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# EDITED TRANSCRIPT

RB.L - H1 2014 Reckitt Benckiser Group PLC Earnings Call

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## OVERVIEW:

Co. reported 1H14 base business revenue excluding RBP of GBP4.3b, base business adjusted operating profit before exceptional costs and excluding RBP of GBP898m and adjusted diluted EPS of 113.4p. 2Q14 base business revenue excluding RBP was GBP2.1b. Expects 2014 total net revenue growth to be 4-5%.



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## PRESENTATION

**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Good morning, and welcome to our half-year results presentation. As you know, this is a presentation that is going to be split into two halves. The first half will deal with the half-year results. And in the second half, just after a short break, we'd like to talk more expansively about RBP and what we are trying to do there. So my suggestion is to hold on to questions around RBP for the second half so that we can deal with them in one go.

I've been reminded to tell you that there is a mic in front of you, or right next to you in your seat, so if you need to ask questions at an appropriate stage, please use these mics.

And with that, let me just move straightaway to my three key messages of the day, and the first one is we continue to focus on the core. And focusing on the core means giving appropriate attention to help hygiene and home with our organic growth strategy, focusing on our 16 power markets as our organic growth strategy.

But also, it's to do with value-enhancing M&A which comes at the right price from time to time. But I've said before that focusing on the core will also be enabled if we deal also with the non-core at an appropriate time. So I'm going to talk about that today.

The second bit is that the virtuous earnings model of this Company is intact, and we are taking steps to make sure that even in challenging times, it remains robust. So I'm going to talk about that.

And the third thing is, of course, as you've seen from our release, we are on track with our full-year targets. We are fully on track there.

So let's just start with the first one, which is focusing on the core and what I mean by that.

So as you've seen that in the first half and in the second quarter itself, we had a very nice like-for-like growth on health of plus 10%. We've had a very, very nice growth on health. In combination, hygiene also started to pick up from a rather modest first quarter.



I also want to call out that we are not happy about what we have achieved in the second quarter, particularly on home, and it is something that we would like to address. But, again, home has two halves. One half is Vanish, and Vanish has also had a tough number of years. But what I'd like to tell you is that on Vanish, we have created the platform for growth. We have brought back growth to the category; we've brought back penetration into the brand; and we are now growing category penetration and share on Vanish, as a result of which Vanish is in good growth.

On the other side, we are not happy with Airwick. Airwick is undergoing very tough markets. So as a market, air care is in flat to decline. But clearly, it's also a very challenging market. So while we are continuing to focus on our core and our core business is performing well, there are some parts which are doing extraordinarily well and some parts we want to do better in.

But part of driving our core business is also making sure we are creating platforms for growth, not just for this half or the next one, but also in the future. So you've seen that we are building capabilities in our Company. We've talked about that last time we met.

But clearly, you've also heard about our investment of about GBP100 million over the next several years to build up a state of the art R&D technical center of excellence in the UK. And that's part of our ability to create growth in our four categories in the future. So I believe we are making good progress in terms of that.

But also, as you know, I've always said RB's opportunities, although very vast in its organic growth platforms, are also there for M&A. And we've now about completed about 12 months of BMS, which is our collaboration agreement in Latin America. I have to tell you that we are doing very well there. Our growth in the BMS brand is well ahead of the market. So that 12 months has gone off well.

We have completed the integration of KY in its key North American market and our early feeling about that is also good, which we always expected to be. So I think you can see that the M&A part doing still very good.

And then there is another part which is D. I said to you before, for us focusing on organic growth also means not focusing on the non-core. And the D part generally speaking has divestments, demergers and discontinuations. And I hope within the last two years or so, we would have had all the three Ds done.

We discontinued private label in 2012. We have decided to exit the footwear, Scholl footwear business, which was in Europe but also in some parts of the world. We've just signed an agreement to do that and that should happen during the course of this quarter. And finally, we're talking about de-merging RBP later today.

So really, this is something that we must do in the Company to make sure that the focus on core remains paramount.

Moving on to our virtuous earnings model, and I'm going to tell you that I tell all our new inductees every year. So all the new inductees which come to RB hear this message from me every year, which is our earnings model starts with gross margin. It starts with gross margin. By focusing on expanding our gross margin, which is all the levers of gross margin, mix, pricing and Project Fuel, Project Fuel being the nomenclature we use to drive our [product paths].

We need our Company and all the people -- and actually, if you ask me, gross margin is one line where probably the entire organization can make a difference. Whether you're in supply chain, whether you're in marketing, sales, the entire organization can actually make an impact on gross margin. And I want people to know that our virtuous model of earnings starts with gross margin. And that's why I'm pleased that not just in the last couple of years, but also in the first half despite significant FX headwinds, we managed to expand our gross margin by 60 basis points in total, 90 basis points excluding RBP, which is quite good.

So beyond the efficiencies that we've got from gross margin in the first half, we've got the efficiencies that I called out in February when I spoke to you, which are efficiencies in media. I did tell you that late last year we'd completed our global media planning and buying. So this was not just about buying and efficiently buying media, it was also about planning our media better.



Planning our media better is very important in a market where media consumption habits of people like you and I are changing quite rapidly. So we want to make sure we are addressing people at the right touch points and planning that media better, because that makes us more effective.

But beyond being effective in media planning, we want to be -- use our very significant investments that we are making in media, but also [increased] over the last couple of years, making sure we buy them more efficiently. And I'm pleased that we could lock in quite a lot of those benefits in the first half of the year. So that efficiency program continues.

And the last bit is about fixed costs. If you've not heard it before, hear it now. I believe there is always juice in the lemon. We can always squeeze costs out, no matter what, which means we have to apply that and it must be a non-stop process in the Company.

What we are trying to do now is to make sure that that mindset of being an efficient machine, a lean mean faster machine, continues to be in the Company as a whole. So I'm going to talk to you about how we are doing that in a practical way now, how to make this Company even more effective from an organizational point of view. And clearly, when you have all this, you can actually expand your margins quite nicely, as we've done in the first half.

So let me just give you an example, a real example of what we mean by efficiencies in the organization. You remember we have talked about bringing ENA together. We brought ENA together which at that point of time was a strange concept, but we made it bring to life. I personally still believe that quite a lot of our growth in ENA, which has been quite consistent over a number of quarters, has to do somewhat with how we are organizing ENA.

And in the first part, we delayed ENA and made the decision making in ENA simpler, under one leadership, if you want; delayed the whole organization from regions and markets to just markets. So we had that in 2012. As stage 2, or phase 2, we are going to have a more integrated brand and customer management organization.

What does that really mean? It means like this. Take Finish as a practical example. Finish is a brand which we have in every market in ENA. Every market in ENA has the brand Finish; in the US, of course, but also in other parts of Europe. We have brand marketing teams in every market looking after Finish.

Now Finish is a brand which has a simple proposition, a simple benefit, with a pipeline which we have -- which gets rolled out every year behind the same concept. So it feels rather inefficient that you want to actually change Finish marketing and marketing mixes from one market to the other.

So what we are trying to do now is very simple. We are going to have one power and one organization to manage Finish across all of ENA. So Finish will be managed from one part of ENA for the whole of the ENA organization. Something like this.

I've said often that Europe and North America would have been one region in every company if they didn't have an Atlantic Ocean to consider. We don't consider oceans when we decide how to manage organizations.

So that's what we are going to do as an example, centralize marketing in ENA across brands with one power and one organization looking after the brand, making it more consistent, making it bigger, making it faster, making it simpler to operate.

So that is underway and we hope that programs like this in the Company will ensure that we have an efficient, more effective and a leaner organization and, therefore, helps us being efficient from a fixed cost point of view.

And finally, I want to talk to you about my third message, which is we are on track with our target for the year. And you've seen that our like-for-like growth in the first half is 4%. We've invested modestly more in absolute behind our brands. Gross margins are up; op margins are up 40 basis points; and quite pleasingly, so is our cash conversion.



Our cash conversion is at 90% to our net revenue, and the Board has declared a dividend, interim dividend of 60p, which is the same as last year, reiterating the confidence that we have, of course, on the future cash flows and earnings potential of the Company.

So this is my opening message. With that, I'd like to hand you over to Adrian, who is going to talk to you more extensively about the results.

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**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

Thank you, Rakesh, and good morning, ladies and gentlemen. If we can turn to the first slide, slide [12].

As Rakesh mentioned, revenue for quarter 2 was GBP2.1 billion for the base business, by which we mean, as you know, excluding RBP. This represents a like-for-like growth of 4% after adjusting for movements in exchange rates and for the effective acquisitions.

Revenue of RBP was GBP174 million in quarter 2, a reduction of 5% on a like-for-like basis. Together, these gave a Group growth of 3%.

Revenue for half 1 was GBP4.3 billion for the base business, representing also a like-for-like growth of 4%, and growth in half 1 for the Group as a whole was also 3%.

The KY acquisition is in the form of several transactions in different countries, and is being completed in stages, mainly as antitrust issues are resolved. The transaction has completed in many but not all countries. The BMS collaboration started last May, and is thus in the like-for-like numbers for part of the quarter. The impact of acquisitions was, therefore, small comprising only one month of the BMS collaboration and the early KY sales.

Movements in foreign exchange rates reduced the quarter 2 reported net revenue and operating profit growth rate by 11%, and the half 1 rate by 10%. Gross margin in half 1 increased by 90 basis points for the base business, and by 60 basis points for the Group as a whole.

Adjusted operating profit before exceptional costs in the half was GBP898 million for the base business. The operating profit margin was 20.8%, 40 basis points higher than half 1 last year. Adjusted operating profit in RBP in half 1 was GBP183 million. This was a decrease in margin of 380 basis points on half 1 last year to 53.2%. Together, these give the 10 basis points decrease in margin that you see for the Group as a whole.

We will look more closely at revenue growth and the margin for the base business in a moment, and we will look more closely at the RBP financials after the break.

The GBP22 million exceptional items you see charged in half 1 are almost all under the existing acquisition integration restructuring program, which totaled GBP170 million. GBP1 million relates to the acquisition integration costs of KY, in respect of which we expect a total GBP20 million. We have as usual set out a full analysis of these exceptional items in an appendix to this presentation material.

Moving to the next slide, slide [14], and further down the income statement, our net finance costs were GBP18 million, a small increase on half 1 2013, reflecting slightly lower total borrowings and a slight increase in the cost of borrowing following the \$1 billion bond issue in quarter 3 last year.

The tax rate in adjusted net income, in other words excluding the impact of exceptional items, for half 1 was 22%, the rate we expect for the full year. This is slower than the around 24% rate we expected at the start of the year for two broadly equal reasons.

Firstly, a structural change as a result of changes in corporate tax rates in countries where we do business and the level of business we do in those countries. We expect this part of the reduction to be sustained in future years. And secondly, some small favorable one-off adjustments.

Adjusted diluted EPS in half 1 was 113.4p, a decrease of 4% on last year. This is well below the 3% increase in constant rate adjusted operating profit due to the impact from the strength of sterling, offset by the reduction in the tax rate.

The Board has approved an interim dividend of 60p per share. This is the same as in half 1 2013 in sterling. Our normal policy is to pay out 50% of adjusted net income. However, the Board considered it inappropriate to reduce the sterling dividend in line with the reduction in reported sterling net income, given the strong underlying performance of the business and the negative impact of currency headwinds. This has increased the payout ratio from 50% to 52%. We would expect to return to a 50% payout over time.

