Reckitt Q3 Trading and Strategic Update Q&A

Wednesday, 25th October 2023

Introduction

Richard Joyce

Head of Investor Relations, Reckitt

Welcome

Good morning, everyone. Welcome to Reckitt's Q3 Trading and Strategy Update. Today we are joined by Kris Licht our CEO and Jeff Carr our CFO for a Q&A session. We also welcome Shannon Eisenhardt our CFO Designate who is here with us today. Kris will open with some very quick messages and from there we will go straight to Q&A.

Q3 Trading and Strategy Update

Kris Licht

CEO, Reckitt

Q3 – Health and Hygiene Strong Growth; Nutrition Rebasing

Good morning to everyone who has dialled in. This morning we shared with you our Q3 trading statement and my strategic update on the business. I hope you have all had a chance to watch the presentation over the last few hours.

On Q3 we have delivered a strong third quarter. Group like-for-like net revenue growth was 3.4%. Our Hygiene and Health portfolios delivered a very strong 6.7% growth with improving volume trends in our Hygiene business and continued volume growth in Health. Our revenue growth was broad-based across our key categories including OTC, disinfection, auto dishwash, intimate wellness and fabric treatment. Nutrition is rebasing as expected. The good news is that we have maintained market leadership in the US as the supply situation is normalising. We remain firmly on track to deliver our full year revenue and margin targets whilst recognising that we face tough comps in both US Nutrition because of the continued normalisation of supply and in OTC, given a record quarter for the cold and flu season last year.

Strategic Update

A strong business with all the attributes to return to leading TSR

With respect to our strategic update, Reckitt today is a strong, well-invested business with a culture and purpose fit for the future. We operate in attractive growth categories. Our portfolio of brands is excellent and positions us well to deliver sustainable mid-single digit like-for-like net revenue growth over the medium-term. We will continue to invest in product superiority and to sharpen and improve the consistency of our in-market execution and our cost base. We see a clear runway for sustainable growth with superior gross margins and we will extend our productivity programme to focus on fixed costs to fuel both growth and earnings. We are well positioned to grow adjusted operating profit ahead of net revenue in the medium-term.

Our strong free cash flow generation and a healthy balance sheet enable us to enhance shareholder returns through both sustainable dividend growth and our new share buyback programme, which will total £1 billion over the course of the next 12 months commencing imminently. We expect this share buyback programme to continue in the coming years consistent with our capital allocation principles. I firmly believe that our strong competitive and resilient business is poised to deliver sustainable, profitable growth and leading total shareholder returns.

Jeff and I would now be happy to take your questions.

Q&A

Bruno Monteyne (Bernstein): Hi, good morning Kris and Jeff. Now I am mainly going to focus on the strategy update. The first surprise for me is the maintenance of the mid-single digit organic growth. I am going to consider that 5%. When you agree that your categories are 3-4% so I am going to make that 3.5%. I think it is quite hard to outgrow your category when you are the biggest brand in most of the regions where you are. You are typically the dominant number one brand so we do not often see evidence of the biggest brand outgrowing the market by that much. I am very surprised. How can you keep outgrowing it and why would you not have tried to focus on getting into better categories rather than trying to defy gravity and persistently outgrow your own markets by that much when you are already the biggest dominant brand? The second question Kris is really when I listen to that video you talk about the culture of Reckitt, the culture of Reckitt also had quite a lot of one-offs in the past and some bad memories of culture of pushing things too hard. You are talking about the increased cost focus as well but all of that sits very badly with me with the recent FDA letter you had on the US infant nutrition. I know probably lawyers are telling you to say it had nothing to do with actual quality and all that but when we read in detail that letter it was a pretty damning letter about some of the standards and the processes you were using. How do you reconcile the history of one-offs, multi-offs and blow-ups in Reckitt? There is still the ongoing issues and the FDA letter. You say you are going to focus heavily on increased cost cutting. Does that not put you at risk of more accidents? Probably investors would love Reckitt to be a nice, boring, fantastically cash-generative company instead. Thank you.

