

**SHAREHOLDER PROPOSAL REGARDING  
EXECUTIVE COMPENSATION AND DRUG PRICING RISKS**

RESOLVED, that shareholders of Johnson & Johnson (“JNJ”) urge the Compensation and Benefits Committee (the “Committee”) to report annually to shareholders on the extent to which risks related to public concern over drug pricing strategies are integrated into JNJ’s incentive compensation policies, plans and programs (together, “arrangements”) for senior executives. The report should include, but need not be limited to, discussion of whether (i) incentive compensation arrangements reward, or not penalize, senior executives for adopting pricing strategies, or making and honoring commitments about pricing, that incorporate public concern regarding the level or rate of increase in prescription drug prices; and (ii) external pricing pressures are taken into account when setting targets for financial metrics.

**SUPPORTING STATEMENT**

As long-term investors, we believe that senior executive incentive compensation arrangements should reward the creation of sustainable long-term value. To that end, it is important that those arrangements align with company strategy and encourage responsible risk management.

A key risk facing pharmaceutical companies is potential backlash against high drug prices. Public outrage over high prices and their impact on patient access may force price rollbacks and harm corporate reputation. Legislative or regulatory investigations regarding pricing of prescription medicines may bring about broader changes. In May 2018, the White House released a ‘Blueprint to Lower Drug Prices’ that included promoting generics and biosimilars, as well as a different system for buying Medicare Part B drugs, such as JNJ’s Remicade.

We applaud JNJ for improving transparency on drug pricing and supporting alternative pricing approaches. We are concerned, however, that the incentive compensation arrangements applicable to JNJ’s senior executives may not encourage senior executives to take actions that result

in lower short-term financial performance even when those actions may be in JNJ's best long-term financial interests.

JNJ uses sales growth and earnings per share (EPS) as metrics for the annual bonus and EPS as a metric for performance share awards. (2018 Proxy Statement, at 43) Increasing revenues, either by increasing volumes or raising prices (or some combination), can boost both sales growth and earnings. A recent Credit Suisse analyst report identified JNJ as at significant risk from certain proposals in the Blueprint and ranked it in the bottom third on "overall resistance to emerging pressures."

In our view, excessive dependence on drug price increases is a risky and unsustainable strategy, especially when price hikes drive large senior executive payouts. For example, media coverage of the skyrocketing cost of Mylan's EpiPen noted that a 600% rise in Mylan's CEO's total compensation accompanied the 400% EpiPen price increase.

The disclosure we request would allow shareholders to better assess the extent to which compensation arrangements encourage senior executives to responsibly manage risks relating to drug pricing and contribute to long-term value creation in line with the company's stated credo to "maintain reasonable prices," "bear our fair share of taxes," and "put the needs and well-being of the people we serve first." We urge shareholders to vote for this Proposal.