As already mentioned, the translational effects of movements in currencies decreased reported revenue and profit by about 11% in quarter 2 and by about 10% in half 1. If the exchange rates at June 30 were to continue to year end, full-year reported revenue and profit would be decreased by about 8%.

We entered into an agreement on July 18, subject to certain employee consultation processes, to sell our footwear operations, and to license our Scholl brand for use in the field of footwear only, to Aurelius, a German private equity company. This transaction is not reflected in the half 1 numbers.

We have set out in an appendix a summary of the financials of the business sold. It had revenue of GBP76 million in 2013. It was reported mainly in ENA, but partly in the LAPAC segment, and it was reported in the portfolio category.

Turning to the next slide, slide 16, an analysis of revenue growth rates by business segment by quarter, firstly on price and volume changes across the geographies we operate in.

The 4% growth in the base business in half 1 was again split broadly evenly between volume on the one side and mix and price on the other.

With respect to ENA sales, the Group achieved another quarter of 2% growth. As in quarter 1, there was a tough comparator. The last flu season was not only stronger than normal, but was also longer, delivering strong quarter 2 growth last year. However, we also benefited again in quarter 2 this year from some one-off tailwinds.

In quarter 1, we benefited from stocking of Mucinex allergy products in the USA and of MegaRed in several European countries. In quarter 2, we have benefited in particular from stocking of our Scholl Express Pedi foot care product.

In looking forward, it's important to factor in not only that we will have slightly easier comps, but also that we benefited in half 1 and quarter 2 from these tailwinds.

Turning to RUMEA, we achieved a 7% growth in RUMEA in quarter 2. As we have signaled over the last year or so, growth in RUMEA is returning gradually toward its full potential as we improve execution.

We do expect to see some modest fluctuation in the RUMEA growth rate in coming quarters, partly as this area serves a number of quite volatile markets; and also, as we are implementing some changes to our go to market arrangements in material markets, which will have the effect of altering slightly the point in the logistical chain at which sales are recorded. However, we do expect to see continued gradual improvement in execution in an area with significant potential for us.

In LAPAC, we saw a reduction in our growth to 6%, a somewhat lower number than we expect for an area serving many emerging markets, as well as the more mature markets of Japan, Korea, and ANZ.

We saw varying drivers across the varying geographies served within LAPAC. A modest reduction in the growth rate of the India market, coupled with marked slowing of the market growth in Thailand and Indonesia were significant contributors to the slowing of the area growth rate. We do expect these market growth rates, and our own growth rate, to improve over time, but do not expect significant immediate change.

In BBP, the minus 5% revenue decline in quarter 2 was determined by a combination of continuing strong market growth, most notably continuing low double-digit growth and buprenorphine prescription volume in the United States; by a modest reduction in market share in the United States Suboxone market; and by some price pressure.



Looking forward to the rest of the year, we expect continuing strong market growth. Our [film] share in the United States will, however, be reduced modestly by the changes in the United formulary for some of their business, and the approval of third generic Suboxone tablet will also add to the share and price pressure in some parts of the market.

We will return to RBP, as Rakesh and I have already mentioned, after the break.

We've again included as an appendix a reconciliation of the reported like-for-like numbers in this slide.

Turning then to the next slide, slide [18], an analysis of revenue growth rates for the principal product categories.

Firstly health. We achieved another strong quarter, with 10% growth, further evidence that the focus the Group is putting on consumer health is yielding good results. As mentioned in connection with ENA growth trends on the previous slide, this growth rate is despite a strong comparative, but benefited from some stocking in, which we do not expect to repeat in the coming quarters.

Hygiene, growth of 4% followed a weak quarter 1; strong results in the Dettol Lysol brand offset by weaker product sales in pest. The pest numbers were the result of a weaker season in some markets, some localized competitive issues, and the timing of our own cycle of product innovation.

Home sales declined by 1%. A solid performance in Vanish was held back by some weakness in Airwick. We are very focused on improving our Airwick innovation and execution.

Portfolio brands were down 8% in quarter 2. The main marketplaces served by our portfolio brands remained challenging.

And the food business achieved another solid quarter with 2% growth, reflecting [frankly] the strength of our brands in a quite tough food marketplace.

Turning then to the next slide and an analysis of gross margin, brand equity investment and operating margin. In respect of gross margin, as mentioned earlier, the Group continued to make good progress in the base business, with a 90 basis points increase in half 1. The growth has been driven, and continues to be driven, by a number of factors.

Firstly, the strong growth in the health category helped gross margin mix and offset the slightly negative gross margin effect of faster emerging market growth.

Secondly, we saw headwinds from the depreciation on many emerging market currencies, with a reasonably good natural hedge with much of our costs denominated in the same currency as our revenue. However, this is not a perfect hedge, and the quite substantial weakness of a number of currencies where we do import some proportion of goods sold in more mature markets, and the rising local cost of internationally traded commodity inputs to these markets, has impacted the local cost of production.

Thirdly, however, the strength of our brands has enabled us to reflect much of this increased input cost in higher net prices realized.

Fourthly, we continue to see a stable commodity and input cost environment as denominated in dollars.

And lastly, the Group continues to benefit from its ongoing core cost reduction program on which Rakesh has already focused.

On BEI, you can see the 30 basis points reduction in the level of spend in half 1, reflecting a small increase in absolute spend. The reduction does not, of course, reflect any reduction in our commitment to BEI. Product innovation and BEI are clearly at the heart of our business.

This follows the 60 basis points increase in the level of BEI spend in 2012 and the 80 basis points increase in 2013, and the important focus on efficiency in BEI signaled at the start of the year. We expect continued modest fluctuations in the level of BEI going forward, but no significant trend change in the level of spend.



Other SG&A costs increased by 80 basis points in the base business. This reflected further investment in healthcare, R&D and related activity, in healthcare, point of sale communication with customers which is not included in our BEI definition, and in systems.

Looking forward, you have heard from Rakesh that we are increasing our routine keen attention to all costs with a specific additional program. We expect this to be evident in the SG&A line in the next few quarters.

Operating margin, therefore, increased by 40 basis points in the base business. Rakesh has mentioned we have increased slightly our expectation for the 2014 margin. Our expectation for our margin progress in the medium term is unchanged.

Turning to the next slide, this shows an analysis of operating profit before exceptional costs by business segment for half 1. You can see the 40 basis points increase in operating margin for the base business comprised a strong 130 basis points increase in the ENA area, and decreases in LAPAC and RUMEA.

With regard to ENA, the mixed benefit from strong growth in health sales and the strong delivery of cost savings that Rakesh described drove the strong margin delivery.

With regard to LAPAC, the 50 basis points decrease in margin was broadly equal to the amortization on the acquisition intangible from the collaboration with BMS, which also impacted half 2 last year. This impact is now annualized. The negative impact of currency movements on LAPAC costs were offset by mix and price improvements.

With regard to RUMEA, the movement in currencies is the main driver of the 140 basis points reduction in the operating margin. RUMEA includes Russia, South Africa and Turkey, all of which are material markets for us, and all of which have seen weak currencies in the last nine months.

Turning to the next slide and a summary of the Group's net working capital position, you can see that the strong, overall position continues, with only small movements in each of the components of working capital, and the Group's keen focus on this area will for sure continue.

Turning then to the next slide -- in fact, it might be the last slide of this part of the presentation -- the cash flow statement.

As you can see, the Group had another good half of cash generation. Free cash flow generated in half 1 was GBP729 million. Working capital and capital expenditure deployment remained disciplined. The Group had net debt of GBP2.2 billion at the end of half 1.

And with that, I will hand back to Rakesh. Thank you.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Thank you, Adrian. Before I get to the targets for the full year, let me just give you a quick snapshot of our pipeline for the second half of this year. I'm going to talk to you a brand which I haven't spoken to you for quite some time, I think about, in health, and this is Airborne.

Airborne is a brand which came to us as a part of the Schiff acquisition in late 2012/early 2013, and Airborne is an immunity brand, immunity brand which started with a very nice brand story, and one day maybe I'll talk to you about this brand's story; a fantastic story.

Now Airborne is an episodic brand, mostly used when you have cold and flu and when people want to boost their immune system. So what we've done is we've launched an everyday line making immunity an everyday opportunity for people to look after themselves.

And early in the year, we have -- and we know that people use multivitamins for immunity, so we've actually added multivitamins to the Airborne line. So that's what we had done earlier in the year, and now, we've rolled out the Gummies format, which is proving to be quite popular with a certain segment of the consumer.

So we've added a Gummies format to the everyday line, hoping to get people to use Airborne on a more daily basis versus making it more episodic.





So that's our first Airborne innovation. Another one, again sticking to Airborne, is what we call Airborne Dual Action.

Now the thing I like about this innovation is what it says on the pack. It's clinically proven to boost your immune system. And this is our -- and I've talked to you before this. RB wants to make sure that we bring more science and clinical evidence to BMS. #and the reason I like this innovation, the reason I wanted to show it to you today, was because we're bringing just that forward.

It has two ingredients. One is a beta immune booster to boost your immune system; and the other one has an -- it's an antioxidant which makes your immune cells healthy. So we're quite happy about these innovations going into the second half in the US, and I hope it will be proving quite popular.

Moving on to Mucinex, I think the pack says it all what the product is; inspired by Lemsip's Hug in a Mug. Lemsip has always been a relief for hardworking heroes, and Mucinex has got powerful ingredients. We know that. But when you have a cough and cold and flu, you also want some emotional support. So a hot drink sometimes does quite a lot of that, and this is going into the market in the second half with a number of variants in the US.

Moving on Scholl, I think we called out in our release too that this product, the Velvet Smooth product, has proven to be very popular in whichever market we've taken it to be. So actually, something that was initially -- because this product sells for GBP29.99, or somewhere in that range, and we're now basically rolling it out also to our BRIC market.

I was in Russia a couple of weeks ago. It is really flying off the shelves there. You see the ozon.ru clip there. It has done very well.

So we're pleased about that, but what we're also pleased about is the slide I'm going to show you next, which is Scholl is not going to confine itself only in markets where we have Scholl, the brand name. We're going to think about how to enter foot care in the rest of the world. So I'm very, very pleased that we are going to announce the launch of our new brand called Amope.

Now I can't believe that there are too any Portuguese in this room, but if you are, you know exactly what this plan means; it means loving your feet. And we are launching Amope in US and Latin America, and we're launching it with this fantastic innovation which we know consumers love. We know consumers love this.

So we are pleased that despite, of course, some -- with not being able to get the [most] consumer business has not prevented us from really providing our innovations in markets where we did not have the Scholl brand name. So that is most pleasing.

We are not waiting for things like this to happen. We're going to take our destiny in our own hands, and I'm very pleased about that. I'm very confident this is going to prove to be a big success in the US too, as indeed it has in every market we've taken it to.

Moving on to devices, and let's talk about Durex. I've told Adrian the next time he's talking about -- [has he] (laughter)? Okay, I'm not playing with this any more.

So this is a device which is really designed for the female body; allows lovers to experience the transformational power of great sex. But the reason I point this out as an innovation really is this, that we are going to use the e-channel to really talk about innovation ideas like this for a number of reasons.

