Investment Stewardship

Vote Bulletin: Johnson & Johnson

Company	**Johnson & Johnson (NYSE: JNJ)**
Market and Sector	United States/Pharmaceutical
Meeting Date	22 April 2021
Key Resolutions[1]	**Item 2**: Advisory Vote to Ratify Named Executive Officers' Compensation **Item 4**: Report on Government Financial Support and Access to COVID-19 Vaccines and Therapeutics **Item 5**: Require Independent Board Chair **Item 6**: Report on Civil Rights Audit **Item 7**: Adopt Policy on Bonus Banking
Key Topics	Executive compensation, board quality and effectiveness, racial equity
Board Recommendation	The Board recommended voting FOR Item 2, and AGAINST Items 4, 5, 6, and 7
BlackRock Vote	BlackRock voted FOR Items 2 and 6, and AGAINST Items 4, 5, and 7

Overview

Johnson & Johnson (JNJ) is a global healthcare company based in the U.S. that engages in the research, development, manufacture and sale of healthcare products.

BlackRock Investment Stewardship (BIS) has engaged with the company for several years to discuss corporate governance issues that we believe drive long-term shareholder value. These include, among others, the oversight and risk management of company products, human capital management, social risks and opportunities, sustainability disclosures, and board quality and effectiveness. BIS has recently engaged with the company on several occasions, including with the Lead Independent Director, to discuss the topic of access to medicine.

JNJ faces ongoing risks due to litigation and media scrutiny associated with allegations of product safety associated with the company's talc-related baby powder,[2] the company's role in the opioid crisis, as well as the company's ongoing efforts in developing and rolling out the Covid-19 vaccine. BIS has discussed these topics with the company in depth and continues to feel that the risk oversight function of the board and management is currently sound. We continue to monitor the latest developments related to the Covid-19 vaccine.

[1] Johnson & Johnson, "2021 Annual Meeting of Shareholders".

[2] Business Insider, "Johnson & Johnson faces 25,000 US lawsuits over its baby powder. Some users say talc in the product caused their cancers."

JNJ has developed a website to address stakeholder questions regarding its talcum powder products and to explain key points on the company's position and the safety of its products.[3] With regard to opioids, JNJ has also taken steps to re-affirm the safety of its products and to assure the market of its risk-oversight procedures. In BIS' assessment JNJ, through its disclosures, has demonstrated awareness and sensitivity to the challenges and complexity of these topics.

Rationale for BlackRock's Vote

Item 2: Advisory Vote to Ratify Named Executive Officers' Compensation (FOR)

BIS voted for the Say on Pay proposal because we believe the company has taken appropriate steps to incentivize current executives and to set compensation plans that are performance based.

In reaching our decision on compensation, we were informed by both engagements with the company, and the company's public disclosures. We believe that JNJ has taken appropriate steps to incentivize current executives who were not responsible for the issues relating to talc that are the focus of current legal actions. Moreover, with regard to the opioid settlements, JNJ was in a different supply chain position from the opioid distributors.[4] We believe that voting against pay would have unfairly penalized executives who have performed well, have navigated company challenges, and met the criteria of the company's compensation plan.

The company made no changes to its compensation approach as a result of COVID-19 and granted no one-time awards. Moreover, it is customary for litigation costs to be excluded under non-GAAP adjustments and this practice is designed to respond to both the uncertainty of litigation as well as the perverse incentives it might create if an executive were judged based on the status of ongoing litigation. The company has treated litigation items consistently for many years in its reporting of adjusted earnings per share (EPS) and in its incentive plans. In the case of JNJ, the impact of the litigation-related adjustments was low, and both the short and long-term compensation plans paid out below target awards for the period in question.

Moreover, as stated in additional proxy soliciting materials published in mid-April, in deciding its 2020 compensation the board took into account shareholder feedback received over the past year. This included; "eliminating the three 1-year sales goals from the company's performance share units (PSUs), adding more structure to our annual incentive plan, capping the value of the company's executive car and driver benefit, and doubling our stock ownership guidelines for senior executives." [5]

For these reasons, we supported management's Say on Pay proposal.

Item 4: Report on Government Financial Support and Access to COVID-19 Vaccines and Therapeutics (AGAINST)

BIS voted against this shareholder proposal as the company already leads on transparency with regard to access to medicine and we have confidence the company will continue to provide disclosure as the distribution of the vaccines continues.

The shareholder proposal requests JNJ's board to report to shareholders "on whether and how JNJ subsidiary Janssen's receipt of government financial support for development and manufacture of vaccines and

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[3] Johnson & Johnson, "The Facts on Talcum Powder Safety".

[4] As the company has reported, Janssen Pharmaceutical Companies of Johnson & Johnson developed and previously promoted and manufactured two types of prescription opioid medicines – a transdermal, or "adhesive" patch and a crush-resistant tablet – designed to help patients suffering from severe pain. These products were intended to minimize abuse and misuse while providing treatment to patients suffering from chronic pain. JNJ's opioid products accounted for less than one percent of total opioid prescriptions in the United States. *See* "2020 JNJ Board Report on Oversight of Risks Related to Opioids".