Kris Licht: Alright, thank you. Let me tackle those two questions in turn. Firstly, about our categories and our ability to outgrow our categories, I think what I shared with you this morning is we do feel quite confident that we can outgrow our categories. We have done that for the prior three years and we are category creators. That is our role. We compete in extremely attractive categories and we have exposure to very high growth markets, including a thriving business in China, a thriving business in India and really strong growth in our core markets in the US and Europe. I think that we have reason to be confident that we can grow and grow faster than our categories. It is what we should be doing as premium manufacturers that exist really to expand our categories. I spoke a lot about the opportunity to drive household penetration and to premiumise our categories. That is absolutely what we are here to do.

In terms of mid-single digit, we have operated with a range of 4-6%. What I said is I think that is a pretty good range for us and sometimes our categories will grow fast, sometimes they will grow a bit slower. That is why I think it is appropriate for us to have a range. However, we are definitely striving to grow faster than our categories. All I can say is we have a track record of doing that in the majority of our business and we intend to continue to do that. That is why we have invested so much in innovation, in our supply chain and in our distribution networks so that we can do that.

The point on culture, I wanted to start with culture today in my update because I think our culture is a source of advantage. There is no doubt that we have things in our past that did not go well, as you referenced some of them, but I do not think that is a function of our culture and certainly not a function of our culture today. As I said, we have evolved our culture and we have put doing the right thing always at the very heart of our culture. That is not just words. That is how we act and that is how we lead at Reckitt today. I am really encouraged to see how we have evolved the culture. I think today it is, as I said, future fit. That does not mean that everything will always go extremely well but I think there is not that many companies like us that can truly say that they have a culture that is a source of competitive advantage. I think that we do.

Now, you mentioned FDA. Actually the situation in terms of the regulatory environment in infant nutrition in the US is something we are paying a lot of attention to. Obviously we will do the right thing always. We aim to and do work very closely with the FDA to meet the evolving regulatory framework in that industry. We will not hesitate to make investments and to strengthen what we already do, which as you saw in the letter, the FDA says does not in any way present a consumer safety risk. However, we will definitely not hesitate to do the right thing here and make the investments that are needed for this to be a very resilient supply chain.

Jeff Carr (CFO, Reckitt): Bruno, if you do not mind, I just want to add a couple of things.

Bruno Monteyne: Yes.

Jeff Carr: We have stepped up our capital expenditure significantly in the last three years and will continue to maintain that higher level of capital expenditure as we continue to invest in our manufacturing facilities. Additionally, we are now talking of a fixed cost base which is significantly higher than 2019 and before as we have made significant investments in areas like quality, R&D and supply resilience. What we are now looking at today in terms of the opportunities are driving efficiency through the systems, automation and simplification. What we are not looking at, at all, is cutting into significant areas, important areas which support the quality, the safety programmes and our innovation pipelines, and so forth. There are significant efficiency opportunities and that is where we are focused.

Bruno Monteyne: Thank you.

Guillaume Delmas (UBS): Good morning, Kris, Jeff and Shannon. Two questions for me, one more about the fourth quarter. What are your expectations for Q4 like-for-like sales growth? It is now looking like you will have two particularly strong headwinds in Nutrition and in OTC, so nearly a third of your business that could be reporting marked negative like-for-like sales growth. My question on this would be, at this stage today how much visibility do you have on the quantum of both headwinds and what do you see as the main offsetting factors in Q4? I think consensus for the year is now 4.8% like-for-like sales growth. Could it turn out to be a bit too optimistic? Then my second question is on the Nutrition business. Based on today's strategy update it seems that you remain absolutely fully committed to this business. It would be good to hear why you think you are still the best owner of this Nutrition asset and how confident are you that Nutrition will not prove a consistent drag to both your like-for-like and operating margin ambitions? Basically that you will be able to bring Nutrition's performance in line with the Health and Hygiene standards. Thank you.