For example, many people are not very comfortable buying pleasure toys on shelves in supermarkets when they are there with kids or other members of their family. And secondly, when you have a product line like this, which is quite significant in terms of the kind of things you can buy, e-channels do a much better job of giving people the choices that you can put in front of them.

So we're quite happy about what we are doing here. It's gone into China on the e-channel. It's started doing okay. And we plan to take it to the rest of the world progressively with expanding our Durex Devices range across the world.

Moving on to hygiene, let's start with the same idea; how the new channels can inspire you to launch different type of innovations. So I really want to talk to you about Veet Infini'Silk.

What is Infini'Silk? Well, there's a market out there called IPL. IPL is intense pulse light. IPL works by actually targeting the hair follicle in the root and ensuring that over four or five applications, you can actually have permanent hair removal. So this is the nirvana in hair removal. It can offer you permanent hair removal by making IPL technology used four or five times over a period of time.

Now this is not an item which comes with the same kind of pricing that we are used to in Veet, or brands like this. This is -- it's right now in test market in the US, retailing the two lines in this; one retailed at \$249, the other one at \$299. So this is a transformational treatment. This is not just an everyday treatment. It's a transformational treatment.

Now how big is this market? In salons and clinics, this is a GBP3.5 billion market. #so we are bringing salon treatment at home. And \$249 is a very cheap alternative to what you would normally pay in a clinic or a salon for this. So we are going to watch this quite intently.

The products are very nice, the experience is very good, and we are really at this point in time in test market in the US trying to see how to make it a very, very interest idea going forward. That's why I want to call it out.

On Finish, we are launching our all-in-one concentrated gels. Now the interesting thing about this product line is first of all it's phosphate-free; secondly, it works on short cycles, it's a concentrated product. And right now, it's in Italy, and is going to be taken to 20 more markets in Europe, North America in the next few months.

Moving on from Finish to Harpic. Now this is the best ever claim on Harpic. It works in one minute. And the reason you know it works in one minute is because it changes color. So people sometimes don't know how much they want to leave their toilet cleaners behind and when they need to come back and clean their bowls, but this is a one minute action where it then changes color for people to say, well, that's now time for you to actually get the best results from Harpic.

Moving on to Sagrotan, Dettol or Lysol, we're launching a very nice interesting project. It's called Tipp Topp. Tipp Topp is basically the power, cleaning power in your hands with a wipe. The best thing I can do is to show you the advertising that is going to be supporting this launch, starting with Germany, but being taken out to many markets across Europe and North America.

(video playing)

[Continuing] with Dettol Lysol Sagrotan, for those of you who haven't seen Sagrotan before, Sagrotan is our -- even [Harold] is looking quizzically, which means you've never heard of Sagrotan, some of you. Sagrotan is like Dettol in Germany. For those of you who are from Germany know Sagrotan is the disinfection germ brand in Germany. It's a fantastic brand. It is doing great in Germany. And Sagrotan, Lysol, Dettol, are the same germ protection brand, but they just have different names, like Amope and Scholl.

Right. Moving to Dettol. So we're launching a range of Dettol Lasting Fresh products with a new technology which makes Dettol give you lasting freshness. So it has a technology which gives you the freshness feeling for longer. So this is getting rolled out in a number of Asian markets as we speak.

Mortein. Again, I've picked out some innovations that I've not talked to you about in the past. Now we're launching an outdoor range with Mortein, and the reason why we're launching Outdoor range with Mortein is because when you have -- you know that millions of barbecues are really actually spoiled by insects and people want to have products which also work in an outdoor environment. So we're launching a range of products.

The one of the left-hand side actually is like a Freshmatic product. So it constantly emanates, active, which keeps your insects away. So it's really that same idea which we have used in air freshening also in pest control. #so that's a very interesting way to deliver it, constant dealing with your pests. It also comes in candles and it also comes with oil.



So we are quite excited about that. It's going into Australia, but also in Brazil and a number of our other pest control markets under the NaturGard platform.

Right. Moving from hygiene to home, let's start with Vanish. On Vanish, we're launching Vanish Gold. For some of you who've been seeing our Vanish [shares] in the UK will already have seen Vanish Gold in the UK. It comes with our best ever product with a promise of stain removal in 30 seconds. And if you don't believe it --

(video playing)

Vanish is a bit like RB. What you see is what you get; deliver what you say.

So I think that's what Vanish Gold is all about. It's something that we have seen working really very well in the UK, and we are going to take it to our Europe/North American markets shortly.

So that's on Vanish. Let's come to Air Wick. On Air Wick, this is our first ever premium aerosol entry. And the interesting thing about this Vanish -- sorry, Air Wick Pure, is that it has a concentrated set of fragrances. So there is no water inside this can. It's not -- it doesn't have a water-based formula. It's a concentrated formula where the amount of fragrance you release is 15 times that of a standard aerosol. So it's a concentrated premium aerosol that we've launched initially in France, and the early results are indeed quite interesting.

The next one on Air Wick is the time of the year when we launch candles. This one is different. This candle is different because most candles only give you fragrance when they're lit, which means that for the vast majority of time when you have candles sitting on your mantelpieces or on the surfaces, they don't have any fragrance.

So we've actually combined a gel at the bottom of the candle with the standard wax candle on the top, which means that you constantly have fragrances coming out of this candle. So there's a gel combination. That's why we've called it the Air Wick Eternal Scents.

So there's a gel in the base of the candle and the candle gets lit as and when you want it to give you great fragrances all day long.

So this is a snapshot of our line of innovations. I've just picked out 15 from a number of them that are going out in the marketplace. But I want to finish this section on innovation with brand building. And I want to give you one example, on Durex again, where we know that there is a significant event, which takes place around March every year, and it's called the Earth Hour.

Earth Hour is a call to action to turn the lights off. So you know when you turn the lights off, Durex has a role to play, right? And that role is called turn it on. So turn it off to turn it on. And we used that idea to make 2 billion impressions in 50-plus countries. The consumer engagement was 350 million or so. The video itself was watched around 80 million, and you will be the 50 or 70 people more watching it now.

(video playing)

It is very nice. And when you want to create brands with purpose, they must do more than just sell products, sell innovation, but stand for something. And the reason we like it and the reason I wanted to show it to you is that that's what underlying brand building is all about; creating brands with purpose, creating brands that stand for something, creating brands that people love, not just because they have great products coming from these brands.

And this example from Durex is one of the examples that we are using to actually touch lives in ways beyond products and innovation, so I thought I should show it to you.

Actually, I don't know how you like the music in the ads. This has been cut out as a single and this music now, the track has been cut out and selling as a single now across many markets. That's something -- spawned a star from this.

Right. Let's come back from -- turn off to turn on to our full-year targets and how we see them.

So this is how -- this is a slide I showed you in February that we expect net revenue to total revenue, net revenue to be 4% to 5%, and operating margin flat to moderate expansion in the year.

Now I must be candid here. The environment is tougher today than what we saw actually at the beginning of the year. It has toughened up. I don't know whether you hear the same thing, but we see it tougher. And I think we've indicated where we see it tougher. But despite that, we believe that we are on track to achieve our top line revenue results of 4% to 5%.

In terms of op margin, let's face it, our first-half op margin expansion is nice. So we have had nice expansion in the first half. We've also announced the steps we are making in terms of making sure our earnings model/cycle is intact, is virtuous. And therefore, in the second half too, we expect to have op margin expand nicely.

So that's what you should expect; top line to be on track with 4% to 5%, and continued expansion also in the second half, as we've seen in the first half.

With that, I think we are ready to take Q&A on this part of the presentation, which is excluding RBP. And then we come back after a short break to discuss RBP.

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## QUESTIONS AND ANSWERS

**Chris Wickham** - *Oriel Securities - Analyst*

Chris Wickham, Oriel Securities; just a couple of questions. One, I was wondering, could you talk a bit more about the food side of the business? Given we had an easier comp than in Q1, I was wondering why we didn't do a little bit faster in Q2.

And the second was just on the dividend and the payout ratio. Clearly, we're running into a period of sterling trending stronger. How far do you think your Board is likely to be willing to stretch the elastic band on that beyond a 52% payout ratio?

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Right. So let's deal with the first one. I think the food business -- again, it's very difficult to make commentary around one quarter in the second quarter. I think we have said the food business is a very good business. It's got great brands and we continue to support those brands with the right innovation and with the right execution.

I think the first half has been a good first half on food, despite tough markets. The first half has been a good half. So I don't see anything from one quarter to the other, and I know some people have talked about Easter phasing, etc. I don't think we should just work too much --

In any case, our food business has much more seasonality around Thanksgiving versus Easter, just to put it into context. So I think the first half has been a good first half and I think we are happy with our first half performance in terms of what we are doing.

You had another question on dividends, and I think the Board will consider really the impact of FX, as it has indeed in the first half, to decide and put it for shareholders, because the full-year dividend then goes to shareholder approval in May next year. So it will definitely look at the impact of FX when making that decision and use it, I would say judgment, because the underlying performance of the business is strong, is healthy, and I think it will use those -- that judgment to decide whether it wants to be flexible in the payout ratios, even if that is for a short period of time.



So my estimation is the Board will take care of the underlying -- will take into consideration the underlying health of the business, which is solid, and then decide what that means in terms of payout ratios. Even if there is a change in the temporary payout ratios to beyond 50%, I am sure they will take into consideration when deciding the full-year dividend and proposing to shareholders in the second half.

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**Celine Pannuti** - *JPMorgan - Analyst*

Celine Pannuti, JPMorgan. My first question is on the healthcare business. Can you tell us what's the underlying growth of the market?

And also, you have flagged out a few items which were positively impacting on the sell-in in Q1 and Q2. What has happened that is different this year? Because I think you always have innovation, so why is it? I understand MegaRed was a bit bigger, but why is it that this time around, we had these sell-in that were very different than in the previous years?

And my second question would be on margin. In a tough year, you seem to be having a better outlook now on the margin. What has happened that is different?

And if you could a bit shed light on the BEI fluctuation. You said 2012 and 2013 you paid -- you increased a lot. It was down H1. Can you a bit comment, give some commentary given all the lineup of innovation [again]?

Thank you.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Let's start with health. I think first of all, our underlying business in health is outperforming the markets quite significantly. So we are happy about that. The 10% growth already tells you that there is a significant outperformance of the market. I don't even have to say that.

And I think the health brands are performing well across the board. So it's not something that I want to tell you about one brand in particular, although I have called out Scholl because Scholl has been quite spectacular, actually.

So all the health brands are doing well. We are outperforming the market quite significantly. Adrian did talk to you about there's some sell-in in the first half. And you are quite right to say we have innovations taking place every time, but I think he quite pointed out the fact that we had launched MegaRed in Europe and we --

Scholl in many countries is like a new brand launch. China, for example, is a new launch because Scholl did not exist in China. So when you have, beyond innovation, maybe new geographic [entities], etc., I think it was just prudent to call out that we have that, although he also said, and rightly so, that last year we had a tough comp too.

So I don't think you'd too much into all of this except to put the facts on the table; to say our health business is doing very, very well. It's broad based. It's outperforming the markets quite significantly, but don't think this is normal rate of growth because, clearly, there are some factors which take into -- I come back to you.