[5] Johnson & Johnson, "SCHEDULE 14A, Proxy Statement Pursuant to Section 14(a) of the Securities and Exchange Act of 1934".

therapeutics for COVID-19 is being, or will be, taken into account when engaging in conduct that affects access to such products, such as setting prices."[6]

JNJ has demonstrated responsible behavior in its COVID-19 vaccine development. The company has past experience managing the receipt of government funding to collaborate on vaccine development and to provide affordably priced or non-profit access to its vaccines and treatments, such as in the case of Ebola, Tuberculosis, and HIV. JNJ ranks third on the 2021 Access to Medicine Index,[7] which measures how the world's largest pharmaceutical companies are addressing access to medicine in low- and middle-income countries.

Currently, the company is distributing the COVID-19 vaccine on a non-profit basis for emergency pandemic use[8] and has publicly capped the price of the vaccine at $10 or lower. The company has also signed onto a landmark Communiqué on Expanded Global Access to ensure that people everywhere have access to potential COVID-19 diagnostics, therapeutics, and vaccines under development, regardless of income level.[9] In connection with the Communiqué, JNJ committed to allocate up to 500 million vaccine doses to lower income countries.[10]

Moreover, the proposal is duplicative of work the company is already undertaking. JNJ already discloses its responsible business practices within the "Janssen Transparency Report,"[11] which elaborates on its commitment to transparency and a responsible approach to pricing. The company updates the report annually but due to the ongoing nature of the pricing discussion and the pandemic, the current report does not have conclusions about future pricing. Currently, science is still evolving as to the long-term efficacy of the vaccine, the need for boosters, navigating the emergence of new viral strains, and uncertainty regarding the length of the emergency pandemic period. That said, the company plans to continue updating its reporting and disclosure and the board and management remain keenly focused on this issue.

Additionally, JNJ already discusses its COVID-19 response efforts, including efforts to develop a vaccine,[12] a timeline of the development of its vaccine candidate,[13] information regarding efficacy data,[14] information about the history that contributed to its vaccine production, and the response of its supply chain[15] during the pandemic. The Company also produced a live video series on the process of developing a vaccine.[16]

Importantly, funding received from the U.S. government was only a portion of the investment JNJ has made to the COVID-19 vaccine development. All government funding is going towards research and development

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[6] Johnson & Johnson, "2021 Annual Meeting of Shareholders & Proxy Statement".

[7] Access to Medicine Foundation, "2021 Access to Medicine Index".

[8] Johnson & Johnson, "Johnson & Johnson Announces Agreement with U.S. Government for 100 Million Doses of Investigational COVID-19 Vaccine".

[9] Johnson & Johnson, "Johnson & Johnson Joins Other Companies in Signing a Landmark Communiqué on Expanded Global Access for COVID-19".

[10] Johnson & Johnson, "Johnson & Johnson Joins Other Companies in Signing a Landmark Communiqué on Expanded Global Access for COVID-19".

[11] Johnson & Johnson, "Janssen Transparency Report".

[12] Johnson & Johnson, "Statement on CDC Advisory Committee Meeting on Company COVID-19 Vaccine".

[13] Johnson & Johnson, "5 Latest Facts About Johnson & Johnson's Investigational Janssen COVID-19 Vaccine Candidate".

[14] Johnson & Johnson, "Johnson & Johnson Announces Single-Shot Janssen COVID-19 Vaccine Candidate Met Primary Endpoints in Interim Analysis of its Phase 3 ENSEMBLE Trial".

[15] Johnson & Johnson, "Access to the Medicines, Products, Devices and Solutions You Depend On".

[16] Johnson & Johnson, "The Road to a Vaccine".

(R&D), vaccine trials, and to scale up distribution. Receipt of government funding subjects the company to its own set of disclosure and accountability obligations.

For these reasons, we feel that JNJ has been appropriately transparent and we expect JNJ to continue to provide timely and meaningful disclosures to stakeholders.

Item 5: Require Independent Board Chair (AGAINST)

BIS voted against this proposal because the company has a designated lead independent director who has a clearly defined role that supports board effectiveness'.

Board quality and effectiveness is one of our top engagement priorities. In our experience, most governance issues, including how material sustainability issues are managed, require effective board leadership and oversight.

We have had ongoing discussions with JNJ regarding the board's structure and refreshment process to ensure that directors individually and collectively have the relevant skills and experience to guide the company, particularly as its strategy, material risks, and opportunities evolve. Given the highly complex and regulated nature of the pharmaceutical industry, a combined chair and CEO role allows for a structure that works for JNJ.

Based on our analysis of JNJ's governance practices and continued engagement with the Lead Independent Director, we believe the board has an appropriate leadership structure in place and that the current lead independent director has a robust and independent oversight role. Board composition and refreshment has been an ongoing focus of the company with five new directors added to the board in the last five years, leading to a wide range of director tenures. As a result, we are satisfied with the board's leadership structure at this time.

