

## Q3 2019 Trading Update - Reckitt Benckiser Group plc (RB)

	Q3			YTD 2019		
	£m	LFL <sup>1</sup>	Reported	£m	LFL <sup>1</sup>	Reported
IFCN	737	+7.2%	+11.8%	2,253	+3.9%	+7.3%
OTC	496	-6.8%	-3.7%	1,371	-5.3%	-3.9%
Other Health	726	-2.5%	+1.3%	2,173	-1.8%	+0.2%
Health	1,959	-0.3%	+3.6%	5,797	-0.6%	+1.8%
Hygiene Home	1,326	+4.5%	+7.9%	3,728	+3.3%	+4.6%
<b>Total</b>	<b>3,285</b>	<b>+1.6%</b>	<b>+5.3%</b>	<b>9,525</b>	<b>+0.9%</b>	<b>+2.9%</b>

## Highlights

- **LFL growth in Q3 of +1.6%.** Growth consisted of volume -1% and price / mix +3%.
- **LFL performance in Health in Q3 was -0.3%**, after lapping the supply disruption in the IFCN business in the prior year. An underlying decline of around -4% reflects improving but continued share loss and cautious retailer purchasing ahead of the 'flu season.
- **LFL growth in Hygiene Home in Q3 of +4.5%.** Continues to deliver consistent and sustainable underlying growth in-line with market of around +3%.
- **Full year 2019 net revenue growth target reduced to 0-2% (LFL)**, reflecting the reduction in retailer inventory levels of seasonal products in Q3 and the inherent uncertainties of the season and associated stocking.
- **Full year 2019 adjusted operating margins expected to see a modest decline** as we continue investment behind brand equity initiatives, building a more resilient business and increasing front-line capabilities.

Commenting on these results, Laxman Narasimhan, Chief Executive Officer, said:

**“RB’s performance in Q3 was disappointing. We delivered another quarter of consistent growth in Hygiene Home. Our Health business, despite good market growth and stable consumer offtake, delivered a weak net revenue performance. This was primarily due to issues in the US and China. In the US, we saw more cautious retailer seasonal purchasing patterns. In China, IFCN continues to face challenging market conditions.**

**This performance is a reflection of an extended period of significant change and disruption in the company. I am prioritising execution and operational performance as a matter of urgency. I have made it clear within the organisation that any activities that detract focus and attention from improving our operational performance, be paused.**

**I have lowered our revenue outlook for the full year 2019 to reflect the combination of a weak Health performance in Q3 and inherent seasonal uncertainty in Q4. We expect a modest margin decline in 2019 as we will continue our investment in the brands and the business to build RB for the long term.**

**Stepping back from current trading, I see confirmation of the reasons why I joined RB: we play in high-growth categories, with strong, market-leading brands, anchored in purpose; we have strong capabilities in innovation and e-commerce and we have an organisation full of owners who act with speed and agility.**

**The issues I have seen facing the business are clear and addressable. I am confident we can restore RB to the levels of performance that it is capable of achieving, and build a purpose-driven, responsible company. Our focus will be on: restoring performance credibility, bringing simplification and focus, driving commercial execution, unleashing our people and delivering a strong financial model.**

**I firmly believe that we have significant potential, with an outstanding set of brands in structural growth categories. I look forward to providing a more detailed update on the business, and our plans to restore long-term sustainable performance, in February with our FY19 results.”**

<sup>1</sup>Refer to basis of preparation on page 5. Unless otherwise stated, all growth rates are expressed in constant currency.

## Operating Segment Review

### Health 61% of Net revenue

By Category	Q3			YTD 2019		
	£m	LFL <sup>1</sup>	Reported	£m	LFL <sup>1</sup>	Reported
IFCN	737	+7.2%	+11.8%	2,253	+3.9%	+7.3%
OTC	496	-6.8%	-3.7%	1,371	-5.3%	-3.9%
Other Health	726	-2.5%	+1.3%	2,173	-1.8%	+0.2%
<b>Total</b>	<b>1,959</b>	<b>-0.3%</b>	<b>+3.6%</b>	<b>5,797</b>	<b>-0.6%</b>	<b>+1.8%</b>

By Geography	Q3			YTD 2019		
	£m	LFL <sup>1</sup>	Reported	£m	LFL <sup>1</sup>	Reported
North America	464	-12.3%	-6.8%	1,334	-6.8%	-1.0%
Europe / ANZ	514	+3.5%	+4.9%	1,501	-0.1%	-0.5%
DvM	981	+4.1%	+8.6%	2,962	+2.2%	+4.4%
<b>Total</b>	<b>1,959</b>	<b>-0.3%</b>	<b>+3.6%</b>	<b>5,797</b>	<b>-0.6%</b>	<b>+1.8%</b>

- Category growth in the consumer health markets we serve remains in the +3-5% range, in line with our medium-term expectations.
- Q3 total Net Revenue was £1,959m, a LFL decline of -0.3% with volume decline of -3% and price / mix of +3%. The quarter benefitted from a weak comparator as we lapped the £70m impact of the IFCN supply disruption in Q3 last year. Excluding this impact, underlying performance was around -4%.
- We also experienced lower than expected channel inventory in the US in the quarter. This was principally due to more cautious purchasing patterns by retailers ahead of the upcoming 'flu season and some reduction of inventory in the IFCN category. Our updated targets for this year assume that we and our retail partners continue to operate at these lower levels.