Then you had a question around margins. First of all, I think I tried to explain once again, and for you who've been watching RB for a very long time, you know our philosophy of margin. So I think it starts with gross margin. We should not think about BEI to start with, or fixed costs to start with let's think about gross margin.

And expanding gross margin by 90 basis points on an underlying basis is just very, very good despite some very strong headwinds, which talks to you about just how many levers are being pressed in the right direction in terms of pricing, in terms of mix management, in terms of our cost of goods and [fuel] mentality.



And then when we talked about BEI, there was a substantial (technical difficulty).

So I think there are two things. I think to just look at BEI in terms of a cost is not a good idea. I think we need to think about how we are spending our money, not how much we are spending our money only. We must think about how much we are spending money, but also how we are spending the money.

So this program of looking at our BEI was more broad versus just how much and how to cut back cost in terms of cost per point, if you want. And I think we are quite happy with what we have achieved. We have had to change some agencies in terms of both media planning agencies and buying agencies across the world, but we've got a good result from that, and we expect to use that result for this year.

But beyond that, I think we should also say that from an efficiency point of view, we believe that we should also look at how we can make our business more efficient from a cost management point of view.

As we invest behind building capabilities, there's also this whole question of how do we actually make this business more and more efficient from a cost management point of view, fixed cost-management point of view, and I'll give you one example of that.

So I think when you put it all in totality, I think the whole margin management has been a more broad-based approach rather than just looking at one lever. And that tells me that I think this Company has -- is pressing all the right levers to keep its margin momentum going. This is the reason why we said you should expect our second-half margin [loss] to be [expanding] nicely.

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**Celine Pannuti** - JPMorgan - Analyst

My question was on the market growth in healthcare. What's the market growth right now?

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**Rakesh Kapoor** - Reckitt Benckiser Group plc - CEO

Like I told you, it's substantially lower than 10%.

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**Matt Summer** - Nomura - Analyst

[Matt Summer], Nomura. Three questions from me, the first one on RUMEA, clearly, one of the highlights of your Q2 sales performance. It's been 12 months now that Frederic Larmuseau has been appointed Head of RUMEA; clearly, a good performance in a -- against a tough environment. What remains to be done in RUMEA before going back to full potential? As Adrian alluded to, is it just to get market growth back to where it was a few years ago, or it's just some work to be done there.

And also on the margin front in RUMEA, you said that the 140 basis points margin contraction in H1 was down to the FX transactional impact. So is it fair to assume that in the second half we should see some improvement given FX is going to be much less of a headwind?

Second question on SAP. I think it was at the February 2012 presentation you were talking about implementing SAP. I'm just wondering where you are, if you are still on track, and whether you are starting to see some savings coming through. You were talking about GBP10 million come 2014.

And last question to follow up on Celine's. Is it fair to say that in health, you are now focusing more in less regulated product categories, such BMS, sexual wellbeing, even foot care, where you can actually roll out your products much faster going after more white space, rather than OTC which is much more regulated?

Thank you.



**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Okay. Let me just take a few of these questions and then maybe Adrian can also help me with one or two.

So in RUMEA, can I just be a bit --? I think by definition, we can never exploit our full potential, because the day you do that, the story finishes. I'm never going to tell that I'm happy with what we've achieved because we also want to do more. I can never tell you that our potential has been exploited in RUMEA. I don't believe our potential has been exploited in ENA. I think we have to drive a huge amount of penetration opportunities across our brands in ENA.

So I don't think that journey on exploiting our potential in ENA is done, and by far not in RUMEA. And I don't know when I can tell you, oh, by the way, now we have managed to exploit our full potential in RUMEA. So I don't think the day will come. You should not expect that day, at least when I'm here.

Second point is on -- but we must say that I think the changes that we wanted to put in place, the changes that we guided to you, are proving to be effective in the market.

So I think we are pleased with how we are doing in RUMEA. You are seeing the results of those operational changes in our performance in Turkey, in Africa, which were the issues that we have seen. But RUMEA also has volatile markets. I think you all know that. Russia is a volatile market, and not just because of the headlines of what has happened. But generally, consumer markets in Russia are volatile, but as indeed they are in some other parts of RUMEA, in Middle East and so on.

So I think -- I never prefer to talk about market, more talk about what -- where we need to improve our game. And I think our game has definitely improved in RUMEA and, therefore, we feel better about where we are in RUMEA as such.

Your second question was about are we on track with SAP. We are on track with SAP. We did call out GBP10 million of savings in 2014 I think when we spoke to you last. I think we will get through 2014. They were mostly driven from a procurement point of view. Our early, the most earliest benefits of SAP was going to be in our ability to actually have an end-to-end view of what we are buying, where are buying, how much we are paying it, and so on and so forth, and lock in some early benefits of procurement. And that I think we will get.

But the program is entirely on track. There is nothing to report there.

**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

Just going back to 2012, I'm always slightly hesitant because I've had -- I'm having this question for a number of [events]. We do not have a single big SAP implementation. It's a misapprehension if that's what you think we have in the Company. We see it very differently. There's an ongoing need to renew ERP systems that will go on forever as technology changes and as the Company evolves.

There are lots of elements to it. There have been implementations in this last half. Procurement, production procurement was one of them. It's delivered some benefits. We've had other implementations. But there is no big moment that we're going to talk about at some point. That's just not the way we're approaching systems upgrade and renewal. It's like painting the Forth Road Bridge, to use a metaphor. Some of you are familiar with it. It never ends.

**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

And the last question was around are we choosing to operate in less regulated markets. Actually, not. What we are trying to do is to make sure that we have our fair share in Mucinex and Nurofen and Strepsils, and so on and so forth.



I think there are, on the other hand, some categories where you can launch faster; you can use the regulation in a way that helps you both create enough barriers to entry and yet at the same time launch faster. Because some of these categories that we operate in, like sexual wellbeing, is not that there is no regulations, actually we prefer to launch them as what is called medical devices.

And when you think about regulatory landscape, you think about, I'm making it up, little regulation, although there is always regulation, even in cleaning products, to high regulation and extremely high regulation in prescription pharmaceutical products. And if you thought that OTC was somewhere in the middle, for example, medical devices is in between; [cleaning] and prescription medical -- sorry, in OTC medicine.

So there is regulation, but that regulation does allow you to create enough barriers for entry, but at the same time -- and therefore gives you [claims], but also make you go to market faster. And that's what we are trying to do. But I don't think we're choosing to operate in categories which have less regulation. I think we are just using regulation appropriately to make sure that we are faster to market.

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**Charles Pick** - *Numis Securities - Analyst*

Charles Pick, Numis. A couple of questions please. On the integration of the brands in the ENA region, does that involve extra CapEx in the short term? And can you venture any opinion on what the savings might be?

Second question, on the FX transactional impact in the first half, is that something you can quantify, please, and say what element you feel you may have recouped via the pricing actions?

And third question: Will we see any more disposals of minor brands in the near term?

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Right. Let me answer the third one. I think we should constantly look at our portfolio and think about how we are going to augment it by doing both the right M&A, but at the same time cleanup with the right disposals/discontinuation/de-merging strategy. So it's a constant process. And therefore, I would not set any timetable to any of this except to say that we constantly look at it.

I think your second -- the middle question was about quantifying the impact of -- I don't think that detail is -- unless you have some -- detail of how much of the transaction impact that we've been able to offset with pricing.

Pricing and volume in the first half has been by and large half and half. Therefore, it has been pricing. But you know what? Even if we can offset in all markets mathematically the impact of adverse FX, sometimes we choose not to do if we believe that there is a volume impact to be had.

So I think it's a balance that we want to strike properly to make sure that our volume and pricing are moving in the right direction.

Is that helpful? Harold.

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**Unidentified Audience Member**

Three questions. On your Amope brand launch, I guess rather than sit there and be frustrated, go and get the market opportunity. You are used to running similar products on the two-brand proposition, Dettol, Lychol. Just give us a bit of an idea of the size of the opportunity of that in the Americas, because clearly, you don't own a business there. And are there any limitations of what you can do in that category given there is already an existing player there?

And my second question is following Charles'. Your portfolio brands was, whatever, 9% of revenues two years or three years ago. It's about 4%. It's cost you about 1 point of organic growth rate as you're driving it down. What's left in that business after the (inaudible)?



**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

So we're treating the Amope launch in the US as a brand that we want to create in foot care, and clearly, there is a fantastic foot-care brand in the US. Although for those of you who know Scholl in the US, Scholl in Europe, will know that's it's actually got a very different product portfolio.

And, therefore, there are opportunities, I believe, that we have to think about how we can present to US consumers a range of foot care solutions that are genuinely interesting, are genuinely beneficial, and therefore will create value.

So I think we are quite excited about the launch of Amope. I would not pin a number in terms of how sizeable this is going to be, and so on and so forth. But we know that the foot care market in the US is a massive market because US is a massive market for everything.

So we are very excited about Amope but we are also conscious that there's a very strong brand in the US. But we have strong brands in all our categories everywhere, so we cannot just get bogged down where you have competition and where you don't have competition. We have a unique proposition in the market. That's very important. We're going to US not with a me-too proposition; we're going with a unique proposition, which we believe will be very interesting.

So that's on -- portfolio, what's left? In portfolio, what's left is still laundry detergents; it's medical gloves. These are the two major components, I would say, of our portfolio business; laundry/fabric softeners, that end of laundry; and medical gloves.

I don't know how many people here have been spoken to about medical gloves. This is a business which came to us as a part of the SSL acquisition of a company in Russia called Medcom. That is a company we are in the middle of properly integrating with the right go-to-market strategy. and I think that we will leave it to the fact that that go-to-market strategy is in progress.

But that business also came, not with just great Context and Durex brands, but also came with a medical glove business which operates predominantly in hospitals, which is clearly not [all] to RB.

Okay. Let's take the last one and then we'll take a little break.

**Rosie Edwards** - *Goldman Sachs & Co. - Analyst*

Rosie Edwards, Goldman Sachs; just a question on pricing. Are you able to say whether each division had a similar contribution from price mix as the Group, i.e., half; and if not, what the contribution was?

**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Right. I would not say each division had exact same contribution to price mix, because let's face it, the impact of FX as a key issue is not uniform across the world. There are -- for example, in RUMEA, you have a very significant headwind on price on foreign exchange, and it's less so in Europe and North America.

Similarly, when you think about competition, when you think about your own brands, you want to make pricing actions which are congruent with your own strategy.

So I think not in this half, but not in any half that I personally know of, here you have exactly same price volume relationships across the world. Generally speaking, you have more pricing; generally speaking you have more pricing in emerging markets [versus] in a ratio point of view than -- most generally speaking, than in Europe and North America.

Okay. So with that, can we just take a five-minute break -- [Richard] warns me] -- five minutes, and then we come back for RBP.

Thank you very much.

presentation

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Right. Let me just open the second half of our presentation today with first introducing the new members on the panel here. So on Adrian's right is Shaun Thaxter, who some of you if not all of you have met before. He's the CEO RB Pharmaceuticals. On his right is Christian. Christian Heidebreder is our Head of R&D for RBP and he's going to talk to you about the pipeline. And on the extreme right is Howard Pien, again some of you have met last time. He's the Chairman designate of RB Pharmaceuticals.