Item 6: Report on Civil Rights Audit (FOR)

BIS voted for this proposal because we believe that an audit would reinforce the effectiveness of the company's current programs to advance racial equity and might yield further insights.

The shareholder proposal requests the company "conduct and publish a third-party audit (within a reasonable time, at a reasonable cost, and excluding confidential/proprietary information) to review its corporate policies, practices, products, and services, above and beyond legal and regulatory matters; to assess the racial impact of the company's policies, practices, products and services; and to provide recommendations for improving the company's racial impact."[17] BIS agrees with the intent of advancing diversity, equity and inclusion (DEI) and supports the company's existing efforts to recruit, retain, support, and develop a diverse set of employees.

JNJ discloses its "Diversity, Equity & Inclusion Policy" with three strategic priorities: 1) Accelerate the Company's efforts to advance a culture of inclusion and innovation; 2) Build a diverse workforce for the future; and 3) Enhance business results and reputation.[18] The company's DEI strategy is guided by internal[19] and external insights, results are reviewed quarterly, and progress is reported to the Board. [20]JNJ also appears on Forbes 2021 list of "America's Best Employers for Diversity."[21]

JNJ reported on the diversity of its workforce from 2017-2019, broken down by gender, age, ethnicity/race, job title/seniority, and region in its annual Diversity, Equity & Inclusion Impact Review.[22] In 2020, the company launched its "Our Race to Health Equity Initiative" to: 1) create a world-class diverse and inclusive culture that

[17] Johnson & Johnson, "2021 Annual Meeting of Shareholders & Proxy Statement".

[18] Johnson & Johnson, "Diversity, Equity, and Inclusion".

[19] Johnson & Johnson, "Diversity, Equity, and Inclusion Policy".

[20] See previous footnote.

[21] Forbes, "America's Best Employers for Diversity".

[22] Johnson & Johnson, "You Belong: Diversity, Equity & Inclusion Impact Review".

helps the company better understand the patients and consumers it serves in communities of color; 2) deploy resources and expertise to provide equitable healthcare solutions for underserved populations and communities of color; and 3) forge partnerships and alliances that address racial/social health inequities.[23, 24] As a result of these efforts, we have no present concerns regarding the steps JNJ is taking to ensure and advance a culture of diversity, equity and inclusion.

Nonetheless, BIS believes that the proposal is not overly prescriptive or unduly constraining for management. The proposal asks for an audit and does not ask JNJ to undertake any new DEI efforts, support additional work, or advocate for a different diversity approach within the company. While we recognize and support the considerable efforts JNJ has made to date on DEI and racial equity, we supported the proposal as we believe that an audit would complement the company's current programs to advance racial equity and might yield further insights to accelerate its progress. This is consistent with our updated approach to shareholder proposals under which we may support proposals if we believe that doing so would support or accelerate a company's progress on a material governance or sustainability issue.

Item 7: Adopt Policy on Bonus Banking (AGAINST)

BIS voted against this proposal because the company made no changes to its original financial targets due to COVID-19.

The proposal requests JNJ's Compensation & Benefits Committee to "take the steps necessary to provide that the Committee may decline to pay in full an award (a "Bonus") to a senior executive that is based on one or more financial measurements whose performance measurement period (PMP) is one year or shorter for a period (the "Deferral Period") following the award, including developing a methodology for determining the length of the Deferral Period and adjusting the remainder of the Bonus over the Deferral Period."[25]

BIS voted against this proposal because the Compensation & Benefits Committee already has the discretion to defer senior executive annual incentive awards, adjust awards downward, and has a clawback policy.[26] Under its policy, JNJ's Board has the right to recoup compensation from executive officers in the event of a material restatement of JNJ's financial results, and from both executive officers and senior executives in the event of significant misconduct resulting in violation of a significant company policy, law, or regulation relating to manufacturing, sales or marketing of products that causes material harm to JNJ.[27]

Moreover, the company has been responsive to shareholder concerns and feedback and has made improvements to its pay program, particularly to address shareholder concerns about the structure of its compensation programs.[28] In our engagement, JNJ emphasized key points in their disclosures including that their compensation program has a long-term perspective, rarely leveraging or focusing on the short-term for incentivization, which the company believes positions it well to ensure payouts are appropriate. For these reasons, we did not think that the changes sought in the proposal were necessary.

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[23] Johnson & Johnson, See 2021 DEF 14A (proxy), p111-113

[24] Johnson & Johnson, "Johnson & Johnson to Address Racial and Social Injustice Through Platform that Aims to Eliminate Health Inequities for People of Color".

[25] Johnson & Johnson, "2021 Annual Meeting of Shareholders & Proxy Statement".

[26] Johnson & Johnson, 2021 DEF 14A (proxy), at 78.

[27] See previous footnote.

[28] Johnson & Johnson, 2021 DEF 14A (proxy), at 50 et seq.

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.