedTech revenue / op growth	Source
Q1 FY2026	24.062	9.9%	6.4%	5.3%	$15.426B / 7.4%	$8.636B / 4.6%	JNJ Q1 FY2026 release; QF P4
TTM ending 2026-03-29	96.362	n/a	n/a	n/a	$61.954B	$34.408B	QF P4

Quarterly operating margin limitation: QF does not provide a verified four-quarter segment operating-margin table. Q1 FY2026 transcript commentary states adjusted income before tax margin of 39.7% for Innovative Medicine and 22.3% for MedTech, but D does not convert that into a four-quarter historical segment margin series. Use annual segment margins from Section 3 unless a later subagent independently models quarterly margin with primary-source support.

Recency read-through: Q2 FY2025 to Q1 FY2026 shows reported revenue growth accelerating from 5.8% to 9.9%, with adjusted operational growth improving from 3.0% to 5.3%. Innovative Medicine acceleration is meaningful but partly masked by STELARA headwinds and supported by CAPLYTA acquisition contribution. MedTech stayed positive but less smooth, with Q1 operational growth of 4.6% below Q2-Q4 FY2025 segment operational growth.

6. Management Commentary On Forward Growth

All transcript dates below were live-checked through FMP transcript endpoint files in `raw`. Quotes are short verbatim fragments; interpretation is D's synthesis.

Enterprise / Multi-Segment

Period / call date	Speaker	Verbatim quote fragment	Topic	Interpretation
Q1 FY2026 / 2026-04-14	Joaquin Duato, CEO	"line of sight to double-digit growth"	Enterprise growth	Management is still anchoring the end-of-decade algorithm above current mid-single-digit adjusted operational growth. Downstream models should test whether STELARA erosion, MedTech acceleration, and pipeline launches bridge the gap.
Q4 FY2025 / 2026-01-21	Joaquin Duato, CEO	"growth in 2026 will be faster than in 2025"	2026 base rate	The company entered FY2026 with explicit acceleration guidance, not just a maintenance algorithm.
Q3 FY2025 / 2025-10-14	Joaquin Duato, CEO	"a new era of accelerated growth"	Strategic positioning	This is a repeated management frame, not a one-quarter phrase. It must be tested against the actual segment recency table.
Q2 FY2025 / 2025-07-16	Joaquin Duato, CEO	"elevated growth in the second half"	Second-half 2025 setup	Q3/Q4 releases showed acceleration, so the Q2 claim was directionally validated by the next two quarters.

Innovative Medicine

Period / call date	Speaker	Verbatim quote fragment	Topic	Interpretation
Q1 FY2026 / 2026-04-14	Joaquin Duato, CEO	"TREMFYA is projected to deliver more than $10 billion"	Immunology peak-year sales	TREMFYA is positioned as a major STELARA offset and long-term immunology pillar, but the data package records this as management projection, not a disclosed current revenue base.
Q1 FY2026 / 2026-04-14	Joaquin Duato, CEO	"ICOTYDE has the potential to be one"	New immunology launch	ICOTYDE is being framed as a potential very large oral immunology asset. D does not assign product dollars without disclosed revenue.

Period / call date	Speaker	Verbatim quote fragment	Topic	Interpretation
Q4 FY2025 / 2026-01-21	Joaquin Duato, CEO	"expect to exceed $50 billion"	Oncology 2030 aspiration	Oncology is presented as the largest long-duration Innovative Medicine growth engine. Segment B should model it as a portfolio, not as DARZALEX alone.
Q1 FY2026 / 2026-04-14	Jennifer Taubert, Innovative Medicine	"investing big in ICOTYDE"	Launch investment	Near-term SG&A pressure may be intentional launch spending rather than deterioration.

MedTech

Period / call date	Speaker	Verbatim quote fragment	Topic	Interpretation
Q1 FY2026 / 2026-04-14	Tim Schmid, MedTech	"higher single-digit player"	MedTech long-term growth	Management wants MedTech to move from mid-single-digit toward higher-single-digit growth by the end of the decade.
Q1 FY2026 / 2026-04-14	Tim Schmid, MedTech	"launching not one but two"	Robotics launches	OTTAVA and MONARCH are expected to help later-decade growth but not materially accelerate near-term revenue.
Q4 FY2025 / 2026-01-21	Joaquin Duato, CEO	"FDA de novo submission of our OTTAVA"	Surgery robotics	OTTAVA moved from concept toward regulatory review in late FY2025.
Q3 FY2025 / 2025-10-14	Joaquin Duato, CEO	"six priority areas"	Focus areas	Cardiovascular, Surgery, and Vision are the key MedTech lenses; Orthopaedics is present but not emphasized in the six-priority framework.

Capital Allocation And Cash Flow

Period / call date	Speaker	Verbatim quote fragment	Topic	Interpretation
Q1 FY2026 / 2026-04-14	Joseph Wolk, CFO	"free cash flow outlook of approximately $21 billion"	FY2026 cash generation	This is the working FCF expectation to compare with QF's TTM FCF of $17.798B. Timing affected Q1 but CFO maintained the full-year view.
Q1 FY2026 / 2026-04-14	Joseph Wolk, CFO	"$55 billion in U.S.-based manufacturing"	U.S. investment plan	The investment plan may support tax, tariff, supply-chain, and capacity positioning, but it also competes for capital.
Q1 FY2026 / 2026-04-14	Joseph Wolk, CFO	"64th consecutive year of dividend growth"	Dividend policy	Dividend growth remains an explicit shareholder-return pillar even with elevated M&A and capex.