So let me just start with a couple of words on this business, which is: Why do we believe that a standalone RBP is the right thing to do? So, well, let's start with the first thing.

I've always said from January 2012 onwards I've said that RBP is not core to RB. We do not want to be a prescription pharmaceutical company, yet it's very important to wait for a time when we will see the impact of generic entry into its heartland. We will wait for the time to see what the impact of that will be in terms of market growth rate, in terms of sustainability of film, and then make a determination 12 months or so after that what the right thing to do is.

Well, we now know nearly 12 months after the launch of the film, of the generic tablet, that RBP has actually created a global leadership position in the world of addiction treatment, which is a fast-growing under-served market.

It has also got substantial, I would say, near-term cash flows, mainly from its Suboxone franchise. But although this franchise is under competitive pressure, it still has strong defenses, as you will see later today; [IP], patient and [pre-op references].

We believe we have demonstrated strong medium and long-term growth opportunities for this business, and you will see today from Christian the pipeline progress on what we have done with RBP.

But beyond the pipeline that we've developed in-house, we've also signed two very interesting and important licensing deals which we've announced recently: The nasal naloxone spray; and the other one is in the entirely new field of alcohol dependence.

And finally, there are geographic expansion opportunities like the ones that we've used very effectively in Australia that we still believe we can go for.

I believe RBP has created a sustainable business on the back of which it can find its true potential.

In terms of what we are planning to do, it's clear that the Board has recommended that we proceed with a demerger on the London Stock Exchange. This is the preferred option for our shareholders. We have approved the necessary work to deliver such a demerger within the next 12 months.

Now I've already told you why a demerger is the right option. It is the right option because we do believe that under a board that is focused on specialty pharma and not on consumer, that it really understands this area and wakes up every morning thinking about how it can create value in this field, we will see the best outcomes for RBP shareholders.

Now we do know that it has its challenges, RBP has its challenges. But clearly, the opportunities that we have in front of us are truly compelling.

We are also often asked: Why are you not simply selling this business; are there no buyers? The answer to which is very simple. We are not ruling out selling this business. The preparations for the separation of RBP from RB are to a large extent common. Whatever the form of the separation, it is necessary to deliver operation separation. It is necessary to prepare historic financials to be for the separate business. It is necessary to communicate the strategy, the strength, the weakness of this business.

Why have we not sought buyers? We do believe that a demerger is likely to be the route that adds the most value for shareholders. We believe in particular that a standalone RBP will be a magnet for interesting business development opportunities, particularly in the under-served fast growing and large area of addiction treatment. This is the reason why we are going to pursue the demerger with full energy.

Two, when do we expect? This is what we said we are going to do over the next 12 months. There are a lot of drivers on this separation, both from an operational point of view, but also from a financial separation point of view. So what I'd like to do now is to hand you over to Adrian who is going to give you a snapshot of what kind of drivers we are working on from a financial and operational standpoint. And then we'll be handed over to Shaun to address the opportunity that he sees for RBP as a standalone business.

So let me do that and hand over to Adrian now.

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**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

Thank you, Rakesh. So indeed, as Rakesh said, I've a few more detailed points really on the form of the envisaged demerger, before handing over to Shaun who's going to talk obviously about the business itself.

So turning to the next slide then and the probable form of the demerger, we are planning to demerge RBP to RB shareholders by way of dividend. We plan to arrange for the demerged company to be listed on the London Stock Exchange. We have weighed carefully the advantages of a London listing, a USA listing, or both. It will, of course, be important to attract new investors to RBP stock.

In this regard, we are aware that there is a deeper pool of specialty pharma investors in the USA than in Europe; but also that a USA listing, while potentially helpful at the margin, is not essential to attract these investors.

We recognize also the importance of giving our current shareholders the maximum flexibility in deciding what to do with their RB shares when the company is demerged, and when they want to do that. And in this regard, we are aware that a number of our current shareholders are not able to hold stocks that are not listed in the UK or Europe. Accordingly, we have decided on a listing on the London Stock Exchange.

We may keep initially a minority stake in the demerged RBP business, but we'll decide this as we work through the process.

Turning to the next slide, slide [55], if I can read this properly, and some points on the capital structure we envisage for the demerged RBP.

The demerged company will have as its top company a UK registered and resident legal entity. It will have a significant and strong cash flow, but with some lack of visibility on the level of near-term cash flows, which we will describe in more detail in a moment.

Regarding uses for this cash, we expect the company to be attractive for partners in the addiction area. We expect more product licensing deals of the type recently announced. And as with the two recently announced, we expect these to involve typically only modest upfront cash payments.

Broader acquisition activity is certainly possible, but not central to the equity case, as the organic and licensing opportunities in the addiction area are significant.

We will balance these factors in assessing the level – the initial level of borrowings to be held by the demerged company. The policy for returning cash to shareholders will be for the Board of the new company, but we expect it to make meaningful returns from the outset, reflecting the strong cash generation.

Rakesh mentioned earlier that we have Howard Pien with us today. We expect Howard to become non-Executive Chairman of the Board of the demerged RBP. Howard is working on assembling a strong board with substantial expertise and experience in specialty pharma. The composition of the Board will be announced in due course.

Turning to the next slide, this sets out the activities we are and will be undertaking up to the point of demerger.



No surprises here, I think. The first box sets out the main activities necessary for RBP to become an independent operational entity; the second box, the formal activities around the demerger and listing, including a shareholder vote; and the third box for communication with you, our existing investors, and also with prospective new investors about RBP.

Turning to the next slide, set out here are the segmental financials of RBP within the RB Group. In addition to the numbers that we have routinely disclosed, we show here also the gross margin and the SG&A, as well as the R&D spend.

As noted before the break, net revenue declined by 5% in quarter 2. Shaun will cover this in a little more detail in a moment. Gross margin was broadly unchanged on half 1 last year at about 91%.

We have continued to increase the level of R&D spend to fund the pipeline. It is now just under 7% of revenue. Operating margin has declined 53% due to the lower revenue, the increase in R&D spend, and our commitment to maintaining the quality of our core infrastructure, including the clinical liaison staff serving physicians, as RBP transitions towards its new pipeline products.

The profit statement does include charges that RBP receives from RB as a member of the RB Group for services received. A demerged RBP will not incur these charges, but will bear certain additional standalone costs. Work to date suggests that the additional standalone costs will not be materially different from the current intercompany charges.

We have also included as an appendix a summary of the main balance sheet items in RBP. You will see that it operates with significantly negative working capital, and indeed total capital which underpins the business's excellent cash generation.

Lastly, before handing over to Shaun, this slide sets out the main areas in which we are aiming to give more information to investors in the course of this presentation.

The prospects for Suboxone film in the USA, including very importantly the strength of its IP protection; the content stage and strength of the pipeline; potential for licensing and business development-led growth; and the potential for growth outside the USA.

These questions form the core of the agenda for Shaun's presentation, and with that, I will therefore hand over to Shaun.

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Thank you, Adrian. Well, good morning, everybody, and I'll just say what a pleasure it is to be here to tell you about the exciting future for the RBP business.

I'm sure you're all familiar with the disclaimer and you have it in your packs. I'll assume that you've read that or are going to read it and I'll press on with my presentation.

First of all, I'm going to give you an update on the progress of our business since we last met two years ago. The last presentations that we put out are included in your information pack, so with respect to the history and some of the background for the business, I'm going to assume that you've read all of that, and I'm just going to press on with where the business is today and the performance since we last met.

First of all, one thing that's been consistent in the 12 years that I've been leading this business is that all patients around the world have unrestricted access to high quality treatment services for the chronic relapsing conditions of addiction has been the driving force and the vision of the business. The focus on the patient is absolutely essential. To have a leadership model that focus on partnership with governments and all stakeholders to bring better quality treatments to patients is what's driven the success of our business, and will continue to drive the success of our business in the future.

The impact of bringing a patient out of addiction treatment into addiction treatment truly transforms the life of that patient and the people around them and their families and friends, and therefore has a positive impact on the communities in which they live.



We know that the lead market that we've been working in is the US; that's where the majority of revenues come from; and therefore, is the focus of my next few slides.

Two years ago, this is where the business was at. The blue star represents the Suboxone film share, the pink star was the Suboxone tablet business at the time, the orange star represents the generic mono buprenorphine and the yellow star represents the recent branded competitor; obviously hadn't launched at that time.

So in the nine months following where we left off, we continue to drive conversion of patients from tablets onto the film driven by the preference of the patient for the film. They liked it, they preferred it. We presented data previously. The physicians were observing a superior treatment outcome. So we saw by March of last year that the film share had grown to 70% and the tablet business had come down to 15%.

We then withdrew the tablet. At the same time, we experienced the launch of two generic competitors to the Suboxone tablet. So if you look at the bottom of the chart, you see our branded tablet disappeared and was replaced by the generic tablet. No surprise there. What I think absolutely surprised everybody was the level of resilience that the Suboxone film showed in the face of this generic competition.

The next material event was last September when Zubsolv, a branded competitor, entered the market. And again, we saw a relatively small impact in the first few months.

We then had the announcement which was made public of the [CBS] formulary loss. And once again, the film share held up and proved its resilience, even in the light of formulary adjustment. And what we actually saw with the film was about half the level of loss from the CBS business that you would have expected to see had you modeled with standard industry analogs.

So we now await to see what the impact will be of the recently announced third generic tablet competitor. This will, of course, bring new pressures upon us, and we expect that we will continue to outperform analogs as we move forward.

So overall, two years ago, we had a film share of 55%, tablet share of 30%, and no generics. In the two years since then, when all the uncertainty over the future of the business in the US was in question, we've actually grown our film share from 55% to 61%. Not only have we grown it, but we've grown it in the context and presence of some pretty aggressive competition.

We've maintained our double-digit market growth. This is something we're very good at. We continue to invest in expanding the network of physicians who are actually providing treatment for patients, and we continue to drive the communication to drive patients into treatment. And we're very confident that we will continue to be successful here.

There's a lot of headroom for growth in the market. As proud as we are, there's 5 million patients who have benefited from treatment since we started business. There's still a lot more patients who need to come in who haven't been treated yet.

Our pipeline has moved on considerably. In the last two years, we've met all of our KPIs that we set ourselves, passed a number of regulatory hurdles since we last met. So we're very pleased with our progress here. And we have also licensed in two new technologies, which Rakesh referred to.

One is arbaclofen placarbil for the treatment of alcohol use disorders; and the other is nasal naloxone, which is an overdose rescue medication which we'll talk a little bit more about. Both of these were on our target list that are in your presentation pack that we said two years ago were in the areas that we were looking to focus and expand our business.

And there are more opportunities moving forward. We continue to look for opportunities in cocaine, methamphetamine and cannabis addiction.

So what about the prospects moving forwards for the Suboxone film? Well, the data has already demonstrated that it is very clearly the preferred product, not only by patients, not only by physicians, but also by payers.



We know that patients prefer the medication experience. Physicians are very happy that their patients are stable and doing well on their medication. And all of this, of course, means that payers are getting a better return on the investment that they are making in providing a treatment to the patient and making that treatment available.

The physician treatment network continues to expand. There are over 25,000 registered physicians. They have excellent access; over 91% formulary access. So there's no problem with patients being able to access physicians or their medication. And the film has strong patent protection, multi-layered protection that now extends to 2030.