### IFCN (Infant Nutrition)

- The IFCN segment delivered LFL growth of +7.2% in the quarter bringing the YTD LFL performance to +3.9%.
- The most recent market growth readings are below our medium-term expectations of +3-5% as we see growth moderating in China due to the decline in birth rates in 2017 and 2018.
- North America continues to drive strong share improvement, underpinned by innovation, good in-market execution and success in new channels. The quarter did see some inventory destocking by retailers, which impacted the net revenue performance.
- In Greater China, after adjusting for the lapping benefit of last year's supply disruption, we saw a decline in the quarter. We continue to lose some share in an increasingly competitive market, which is in low single digit growth. The decline in birth rates in 2017 and 2018 is now hitting our stage 3 business – a large part of our portfolio in China.
- We have programmes in place to broaden our premium offerings to consumers, to improve our presence in channels and locations where we have been less present. We expect to maintain investment levels in the face of both the loss of revenue from last year's supply disruption, and from the tougher market place.
- In LATAM and ASEAN the performance remains mixed, and a focus going forward.

## **OTC (Over the Counter / health relief products)**

- The OTC segment delivered LFL decline of -6.8% in the quarter and a YTD LFL decline of -5.3%.
- Mucinex share continues to stabilise following the lapping of increased private label availability through last year, and Mucinex Nightshift is showing early encouraging signs. However, cautious purchasing patterns by our retail partners ahead of the upcoming 'flu season heavily impacted our net revenue performance in the quarter – for both Mucinex and some of our smaller brands like Delysm.
- Nurofen, Gaviscon and Strepsils are delivering market share growth. Excluding seasonal stock related movements in brands such as Delsym, we saw an improved performance in our local OTC brands.

## **Other Health (Wellness and Health Hygiene brands)**

- The “Other Health” segment delivered a LFL decline of -2.5% in the quarter and -1.8% on a YTD basis.
- Dettol and Durex returned to growth in the quarter but are still below both historic run rates and the rates of growth these brands have the potential to deliver.
- On Dettol, we delivered an improved performance in India but saw continued highly price-competitive conditions in Africa, Middle East and parts of ASEAN, for some parts of our range.
- On Durex, the competitive pressures in China remain. At our half year announcement we outlined our plans to bring innovations to market.
- In VMS, market growth is strong and our market shares remain stable. However, a combination of channel destocking and some seasonality in retailer purchasing patterns in the US, led to a weak revenue performance in the quarter.
- Scholl saw improving trends in Europe, as our strategic re-focus on the foot health segment continues. This has been a driver in the better performance of our European health care business in the quarter.

## **Geographic**

- North America delivered a weak quarter despite continued share growth in IFCN and stabilising share in Mucinex. We saw cautious buy in by retailers in both Mucinex and VMS ahead of the upcoming season, and some IFCN channel destocking.
- Europe / ANZ has seen an encouraging return to growth helped by improving trends in Scholl. Growth has been broad based across countries and brands.
- DvM grew by +4.1% in the quarter benefitting from a weak comparator from lapping IFCN supply disruption in the prior year. The implied underlying decline of approximately -3% reflects IFCN performance in China plus continued subdued growth in Dettol and Durex.

By Geography	Q3			YTD 2019		
	£m	LFL <sup>1</sup>	Reported	£m	LFL <sup>1</sup>	Reported
North America	432	+0.8%	+6.4%	1,183	+1.5%	+7.4%
Europe / ANZ	566	+3.5%	+5.0%	1,610	+2.0%	+1.3%
DvM	328	+11.3%	+15.5%	935	+8.1%	+7.1%
<b>Total</b>	<b>1,326</b>	<b>+4.5%</b>	<b>+7.9%</b>	<b>3,728</b>	<b>+3.3%</b>	<b>+4.6%</b>

- Category growth remains in line with our medium-term expectations of +2-3%.
- Q3 total Net Revenue was £1,326m, with LFL growth of +4.5%, comprising +1% volume and +3% price / mix. Growth (and price / mix) benefitted from the positive impact of the favourable resolution of long-standing litigation in LATAM. The underlying performance of the BU in Q3 was around +3% and broadly in line with market growth.
- Growth was broad-based across both our regions and brands with all of our powerbrands in growth.
- In North America Air Wick delivered innovation led growth with the continued success of our Essential Mist Diffuser and the launch of seasonal electrical devices. After a slow, seasonally impacted Q1, Lysol has had another quarter of good growth helped by the performance of its Laundry Sanitizer innovation.
- Europe / ANZ performance delivered strong LFL growth of +3.5% with all powerbrands delivering growth in the quarter. Finish continued its successful geographical roll out of our Quantum Ultimate Clean & Shine innovation. Air Wick also saw good innovation led growth from Essential Mist.
- Developing Markets LFL growth of +11.3% benefitted from the impact of a favourable litigation outcome in the quarter. Underlying growth was underpinned by Harpic penetration gains in India, a strong performance from Mortein, aided by a good season and continued growth, and from Finish in China.