7. Capital Allocation History And Current Capital Priorities

QF provides TTM CFO/capex/FCF and Q1 FY2026 balance sheet, but not a complete five-year capital allocation panel. The table below keeps QF-controlled values visible and separates live management commentary from historical financials.

Period	CFO ($B)	Capex ($B)	FCF ($B)	R&D ($B)	Buybacks ($B)	Dividends ($B)	M&A / investment notes	Source
FY2021	not in QF	not in QF	not in QF	not in QF	not in QF	not in QF	Current segment revenue/segment income only	QF P2
FY2022	not in QF	not in QF	not in QF	not in QF	not in QF	not in QF	Current segment revenue/segment income only	QF P2
FY2023	not in QF	not in QF	not in QF	not in QF	not in QF	not in QF	Kenvue transition boundary in segment data	QF P1/P2

Period	CFO ($B)	Capex ($B)	FCF ($B)	R&D ($B)	Buybacks ($B)	Dividends ($B)	M&A / investment notes	Source
FY2024	not in QF	not in QF	not in QF	not in QF	not in QF	not in QF	Shockwave acquired before this D recency window; not treated as last-12-month action here	QF P2
FY2025	not in QF	not in QF	Release estimate ~$19.7B; not QF controlling	FY2025 segment R&D detail: Innovative Medicine $11.827B, MedTech $2.838B	not in QF	not in QF	Halda acquisition noted in Q4 release; Intra-Cellular contribution appears in 2025-2026 commentary	QF P2; JNJ Q4 release
TTM ending 2026-03-29	22.870	5.072	17.798	not in QF for TTM	not in QF	dividend increased 3.1% in Apr 2026, annual rate $5.36	$55B U.S. manufacturing/technology/R&D plan through early 2029; $12B invested through end-2025 per CFO	QF P4/P6; FMP Q1 transcript

Capital allocation interpretation: JNJ has enough cash generation to support dividends, M&A, launch spending, and U.S. manufacturing investment, but the current debt load is not trivial after recent deal activity. Q1 FY2026 net debt was $33.299B, and the CFO described approximately $55B of debt and $22B of cash/marketable securities. The dividend record is durable, but ER2 valuation should focus more on reinvestment returns and pipeline productivity than on dividend growth alone.

8. Balance Sheet Snapshot

Item	Value ($B)	Source / treatment
Cash	21.688	QF P6, SEC Q1 FY2026 10-Q
Short-term investments / marketable securities	not separately in QF	CFO transcript references cash and marketable securities of approximately $22B; QF controls cash only
Short-term borrowings	17.460	QF P6
Long-term debt, noncurrent	37.527	QF P6, SEC override because FMP quarterly balance sheet omitted this line
Total debt	54.987	QF P6, short-term borrowings plus long-term debt
Net debt	33.299	QF P6
Net debt / EBITDA	not in QF	Do not calculate without QF EBITDA
Total assets	200.894	QF P6
Total equity	81.186	QF P6
Goodwill + intangibles	not in QF	Open gap
Tangible book value	not in QF	Open gap

Important discrepancy: QF and QFR both found that FMP's Q1 FY2026 balance-sheet endpoint omitted noncurrent long-term debt. SEC official debt controls. Downstream leverage analysis must use $54.987B total debt and $33.299B net debt, not FMP's incomplete $17.460B total debt figure.

9. Recent Corporate Actions And Notable Events

- 2025-07-16: Q2 FY2025 release raised 2025 reported sales guidance by about $2B at the midpoint and raised full-year EPS guidance by $0.25 to $10.85. The segment trend at that point was Innovative Medicine +3.8% operational and MedTech +6.1% operational.
- 2025-10-14: Q3 FY2025 release raised 2025 sales outlook again, with estimated reported sales midpoint of $93.7B and adjusted EPS midpoint of $10.85. Q3 Innovative Medicine operational sales grew 5.3%; MedTech grew 5.6%.
- 2025-10-14: JNJ announced John Morikis, retired Chairman, President and CEO of Sherwin-Williams, was elected to the Board of Directors, per the JNJ press-release index captured in search results.