So here's just some specific data to share with you, what patients and physicians have said about the film. But I think the resilience of the film and its market share performance is the best indicator of their preference.

So not only do patients and physicians prefer the film, so do payers. And this preference of the patient and the physician is very important to the payer, because the payer doesn't want to disrupt patients who are stable in treatment. Whilst they want to provide access to other medications that might cost them less money, they don't want to disrupt the patient. So if the patient and the physician are happy, that's very compelling.

Not being in treatment has a high cost to society. Therefore, there's a very compelling pharmaco-economic benefit to payers if they can retain patients in treatment. So a stable, happy patient is a good patient.

We continue to invest, and I'll talk more about this in a moment, in abuse deterrents. Since we've launched each of our products, each product has been designed with the intent of being a lower potential for abuse and misuse than the previous products on the market.

And in addition to all these very important clinical benefits, we partner the pharmaco-economic story with a commercial rebate to make the whole package attractive to payers.

And I think this explains why we have 75% of patients can access this medication at Tier 2, which means it's a lower level of co-pay. We obviously offer the patients a coupon to help offset that co-pay. So from a financial affordability perspective for the patient, this is very attractive. It works well for the payer, and that's why we see about 90% of all prescriptions getting approved.

When you actually look at the economic argument, well, what's the ratio here? Well, according to the WHO, for every \$1 you spend on treatment, society saves \$12. So this really is a very compelling reason for people who pay for treatment why they should pay for treatment. It's very motivating for governments around the world, and it's also very compelling for commercial payers.

So in the short term, we can expect to continue to benefit from market growth, which is something we get better and better at as time goes on. We will see modest pressure in the near term from our competition, particularly from the third generic. And we will continue to invest in our pipeline so that we have opportunities to accelerate our growth when they come to market.

Let's just pay a few moments to look at the film IP. I think the level of protection around the film is obviously going to be incredibly important moving forwards.

Well, the good news is that in the two years since we last met, we've actually strengthened the patent estate surrounding the Suboxone film. Last time, we had protection to 2023. We have subsequently had two Orange Book formulation patents approved, which now extend the IP to 2030.

We've got good process patents to support the formulation patents, and we're relentless in our pursuit of creating new IP. We've got 15 pending process and formulation patents at the moment.

Just to give you a little bit more detail behind the patent wall, we've got the three formulation patents. Now we're currently in litigation with generic manufacturers who have filed an application with the FDA for a Suboxone film. So these three formulation patents have all been asserted against the generic company.



The process patents haven't yet been asserted, but only because we haven't actually yet got visibility of their manufacturing process, so those may well be deployed moving forward.

The pending patents we're confident will be granted, but just for transparency, I want to tell you that we don't anticipate that they will be granted in time to be used in the litigation against the generic company.

I've given the numbers of the patents here, and if you'd like to look up the detail of these patents, of course, you can go to the US Patent and Trademark Office website.

So focusing then on the formulation patents that are being used to litigate, to sue the generic manufacturers. If you think of the Suboxone film, small and perfectly-formed though it is, it's probably hard to see it from the back of the room, there's some very important qualities about this film that are absolutely essential to get right in order to deliver the right product performance.

First of all, the elasticity of the film needs to withstand the rigors of transport and yet dissolve very quickly under the patient's tongue. That requires very specific polymer composition.

The second attribute is that you don't make one film at a time this size, as you can imagine. You make a large roll of film and you cut it up into small pieces. It's absolutely critical that you get the uniform distribution of the active ingredients across the film so that each patient who takes a film, from whichever part of the roll it came from, is guaranteed of a consistent performance.

Thirdly, our other formulation patent not only protects the combination of buprenorphine and naloxone, but this has to be provided at a certain pH within the tablet, within the film, and that is to ensure that the buprenorphine is absorbed but the naloxone is not. And that's absolutely critical performance -- to the -- critical for the performance of the product for the patient. So I think that we can be very confident that the three critical attributes of the product are well protected by our patent.

So I'm not going to get into detail of the litigation, and I'm sure you already can anticipate that I won't answer any questions you might ask me about the litigation, but I will give you an overview of where the whole process is at.

We've received three Paragraph IV certifications under the Hatch-Waxman Act. And this is a process in America, I don't know how familiar you are with it, I'm sure many of you are, but if a generic company files an abbreviated new drug application for a generic product, they have to write to the company that owns any patent covering that product that are listed in the Orange Book and certify that they either don't infringe the patent, or they believe the patent to be invalid. Then the branded company sues the generic company. You go to court, and it all gets sorted out.

So we had three of those. One of them was from a company called Alvogen. This was dismissed because the FDA did not actually accept their ANDA for filing, and they still haven't.

So there's now two companies, Par and Watson. The trial date is set for August 2015. All three Orange Book listed patents that I just highlighted to you have been deployed against them, and that because of the regulations under Hatch-Waxman, there's a 30-month staying effect from the time that they notified us about their Paragraph IV filing.

Put another way, it means that Watson cannot launch before February 2016, and Par cannot launch before 2016, September; that is unless the outcome of the trial concludes prior to those dates and rules in their favor. So it's extremely unlikely that they are going to prevail.

So that's the overview of the IP. Let's turn our attention now to our future growth platform.

So I'd like to just highlight for you and explain what our approach has been to date in the development of our pipeline.

First of all, we are in the business of research and development. We're not a discovery house, so we haven't got hundreds of scientists spending millions of dollars pioneering and looking for new chemical entities. That's a very costly and low strike rate process. Our preference is to scan the





world for any compounds that may have shown any signal at all for potential in the treatment and the management of the neurological pathways that control addiction.

We've done that a number of times and we have a list of 76 compounds that we've identified through this process, wherever they may be. Whether they're in university laboratories or other companies, it doesn't matter. We've got 76 compounds targeted.

We've been through very, very rigorous scientific review with leading opinion leaders in the world and researchers in addiction medicine, and we have a shortlist of compounds that we seek to target through M&A and licensing when the time is right. The one at the top of our list was arbaclofen placarbil, and that's how that came to be within our portfolio.

We've taken an approach of trying to leverage the name. The more that is known about whatever we work on, then in principle, that helps to bring down some of the risk.

So we've worked with existing compounds and/or existing technologies. If you think of our once-a-month injectable depots, Buprenorphine has been well established for 15 years. The Atrigel technology platform that the Buprenorphine is partnered with is well established. It's used in the treatment of prostate cancer. So all we had to do was to put those two technologies together to see if we got the efficacy and safety we would expect. This is one of the reasons why our -- we've met all of our pipeline KPIs because we're dealing with known entities.

In terms of the financial structure of our deals, we've done a classic pharmaceutical model; small amount of cash up front as the value is created in the asset, and so the payments are released to the licensor.

This is an overview of our pipeline; three areas of focus for our pipeline development. Obviously, lifecycle management is our first priority. Secondly, other areas of addiction. And then as we think longer term, we're looking for what is very, very close and adjacent to addiction, and we have technologies in each of those fields.

The Suboxone film we've talked a lot of about. The depot, that's the name for our once-a-month injectable product. And this is a painless injection. It just goes into the subcutaneous fat here. It's injected. The patient has that, and that carries them through for the whole month. So that's -- it's going to be a ground-breaking, transformational technology for the market.

We also have a swallowable tablet. This is an oral swallowable tablet as opposed to a sub-lingual tablet. And this is going to be transformational, particularly in settings across Europe and other markets where it's regulated. The patients have to be supervised in the dosing administration of their medicine.

Other areas of addiction are nasal naloxone. It's an opioid overdose rescue product. This is a product that literally saves lives. I'm going to demonstrate that to you later, not to save a life, but just to show you the device.

We also have a cocaine overdose rescue product. This again is another life-saving product that will be carried on the ambulance that enables patients to be saved at the point in which they've experienced the overdose rather than have to wait 'til they're transported to hospital.

The arbaclofen placarbil is the compound that is the most advanced and we believe has the greatest potential of any compound that we've evaluated for the treatment of alcohol use disorders.

So you see that as early as 2016, 2017, 2018, we've got new NTD rolling out quite consistently from 2016 onwards.

Risperidone is the Atrigel technology with risperidone in it. It's a once-a-month injectable product for the treatment of schizophrenia. Although schizophrenia sounds a little bit outside addiction, 50% of schizophrenia patients also have a co-morbidity of addiction for either alcohol or opioid dependence, so it is actually quite adjacent to us.





I'm now going to introduce you to Christian Heidbreder. Christian is the Global R&D Director and directs all matters related to the pipeline with our organization. He's got a long career of working in government research programs and leading technology programs at Glaxo, and so I introduce you to Christian.

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**Christian Heidbreder** - *Reckitt Benckiser Group plc - Global R&D Director (RBP)*

Thank you, Shaun; and good morning, everyone. So for the sake of time today, I will mainly focus on the status of our pipeline products for the treatment of opioid use disorders and the treatment of opioid overdose.

So the very first product that is currently under development for the treatment of opioid use disorders is called RBP-6000. It is a once-a-month depot formulation of buprenorphine using the Atrigel drug delivery system.

As you can see, several clinical trials were performed so far; first of all two phase 1 studies that aimed at characterizing the safety, tolerability and pharmacokinetics of the product taking a single ascending dose.

A type C meeting was then organized with the Food and Drug Administration in order to define the remaining stats in terms of clinical development, and two phase 2 studies were then designed and were very recently completed.

The first one, as you can see, is what we call a multiple ascending dose study. The goal there was to really characterize the pharmacokinetics of the product under four different dosage strengths; and very importantly in this field, understanding how you relate exposure to buprenorphine to receptor occupancy, new opioid receptor occupancy in the brain, according to a very complex pharmacokinetics receptor occupancy model.

The second phase 2 study that we just completed is what we call an opioid blockade study. Again, the objective here was to understand how the highest dosage strength of RBP-6000 can actually block the subjective and objective effect of an opioid agonist such as hydromorphone through dosage strength 6 milligrams and 18 milligrams.

The objective now and the next step is to merge the outcome of these two phase 2 studies in order to prepare an end of phase 2 briefing package to engage the FDA in what we call an end of phase 2 meeting that is going to happen later this year, third quarter or fourth quarter 2014.

The second product that we are currently developing is RBP-6300. This is an oral tablet of buprenorphine the patients will be able to swallow. And the product also has abuse deterrent properties.

So again, you can see here a series of phase 1 and phase 2 studies aiming at characterizing the safety, tolerability and the pharmacokinetics profile of this product.

Very importantly, we did two additional things. First, trying to understand how you can actually transition patients from Suboxone sublingual to RBP-6300. And very importantly, the second avenue of research was to define what would be the best abuse deterrent property. It's either a chemical pathway or a physical abuse deterrent pathway.

Very recently, we decided to opt for the physical abuse properties using Capsugel technology with a partner, a company called Encap. And the next step right now is to basically choose one of the two formulations that we just identified; secondly to execute what we call the abuse deterrent Tier 1 testing that is mainly focusing on extraction and the crushing of the tablet; and last but not least because buprenorphine hemiadipate is a new clinical entity, we are also performing clinical abuse liability study.

Last but not least, at least for the treatment of opioid overdose and our treatment of opioid dependence franchise, the intranasal naloxone spray. A very important product; a life saving product. And this is one of the reasons why we got the fast track granted by the Food and Drug Administration in the early July.