<b>Other Matters</b>
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### Korea HS Issue

The HS issue in South Korea is a tragic event, with many parties involved. We continue to make both public and personal apologies to victims.

### **Lung Injury Categorisation**

The status of the South Korean government's lung injury categorisation is outlined in the table below:

Round	Total HS injury applicants	Applicants assessed for lung injury	Category I & II	Category I & II percentage	Oxy RB users – category I & II <sup>2</sup>	Assessment completion (expected)
1	361	361	174	48%	140	Completed
2	169	169	53	31%	46	Completed
3	752	669 <sup>3</sup>	84	13%	76	Completed
4	5,296 <sup>1</sup>	4,417	173	4%	155	Round 4 is open indefinitely
<b>Total</b>	<b>6,578</b>	<b>5,616</b>	<b>484</b>	<b>9%</b>	<b>417</b>	

1. Round 4 remains open to applicants. The number of applicants shown in the table are the applicants set out on the KEITI website as at 11 October 2019.
2. Both sole Oxy RB users and users of multiple manufacturers' products, including Oxy RB.
3. All of the remaining unassessed Round 3 applicants have withdrawn their applications.

## **Asthma and Toxic Hepatitis**

There have been no further developments on Asthma or Toxic Hepatitis since the 2019 Interim Statement.

### **Category 3 Lawsuit**

On 18 September 2019, a Korean appellate court overturned a lower court's decision and awarded damages of KRW 5 million (approximately £3,200) to an Oxy RB HS user who had been classified as category 3 claimant. The Korean government classifies HS claimants into 4 categories depending on the degree of causation between their lung injury and HS exposure. Prior to this decision, only category 1 and 2 HS claimants had been recognised as victims entitled to damages, with category 3 claimants being considered to have only a "possible" connection between their lung injuries and HS exposure. The appellate court became the first to rule that category 3 plaintiffs can be entitled to damages from HS manufacturers. RB Korea disagrees with the court's ruling and has appealed to the Supreme Court. There are currently 326 category 3 claimants classified by the Korean government. We are currently unable to quantify the liability for category 3 claimants, if any, at this juncture.

Details of existing provisions and contingent liabilities relating to the HS issue can be found in our 2019 Interim Statement.

### **Financial Position**

There has been no material change to the financial position of the Group since the published 2019 Interim Statement. In Q3 we paid \$1.2 billion of the \$1.4 billion Indivior related settlement announced on 11 July 2019 and disclosed in our 2019 Interim Statement. The balance is expected to be paid in Q4.

### **2019 Targets**

We have revised our 2019 revenue targets to reflect the weak Health performance in Q3, the inherent uncertainties of the season and associated retailer inventory levels. Revised margin targets reflect continued investment behind brand equity building initiatives, building a more resilient business and increasing front-line capabilities despite weaker revenue growth.

We are therefore targeting:

- LFL Net Revenue growth of 0-2%\* (previously 2-3%), and
- Modest adjusted operating margin decline in 2019 (previously flat).

\* YTD LFL net revenue growth is +0.9%. The full year target range of 0-2% arithmetically implies a Q4 range of between -3% and +5%. We do not expect either extreme to occur.

### **Basis of preparation and non-GAAP measures and terms**

Like-for-Like ("LFL") growth excludes the impact on Net Revenue of changes in exchange rates, acquisitions, disposals and discontinued operations. LFL growth also excludes Venezuela.

Constant exchange rate adjusts the actual consolidated results such that the foreign currency conversion uses the same exchange rates as were applied in the prior year.

For YTD 2019 the difference between LFL growth and Reported growth related to exchange rate differences with the exception of the following impact of acquisitions: Other Health +0.2%, Total Group +0.1%.

Adjusted Operating Profit excludes the impact of exceptional and other adjusting items.

This announcement contains inside information.

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### **Cautionary note concerning forward-looking statements**

This announcement contains statements with respect to the financial condition, results of operations and business of RB (the "Group") and certain of the plans and objectives of the Group that are forward-looking statements. Words such as 'intends', 'targets', or the negative of these terms and other similar expressions of future performance or results, and their negatives, are intended to identify such forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including targets for net revenue, operating margin and cost efficiency, are forward-looking statements. Such statements are not historical facts, nor are they guarantees of future performance.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including many factors outside the Group's control. Among other risks and uncertainties, the material or principal factors which could cause actual results to differ materially are: the general economic, business, political and social conditions in the key markets in which the Group operates; the ability of the Group to manage regulatory, tax and legal matters, including changes thereto; the reliability of the Group's technological infrastructure or that of third parties on which the Group relies; interruptions in the Group's supply chain and disruptions to its production facilities; the reputation of the Group's global brands; and the recruitment and retention of key management.

These forward-looking statements speak only as of the date of this announcement. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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