- 2026-01-21: Q4/FY2025 release issued 2026 guidance: estimated reported sales midpoint $100.5B and adjusted EPS midpoint $11.53. FY2025 revenue was $94.193B, with Innovative Medicine at $60.401B and MedTech at $33.792B.
- 2026-01-21: Q4/FY2025 release noted the acquisition of Halda Therapeutics affected Q4 and FY2025 EPS by about $0.10. Treat Halda as a pipeline/M&A item, not recurring operating drag.
- 2026-04-14: Q1 FY2026 release raised 2026 guidance to estimated reported sales midpoint $100.8B and adjusted EPS midpoint $11.55. Reported sales were $24.062B, with Innovative Medicine $15.426B and MedTech $8.636B.
- 2026-04-14: Q1 FY2026 release announced a planned Enterprise Business Review for 2026-12-08. This is a likely future source for updated long-range segment targets.
- 2026-04-14: CFO commentary confirmed a 3.1% dividend increase to a $5.36 annual rate and called it JNJ's 64th consecutive year of dividend growth.
- Q1 FY2026 innovation events: ICOTYDE approval in plaque psoriasis, TECVAYLI plus DARZALEX FASPRO approval as early as second line in relapsed/refractory multiple myeloma, VARIPULSE Pro launch in Europe, and TECNIS PureSee U.S. approval. These are growth options, not yet fully visible in historical revenue.

10. Open Data Gaps And Analyst Flags

DR disposition: the gaps below are non-poisoning for Wave 2 because QF/QFR did not provide the underlying controlled series and D labels the unavailable fields explicitly instead of importing warehouse/cache or uncontrolled historical pulls. Downstream subagents may model around these gaps, but should not treat any missing ROIC, product-dollar, five-year GAAP, or quarterly segment-margin series as source-verified by this data package.

- Product-dollar disclosure limitation: this D file does not provide a multi-year dollar revenue history for individual brands or platforms. QF did not carry a verified product-dollar table. Product growth rates in Section 4 are current commentary only.
- ROIC gap: QF does not provide a five-year invested-capital denominator or tax-normalized NOPAT. Do not quote a five-year ROIC series from this data package.
- Consolidated five-year GAAP table gap: QF does not provide a complete five-year GAAP operating income, EPS, diluted share count, CFO, capex, FCF, R&D, buyback, and dividend table. D marks these as unavailable rather than importing a new uncontrolled historical series.
- Quarterly margin gap: QF does not provide a verified Q2 FY2025 through Q1 FY2026 quarterly segment margin table. Q1 adjusted segment margins appear in transcript commentary but are not expanded into a TTM margin model here.
- Geographic gap: enterprise U.S./international sales are available from releases, but segment-by-geography is not included in QF and is not allocated here.
- Kenvue/taxonomy warning: FY2023 and older FMP endpoint rows can be misleading if Consumer Health, Pharmaceutical, and Medical Devices labels are mixed with current Innovative Medicine and MedTech labels. Use QF P2/P4 only for downstream historical segment modeling.
- Debt warning: FMP Q1 FY2026 balance sheet omitted noncurrent long-term debt; QF and QFR explicitly use SEC official debt. Downstream net-debt analysis must not use the incomplete FMP debt figure.
- Guidance vs. history: management's end-of-decade double-digit growth framing is materially above current adjusted operational growth of 5.3% in Q1 FY2026 and 4.2% in FY2025. The bridge depends on pipeline launches, MedTech acceleration, and STELARA headwind moderation.

Self-Verification Checks Required By D

Check	Live verification result	Status
Largest segment latest-quarter headline growth	JNJ Q1 FY2026 release shows Innovative Medicine revenue $15.426B and operational sales growth 7.4%; this matches QF P4 revenue and transcript commentary.	PASS

Check	Live verification result	Status
DR live re-verification	DR live-opened the JNJ Q1 FY2026 release and live-called the FMP Q2 FY2025 through Q1 FY2026 transcript endpoints on 2026-04-30; release date, Q1 sales/growth figures, transcript dates, and Section 6 quote fragments matched the cited sources.	PASS
Management quote date	FMP Q1 FY2026 transcript endpoint returned date 2026-04-14 for fiscal Q1 FY2026, within the expected reporting window.	PASS
FY2025 revenue	Live FMP annual income statement check saved to `raw\fmp_JNJ_income_statement_annual_D_check.json`; FY2025 revenue ties to QF and FY2025 10-K/Q4 release at $94.193B.	PASS

Key Findings For Downstream Subagents

- Current model taxonomy is two segments only: Innovative Medicine and MedTech. Kenvue/Consumer Health is excluded from the current continuing-operation model.
- TTM revenue is $96.362B, with Innovative Medicine $61.954B and MedTech $34.408B. This is the base for forward horizon 2031-03-29.
- FY2025 revenue was $94.193B, and FY2025 segment income before tax summed to $26.379B: $22.266B from Innovative Medicine and $4.113B from MedTech.
- Q1 FY2026 showed acceleration: reported sales +9.9%, operational +6.4%, adjusted operational +5.3%; Innovative Medicine operational +7.4%, MedTech +4.6%.
- Management is explicitly pointing to double-digit growth by the end of the decade, but this is an aspiration that requires proof. It is not yet the observed run rate.
- STELARA remains a major headwind: Q1 FY2026 transcript described about 920 bp of Innovative Medicine drag and a 61.7% STELARA decline.
- MedTech acceleration thesis rests on cardiovascular, Shockwave, Abiomed, electrophysiology, and later-decade robotics contribution from OTTAVA/MONARCH; near-term Surgery/Vision/Orthopaedics are more mixed.
- Balance sheet analysis must use SEC-official Q1 FY2026 total debt of $54.987B and net debt of $33.299B.