Basically, one pharmacokinetics study was already performed by our partner Antioch. The objective of that study was to really characterize the pharmacokinetics of this product. And it was a comparative pharmacokinetics study looking at how the intranasal naloxone behaved versus other routes of administration, namely subcutaneous, intramuscular and intravenous.

Because of the fast track designation that was granted to us by the FDA July 7 this year, we are now required to do one single pivotal pharmacokinetic study prior to NDA submission. This is what we started very recently. And we are going to compare the pharmacokinetics profile of intranasal naloxone versus intramuscular naloxone. Also, because of this fast track designation we can perform a rolling submission, and we are targeting a US launch in 2016.

Back to you, Shaun.

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Thank you, Christian. And Christian's been leading our product development program for over seven years now, so a very huge amount of experience within our organization.

So let's look from a marketing perspective of the nasal naloxone technology. So these statistics here are from 2012 where it was estimated that 16,000 people a year in the US die from opioid overdose.

So opioid overdose is when you take too many opioids, whether it's heroin or prescription painkillers. What happens is the opioid acts on the new receptor, and one of the side effects of this is it slows down your breathing. So if you take too much, then basically it slows your breathing down so much that you actually stop breathing and then you die. So that's why you die from an overdose.

Now naloxone is a well known chemical. It's an antagonist, which means it sits on the receptor and it stops the receptor doing anything. What effectively naloxone does, it goes to the same receptor that the opioid is sitting on, and it knocks it off the receptor. So if you imagine it's like the opioid is on the receptor and the light is on; naloxone comes along knocks it off the receptor, and the light goes off. So you effectively immediately reverse the effect.

So the clever bit is once someone is in an opioid overdose situation, you want to get the naloxone into their bloodstream as quickly as you can, because the moment it's in the bloodstream, it starts to knock the opioid off the receptor and you start to save their life, because that's the mechanism that's suppressing the breathing gets reversed.

Now I don't know whether you've seen the film *Trainspotting*, or any other movies where drug addicts appear to be dead are rushed into hospital; they get injected with something, and suddenly as if by magic, they come back to life in an instant.

They don't always appreciate being woken up either, because they thought they were in the middle of this wonderful drug high, and they've just been thrown into severe withdrawal.

But notwithstanding that, the wonderful transformation that's just happened is that a life was saved.

So just imagine if instead of having to wait until you are on a trolley going into the accident and emergency room, think of all the time from being -- lying on the street, someone calls the ambulance, ambulance arrives, in the ambulance, off to hospital, that's all time.

Imagine if the first person arriving at the scene who found that patient, even if they weren't medically qualified, could take a device such as this out of their pocket, put it in the patient's nose when the patient is unconscious, and go like that. That's all you have to do to save the life of someone who is about to die from opioid overdose. Up the nose; you'd actually use two. You'd put one up each [nose]. But it really is that simple.



So this is a very, very compelling product because it will save a life. You can see it's very easy to use. It doesn't require any medical expertise. It's low cost to manufacture. So it's a little bit like a fire extinguisher. You want these everywhere, but you hope that they'll never be used. But if they are used, then they're going to potentially save a life.

So that's a very exciting product that we will be launching in 2016. What's so innovative about it is it doesn't involve a needle; it doesn't involve any construction of any apparatus.

So if we look at our lifecycle products, which will be the next to be marketed, we've got five generations of innovation here, which I think is very compelling indeed.

Starting off with the mono buprenorphine Subutex tablet, remember we then put naloxone into that tablet to make it less attractive for diversion and abusability.

Now these are sublingual tablets, so they took a really long time to dissolve. And when we brought the film out, improving the taste and the speed of dissolution was very important to get a better medication experience for the patient so that they would be more likely to comply with it. So the film was a big step forward, and we've seen the performance in market.

The once-a-month injectable is going to once again transform the delivery of treatment to patients around the world because there's no other opportunity at the moment just to provide a month's treatment in a single dose.

And then we have the low potential for abuse of a swallowable tablet. This is yet another step forward in reducing the potential for abuse of the product.

Well, you may say, well, hang on a minute; we started with a tablet, and we ended with a tablet, and you're selling this as innovation. Well, it is, because the first tablet was a sublingual tablet, and the last tablet was an oral swallowable tablet. In many markets of the world, patients have to stand in the pharmacy and wait while their sublingual tablet dissolves for 10 minutes. Governments don't want to pay the pharmacist to do that. Patients don't want to stand there, and pharmacists don't want them standing in their shops. So to be able to administer an instantly swallowable tablet will be transformational in those markets where that process is mandated by law.

So if we think what are the benefits of a once-a-month injection, well, it's very difficult for patients who are suffering from addiction. They have to decide every day, every single day: Do I take my medicine and stay in treatment, or today do I relapse? So we've reduced the number of decisions that they have to take about whether to comply with their medicines from 365 decisions a year to 12 decisions a year. And we know that doctors like to see patients on a monthly basis, so this length of time fits the natural cadence of treatment.

The benefits physicians should experience is improved compliance. Because the product is in the body for a month, there's no choice not to take it. Therefore, you would expect that you would comply with the medication. You can't take it out, so there's less potential for diversion and abuse of the medication.

And if you imagine, this is very beneficial for physicians, imagine how cost effective that's going to be for payers. For the first time, they can be sure that that medication is going to deliver the benefit to the patient every single day, and that there isn't going to be any diversion or misuse. That will really give us a whole new position with payers.

The oral swallowable tablet we talked about. It normalizes treatment. The formulation is very clever that we're working with. It's extremely hard. You can't really break it with a hammer. And if you dissolve the formulation in water, it goes like gummy bear so it can't be sucked up and injected with a needle. So there are some very clever technologies available, and we're partnering with third parties to make the most of them.

Again, reducing potential for abuse will be very compelling to society and to payers.



We're very proud of our entry into the treatment of alcohol use disorders through arbaclofen placarbil. This is a huge problem all around the world. There are so many people who are dependent on alcohol that don't realize that they are.

We are not talking about people sleeping under the railway arches, drinking mentholated spirits or cider out a brown paper bag. We're talking about people like us who go home and have three or four glasses wine; not us, of course, but people like us who may go home and have three or four glasses of wine a day, or three or four beers a day. They're actually consuming levels of alcohol that are very detrimental for their health but they don't necessarily realize that. And they may actually find they're a lot more dependent that they thought.

So this is a huge public health problem. And just as we've heard about obesity and diabetes, alcohol dependency is going to be the next tsunami that flows through the healthcare system, especially once we have an effective product to treat alcohol dependence with.

We believe that this is a very good product. It was used and pioneered for the treatment of another disease, which means that it's got very good safety profile that came out of phase 3 safety studies. It didn't meet the efficacy endpoint and we were able to apply the technology. But for utility and alcohol dependence, we have a lot of confidence, because it's a pro-drug of baclofen. Baclofen is a compound that has been studied for the treatment of alcohol use, misuse and has shown efficacy.

But this is a very -- nothing is guaranteed, but this is a very good opportunity.

So again, the deal was structured. A small amount of cash up front, and we will release payments to the license [board] as the product grows in value as it passes through the pipeline.

So we've talked about the US, of course, because it is the majority of today's business, but that really means that there must surely be a lot of opportunity around the world to grow and expand the business.

We have a very successful market development model whereby we can go to markets that are very against treating opioid dependence and other disorders. They may have a punitive attitude; they may incarcerate people who are found to be using drugs. And we and we can meet those markets successfully through a phase of normalization and medicalization of the disease, and ultimately to provide general treatment in primary care, such as we've done in the US.

So we've deployed that model very successfully in Australia, and I'd just like to show it as one example, because it's also a market where we have replaced the Suboxone tablet with the film.

So the film is being rolled out around the world. We have it in the US, Australia, Malaysia. The film is coming to Canada, Europe. We're making good progress in China. In fact, full credit to the Chinese Government who have recently decriminalized opioid use. You're now not arrested and put in jail if you're found to be using opioids by the Chinese Government. You're found by the police and you have to go for treatment, which I think is a very, very progressive mindset and a big shift. So full credit to them for that.

Our once-a-month injectable is scheduled to come to Europe. It's quite normal in drug development that you do your US launch and then you do your European regulatory filings. If you try and do everything in parallel, it can often slow things down. So it's normal that you would do US and then Europe. And our overdose rescue is targeted for 2016.

So very clearly, our opportunity is to drive growth with our market development model and new products around the world. So let's have a look operationally at how might we succeed, and what's our confidence as a standalone business.

Well, the good news is that in many ways we have been a standalone business for many years, and that was very deliberately originally put in place by Bart and supported by Rakesh that all the pharmaceutical heavy lifting, the intellectual pharmaceutical intensity of resource, is all separated within RBP.

So we have systems. We have processes. We've got compliance. We have regulatory infrastructure. We've got our own sales force; a very talented group of people all around the world who behave as clinical liaisons and partner with governments and have outstanding relationships with physicians to provide treatment for patients. And that's been a key driver of our success. We do, of course, share some services with RB. We're very grateful for the support we've had from HR, finance and IS, and the product manufacture through the supply chain.

Over the recent months, we've been working very hard to make sure that we have a standalone model so we could operate independently. And to help us get their transitional services, agreements are in place for all of the areas of overlap.

So as I've said, our business is really driven by a patient-centric focus. That's the passion, that's the drive, that's where we are going. And the reason we're able to get there so successfully is because we've built that on a very, very, very solid platform. And the solid platform is the Reckitt Benckiser culture and the discipline and the mindsets that drives a successful business.

You know what they are: Can do, entrepreneurial mindset, innovative approach. I think that's demonstrated through the speed of our market development and through the quality of the pipeline, but highly vested management with [skin] in the game.

And all the work that we do is done with a very, very tight control on costs and net working capital. So you can be sure that moving forwards, that's something that is not going to change.

So what will change? Why is this a good idea? Well, addiction treatment is at the core of everything that we do, and this enables us to focus single-mindedly in accelerating our business towards our vision in a profitable way.

We've been very fortunate to have the full support of the RB Board for many years, and in supporting us in pursuing our business and developing new technologies. But a new Board that's single-mindedly, solely focused on creating value for RBP, and that's their sole job, will enable us to accelerate even faster towards our vision. So this will create a new opportunity, therefore, to create long-term value from everything that we do.

And something that's very obviously changed only in the last few months since Rakesh announced that the business was under strategic review, it enabled us to attract two licensing partners and to tie up with XenoPort and Antioch.

You can easily imagine that while this business is non-core, while it's not focused, while all the reports are talking about the shrinkage of the business, while there's a strategic review, it's not a good environment to try and attract partners to come and trust their wonderful technologies to you as a partner. We've really seen that open up and free up over the last few months, so we're already benefiting from that.

So in summary, we are the global leader in the treatment of addiction. Addiction is a structurally strong marketplace. It's a big problem all around the world and it's growing all the time. It's not going away any time soon.

We've got a sustainable, highly cash-generative business that's going to enable us to focus our money in driving organic growth, in driving organic expansion, in accelerating and ensuring on-time delivery of our pipeline. And I'm able to say that with such confidence because I'm extremely proud of the management team that I work with.