Jeff Carr: Let me start and answer the question on the fourth quarter. We have been delivering strong consistent quarters of mid-single digit growth for Health and Hygiene and you see that in the current performance. Clearly when you look at the Nutrition numbers we are down something like 12% like-for-like versus a 25% increase last year. The previously number one leader in the market, now number two, is fully back on shelf so I think we are pleased that we have held on to 50% of that revenue growth in this quarter. We have said we are not looking to change guidance for the fourth quarter in terms of the consensus expectations with the exception that we expect for Nutrition those sorts of levels to continue into the fourth quarter. Now, if you look at our fourth quarter last year we were just under 20% in terms of Nutrition LFL growth so we expect to give some of that back. I think we are being quite consistent. The only thing I expect people to look at is the Nutrition number. Health and Hygiene will continue to track very strongly and we are happy with where we are.

Kris Licht: I will take the question on Nutrition and its fit in the portfolio. This morning I spent some time rearticulating the logic of our Reckitt portfolio and what makes it excellent. I set out three principles. The three principles are; where businesses belong in our portfolio, they have a long-term runway for growth, they have an attractive earnings model and a source of competitive advantage to give us a great vantage point that we can compete from. Those are the three principles that we will apply to our portfolio for organic capital allocation and inorganic capital allocation. It is a test that all brands and businesses have to meet. Now, we will go through and assess how we feel about the portfolio but at this moment I think we can say that Nutrition certainly satisfies some of those principles. I do not think that we should judge Nutrition as an asset based on how it is trading right now versus prior year because, as Jeff said, this is in the context of an entirely unusual circumstance last year. I think what we have demonstrated and what our team that is running the Nutrition business has demonstrated is that we know how to run this business. We understand the unique characteristics of it and we can drive performance in that business at the moment. I am committed to applying the portfolio logic and the framework I set out for years to come and will hold it up against anything in the portfolio. When we draw a conclusion that something does not fit we will share that but at this moment it is too early to say what parts of our portfolio do and do not fit. I think what is really important about today is I wanted to let you know how I think about the logic of our portfolio and what belongs and does not belong, and to make a commitment that we will be quite principled about that.

Guillame Delmas: Thank you very much.

Rashad Kawan (Morgan Stanley): Good morning guys, thanks for taking my questions. A couple from me please. The first on fixed cost optimisation, clearly a big focus. Can you guys talk about the size of the opportunity you see and how much more runway you think there is going forward in optimising that cost base? Then my second question is, when I look into 2024 how confident are you in hitting that mid-single digit target for next year if you exclude the dynamics in Nutrition? If I can squeeze one more in on Nutrition, I know you have mentioned some of the end market challenges you have been facing in ASEAN specifically. Can you talk about that a little bit more? Where do you see the ASEAN business going to over the next few quarters and how was growth there in Q3? Thank you very much.

Kris Licht: Okay, let us take these in turn. On fixed cost, yes fixed cost optimisation is a key focus going forward. It will be a focus for years to come. What I shared this morning is we think that this could be in terms of the size of the opportunity in the range of 200bps of net revenue. However, we are not going to lock ourselves in to one number. We are going to look to build the best Reckitt that we can possibly build and anywhere we can become more effective and more efficient and anywhere we can free-up funds to invest in growth we will do that. As well as ensure that we hit our earnings ambition. Fixed cost optimisation will be an enduring element now for years to come. We will get after this opportunity through the expansion of our successful productivity programme and we will fund any one-time costs that we need to fund from within the P&L. That means that these benefits will build over time. It is not a quick hit, it is a sustained source of improvement and reinvestment in the business.

In terms of mid-single digit growth ex-Nutrition in 2024, I want to see first of all that we finish this year strongly. You can see the strong momentum we have in Health and Hygiene at the moment. Notwithstanding the comps in Q4 that we just talked about, I think it is safe to say that we have strong momentum and we see real improvement in the Hygiene volume performance and continued strong performance in Health volumes, which are positive. That gives us faith we can meet our ambitions for these businesses going forward. In terms of specific guidance for 2024, that is not appropriate for today. We will get back to that at a later time given that this is a Q3 trading update. However, we will provide those answers as we can.

