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J&J Has An Appetite For Pharma M&A, But Knows What It Likes

by Jessica Merrill

CEO Joaquin Duato said J&J is agnostic on size when it comes to business development but has generally found more value creation in earlier-stage deals.

[Johnson & Johnson](#) reinforced its business development strategy during the company's fourth quarter sales and earnings call on 23 January. CEO Joaquin Duato told investors that M&A remains core to pharmaceutical portfolio "growth and transformation."

The company, which is now a two-sector business after spinning out consumer health care last year, has completed some larger-scale M&A on the med-tech side of the business. For example, the company acquired the heart pump developer [Abiomed, Inc.](#) in 2022 for \$16.6bn. But Duato insisted the company is also interested in building out the pharmaceutical business through business development.

"In the case of pharma, our preferred mode has been trying to go to assets that were proof of concept, so generally speaking, from a size perspective, it's been about deals that have been either of a smaller size or have different modalities, like licenses or partnerships," Duato said.

However, J&J has completed a wide array of deals in pharma that don't get a lot of attention because of their smaller size, he said. The firm deployed more than \$3bn on 50 smaller licensing deals in 2023, he said.

"The thing is that the headlines are only made on the ones that are M&A, so we've done multiple deals in our pharmaceutical side in order to be able to enhance our existing portfolio," he said, "And our bias is to go for transactions that are going to enable us to create more value by leveraging our clinical development strength, our manufacturing capabilities and our commercial reach, so hence why the majority of the deals that you see in our pharmaceutical side

are at an earlier stage.”

He pointed to J&J’s licensing deal with South Korean biopharma [LegoChem Biosciences, Inc.](#) in December as an example of the deals J&J did last year. Under that agreement, J&J paid \$100m upfront for development and commercial rights to LegoChem’s Trop2-directed antibody-drug conjugate (ADC). (Also see "[LegoChem Brings Late Christmas Cheer With \\$1.7bn ADC Deal](#)" - Scrip, 26 Dec, 2023.)

J&J followed up with a bigger deal in the ADC space in January, announcing the \$2bn acquisition of ADC developer [Ambrx Biopharma, Inc.](#), Inc. at the J.P. Morgan Healthcare conference. (Also see "[J&J Makes Its Biggest Bet Yet On Antibody-Drug Conjugates With Ambrx Buyout](#)" - Scrip, 8 Jan, 2024.)

“Are we looking broader than that? Yes, we do. But mainly we find more opportunities to create value at an earlier stage,” he said.”

Chief financial officer Joseph Wolk said the company remains well positioned for reinvesting in R&D and business development, while maintaining its dividend to shareholders. J&J generated free cash flow of more than \$18bn in 2023 and had approximately \$23bn in cash and marketable securities at the end of the year and \$29bn of debt.

The company reinvested \$15bn in R&D, or 17.7% of sales, representing an all-time high level of R&D spending for the company, he said.

J&J delivered solid fourth quarter and 2023 financial results that were in line with investor expectations as the company moves forward as a smaller, more focused diversified pharmaceutical company. Sales for the quarter increased 7.3% to \$29.4m and sales for the year increased 6.5% to \$85.16bn. Innovative Medicines, the larger of the two business units, generated sales of \$13.72bn in the fourth quarter, up 4.2%, and \$54.76bn for the year, growth of 4.2%.

The company reconfirmed 2024 financial guidance of operational sales growth of 5%-6% and adjusted operational earnings per share of \$10.55-\$10.75, reflecting growth of 7.4% at the midpoint.

Innovative Medicine sales are expected to be slightly stronger in the first half of the year compared to the second half due to the anticipated entry of Stelara (ustekinumab) biosimilars in Europe in the middle of the year, Wolk said. J&J gained a reprieve from biosimilar entry of Stelara in the US, which had been expected in late 2023 but was delayed until 2025 following patent settlement agreements with biosimilar manufacturers. (Also see "[J&J Predicts No Stelara Biosimilar Until 2025](#)" - Scrip, 20 Jul, 2023.)

Newer launches are expected to fill some of the gap from the loss of Stelara in Europe, Wolk said, with the company particularly encouraged by the launch of its BCMA-directed cell therapy for multiple myeloma, Carvykti (ciltacabtagene autoleucel).

J&J already provided investors with long-term revenue guidance for the company in December during an R&D overview, in which it said Carvykti could have peak sales potential of \$5bn. Enterprise-wide consolidated revenues and Innovative Medicine revenues are expected to grow at a compound annual growth rate (CAGR) of 5%-7% from 2025-2030. (Also see "[*J&J's Growth Plan Calls For Mega-Blockbusters And A Leading Oncology Franchise*](#)" - Scrip, 5 Dec, 2023.)

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