We've got over 60 years of experience between all of us of working within RBP alone. The business has a very good track record, and we're all very motivated indeed about the future opportunity that lies ahead.

Thank you.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc* - CEO

Right. So I think with this, we --



**Unidentified Speaker**

(inaudible - microphone inaccessible).

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Right. Thank you for the clarification. So with this, I think what we should do is to close the presentation and take Q&A; if you have Q&A for Adrian, I, Shaun, anyone else here on the deck.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Okay. Why don't you start, Harold?

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**Unidentified Audience Member**

Just three questions. Clearly, there's another generic entry into the US, and you say that that might put a bit more pressure on pricing. But I think even before there were three and there were two, I think pricing wasn't quite as negative as it could have been. Any reasons why that's been the case? And do you think the pricing environment might remain more resilient than conventional wisdom would say?

Second question is on your chart there where you showed -- I think it was Australia. Does that mean there's no generics?

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

No.

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**Unidentified Audience Member**

There's no generics? Any reasons why?

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

No (laughter).

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**Unidentified Audience Member**

And I think on -- the third question was on -- you mentioned repeatedly how strong cash generation this business is. Look at the gross margin. And you say clearly you want to partner and you want to use some of the cash for that. But what would be the other forms of cash returns? I don't know; dividend policy or (inaudible)?

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Okay. So let's start. The first point; you said, well, what will happen to pricing in the future, because it didn't go -- have such an impact that we thought it might in the past. So I don't know what will happen with pricing in the future. The most likely thing that will happen is it will bring increased price pressure on our business.



We hope, of course, that the business will outperform the analogs that you would expect as a result of that pressure. And the reason that we outperformed the analogs in the past is because of the patient and the physician preference for the film, the pharmaco economic value that this brings to payers, the co-pay coupon that we offer to patients, and the commercial rebates that we offer to payers.

So there's a really strong multi touch point strategy to ensure that our business is sustainable, even in the face of increased price pressure. However, I do expect that it will impact on some areas of the business.

So we say that we expect that there will be modest pressure on film share and pricing as a result of increasing competition, and of course, we continue to drive market growth and pursue that with great enthusiasm to optimize the opportunity that comes from that.

With respect to what's the balance and ratio of one versus the other, obviously, you'll have to decide that for yourself.

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**Unidentified Audience Member**

From on what you just said, on the -- with the injectable version, clearly, on the tablets, you actually stopped doing that because you said the film was far superior and safer, and so on and so forth. I presume the injectable is even better than the film, so should we expect the same to happen to film, or do you think the two are likely to be sustained?

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

What I think is important to recognize is that we're not in the business of forcing the market or patients to do anything. I think that we put the film proposition out there for patients and physicians, and we stated our case as to why we thought it was a better technology. And it was really the rapid uptake by patients and physicians, as for the preference.

So I can easily imagine that we will see a very high level of preference from patients and physicians moving towards the injectable product; not necessarily all patients, because there's no one single product that really is a panacea for everybody. I certainly think that that product will attract both existing patients and also an opportunity to attract new patients into the business.

Your other question was what would we do with the cash. Obviously, my key focus is going to be drive organic growth and value creation through geographic expansion, delivering on the pipeline. We will take M&A opportunities as they come along, but our primary focus is on what we've got today. And with respect to dividend or anything, that's something that will be decided by the future RBP Board. So I'm not really able to comment on that.

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**Unidentified Audience Member**

Okay.

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**Pinar Ergun** - *BofA Merrill Lynch - Analyst*

Pinar Ergun, Bank of America Merrill Lynch. I have two questions. One of them is on Atrigel. Do you have exclusive rights to this technology? Can you use it in other therapeutic areas outside of antipsychotics and opiate addiction like you do today? Can you license it out? I just want to have a feel of what you can or cannot do with Atrigel, where the limits are. That's the first one.

Second one is on litigation risk. When you were talking about litigation risk, you didn't touch on the challenge by [BDSI] on your film patent. Do you have any comments there? I guess one of the key concerns is Par or Watson come to the market with their products in [2015] and there's a period of time where you see declining film shares and injectable is not approved yet. What do you do then?



Thank you.

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Okay. So try and remember all the questions. First question is: What do we own with Atrigel? Well, we have a full exclusive rights to buprenorphine. With respect to what else might you do with Atrigel, I'll ask Christian. Would you have any comment on that?

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**Christian Heidbreder** - *Reckitt Benckiser Group plc - Global R&D Director (RBP)*

Yes. We can use the technology for other APIs, so other [surface] indications as well.

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**Pinar Ergun** - *BofA Merrill Lynch - Analyst*

(inaudible -- microphone inaccessible).

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**Christian Heidbreder** - *Reckitt Benckiser Group plc - Global R&D Director (RBP)*

No specific area.

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

So we acquired the QLT knowhow, the laboratory and all the people when we took that business over in 2007.

So then you asked about BDSI. Yes. BDSI have received approval and they are talking that they will come to market. Of course, the minute they launch, we will sue them for patent infringement. So you're quite right to spot that we're going to be aggressive about that and uncompromising.

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**Mick Cooper** - *Edison Investment Research - Analyst*

Mick Cooper, Edison; a couple of questions, first of all, with regard to R&D. At the moment compared to Reckitt Pharma, even though it has increased the level of R&D compared to revenue, it is very low. How high do you think it's going to go up to?

And secondly, with regard to the alcohol addiction product, there is a product in the market already which has modest sales, basically because people don't admit that they need it. How big do you really think that product could be?

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Sorry. The first question was --?

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**Mick Cooper** - *Edison Investment Research - Analyst*

To do with the R&D, potential of R&D.





**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Right. Okay. Well, we obviously set our R&D at what we can accord and what we need to actually drive the success of the pipeline. We're not going to spend money on R&D for the sake of expanding to spend the same as everyone else.

We're very comfortable with the level of R&D investments that we have at the moment. You can expect some year-to-year fluctuation moving forwards, of course, as different products are in different phases of development. But on a going basis, we have a good order of magnitude of investment at the moment to deliver our current pipeline.

If we expand our pipeline, of course, then we will have to revisit it depending on the merits of the case and performance of our business at that time.

And was the other question about alcohol treatment, did you say? That there's a product in the market at the moment? Right. Okay.

So the products in the market at the moment are generally not seen as having broad application. You tend to find when you talk to physicians, they'll say, whether it's acamprosate or one of the others, yes, it works for a small number of patients and it's not terrible effective. It's better than nothing and I like to use it, but I don't really know who is going to respond well and who isn't going to respond well before I provide the treatment.

I also think that -- so in addition to having improved efficacy from the product, I think that what we have to offer is the vision and the development capability to take something that at the moment is not recognized and characterized as a disease. It's a little bit of a social disorder; it's people who drink too much and get into trouble.

Actually, once you have long-term repeated exposure, you get neurological changes in the brain; that defines it as a disease and diseases require treatment. What we're very good at, as we have demonstrated time and time again on our track record, is that we can go to governments and we know how to talk about this group of people as patients and get recognition for patients and work with opinion leaders and treatment providers to develop a treatment model that we can then help push through the healthcare system and thereby grow the market.

There's 122 million around the world that need us to advocate for them to make sure that they have the opportunity to access high quality treatment. That's exactly what we're going to do.

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**Unidentified Audience Member**

What's (technical difficulty)?

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**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

(technical difficulty) good idea just because [of the P&L of the] Group and the fact -- and its balance sheet. So --

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**Unidentified Audience Member**

(inaudible - microphone inaccessible).

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**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

Well, we haven't split it out from our total Group cash flow, but for the sake of getting to understand the dynamics of this business, I think you've probably got enough to figure it out.

**Erik Sjogren** - *Morgan Stanley - Analyst*

Erik Sjogren, Morgan Stanley. I just wondered; could you talk a little bit more about the international opportunity? You mentioned product [pipeline that's around]. Are there really any markets where you expect the momentum to change in the foreseeable future, or is (multiple speakers)?

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Well, we've had good success in Europe at driving volume growth. You all know the European story. However, governments have been quite draconian in pursuit of budget savings. So in Europe, you're a little bit three steps forward, two steps back because of price cuts. So your volume gains are generally mitigated by price cuts. We've fared very, very well there.

What we're doing to overcome that moving forwards is to develop the opioid painkiller dependent segment, because the heroine segment is fairly well -- fairly static in Europe at the moment. But there are many, many patients, again people like us, who may well have been treated post-operatively that become dependent on opioid pain medications. And this is a bit of an invisible problem at the moment.

We've done the market research. We've networked all the opinion leaders. We know this patient population is there. We've already brought about policy change. So there's now new language at European policy level asking member states to identify and treat this problem, and we're in the progress -- process of working through that.

We've got studies ongoing in China at the moment. This will be a totally new geography. But there's a blend of existing markets to develop and new geographies to enter.

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**Toby McCullagh** - *Citi - Analyst*

Toby McCullagh, Citi; just a quick question. On the depot, can you just talk -- be a bit more granular about talking through the next steps in the approvals process and the likely key dates? Do we exit phase 2 and then formally go into phase 3?

And then can you describe how the profile or the probability profile of a successful launch changes as you progress through those next steps and what the key dates might be?

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Well, we've completed all our phase 2 work. We've seen all the clinical data and we're very pleased with what we've seen. And that's all in the process of going into a final report to submission to the FDA.

So we expect that certainly before the end of the year, we will have or had a meeting with the FDA, agreed our phase 3 development plan, and be in the initial phases of planning that out with an intent to launch H1 2017.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

And you asked a question in terms of how does the probability of success from one phase to the next. Christian, do you want to answer that generically basically?

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**Christian Heidbreder** - *Reckitt Benckiser Group plc - Global R&D Director (RBP)*

Certainly. So I think that the outcome of the two phase 2 studies is very positive. So I think that basically, we designed these phase 2 studies in agreement with the Food and Drug Administration. The FDA really asked us to perform these studies. This is exactly what we have done. And again, as I said, the outcome is very positive.

So I would say that the probability to move to the next step, that is a single pivotal phase 3 study, is pretty high right now.

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Harold, you have the final question.

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**Unidentified Audience Member**

Rakesh in his first presentation said gross margin focus is quite key, and clearly at 90%, you're doing well. But how come --? I don't quite understand how the gross margin actually managed to go up given all the moves that are going on.

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Is that the 91.3% to 91.6%? Full credit to you, Harold. You're a diligent man, yes.

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**Unidentified Audience Member**

No, but honestly, I still can't understand how it's possible for it to have gone up given all the moves on pricing and the dilution of film, and so on and so forth, whilst at the same time, your R&D jump hasn't led to such a fall in the op margin. So there must be some very good cost control elsewhere. It just feels --

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**Shaun Thaxter** - *Reckitt Benckiser Group plc - CEO, Reckitt Benckiser Pharmaceuticals*

Well, we're very proud of our gross margin performance, and we're obviously very proud of the fact that as we needed to invest more heavily in R&D, so we've sought to try and cut savings elsewhere to fund that. So if you look underlying, you'll see there's some savings on the SG&A line and an increase in the R&D. So that's probably why it doesn't come down as far as you might have expected.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Right. So with that, can I just say thank you for a rather long day for you today? And I hope you learnt quite a lot about RBP. We're all very excited about RBP. I hope you are too.

Thank you very much for joining us today.



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