In terms of Nutrition in ASEAN, we are improving the performance there. We had some interventions that I think we spoke about at the half-year and those are proving to be effective. It is a focus area and the business is improving sequentially. We also had a couple of mis-steps that we were also transparent about as it related to Dettol in a couple of our markets in ASEAN. We have also made interventions there and we are seeing a gradual improvement. Although frankly I think we will see the full impact of that in 2024. I fully expect our ASEAN business to have a very strong year in 2024.

Rashad Kawan: Thank you.

Iain Simpson (Barclays): Good morning everyone, a couple of questions from me if I could. Firstly, a short-term question. You talked about not wanting to provide 2024 guidance given it is the Q3. Fair enough but can you give us some Q4 guidance perhaps? In particular, how should we think about volumes especially given the tailwind from Clorox disruption? Would it be reasonable to expect volumes to turn positive in Q4 or is it too soon to get comfort around that? I noticed that for the last few quarters consensus looks to have been a little bit in the wrong place on volumes so just trying to get some help as to how we should think about that. Then a longer-term question which is, we have been talking about BEI stepping up in this business for a very long time it feels like but we are still hearing about BEI needing to step up. Albeit I appreciate that that is going to be largely funded by fixed cost activities elsewhere in the business. How should we think about that? It seems to be taking so long to get that number in the right place. Linked to BEI investment, in terms of innovation step-up again it feels like we have been waiting for innovation rubber to hit the road for a fair few years now. How should we think about the phasing of when superior innovation starts landing in market and starts helping drive share outperformance? Thank you.

Jeff Carr: Let me start with Q4 and let me just repeat a few of the things that we have said. First of all, we are comfortable with consensus for Q4 with the exception of Nutrition, which was up over 20% last year. Giving some of that back and we expect Q4 to be at the same sort of level as we saw in Q3. You mentioned volumes. Volumes in Health, let me repeat, have been positive all year. Year-to-date volumes are positive in Health so I guess you are talking specifically about volumes in Hygiene. Volumes in Hygiene have sequentially improved from Q1 to Q3 -10%, -7%, -3%. I would like to see that volume continue to sequentially improve but I am not going to get pulled into a specific volume target for Q4.

With respect to the problems at Clorox, we had a relatively small benefit in Q3. I expect to see a bigger benefit in Q4 but it is not of an order of magnitude to change consensus. We do expect to see a bigger benefit in the fourth quarter. The third quarter benefit from the problems and out of stocks was in the single millions. I expect it will be double-digit £millions but in the 10-20 million range in the fourth quarter, which of course will help volumes in Hygiene. However, clearly Nutrition volumes are declining which is to be expected. It would be crazy not to expect that, considering Abbott is fully back on shelf and fully operating as normal. What we are happy about is keeping something like 50% of the revenue upside that we saw last year back in our numbers this year and maintaining leading market share in the US in terms of infant formula. We are pleased about that overall performance but of course that means we will see negative volumes in Nutrition in the fourth quarter. I hope that clarifies the question on the fourth quarter.

On BEI let me just say, no one has stated nor have we said that we have underinvested in BEI. However, what we think is a healthy state is to continue to increase our BEI investment as we can afford to do so to help drive innovation and to help drive mid-single digit top line growth. We are already seeing the innovations come through. We are seeing it come through in Hygiene in terms of Finish Ultimate Plus All-in-One, the best-ever clean that we have in the dishwasher. It is pretty much fully launched in Europe. Lysol Laundry Sanitiser has been very successful in the US, we are currently launching Lysol Air and we are very pleased with Lysol Air. We have talked about innovations that we have seen in Airwick with Airwick Vibrant and Active Fresh which means although volumes are down in that category we are actually showing Airwick growth in the quarter, which is very pleasing. We have talked about in OTC, for example, Mucinex InstaSoothe, a very successful innovation in that category. Innovation is coming through the system. We are very pleased with the innovation performance and we will continue to increase our BEI, again not because we were underfunded but we think it is a good thing to spend more money supporting our brands.

Kris Licht: Yes, I would just add to that, innovation is very much the lifeblood of our business and the only maybe slight issue I would take with the way you asked your question is that it is not currently happening. It is very much currently happening. The platforms that Jeff just talked about are very sizeable, permanent new additions to our portfolio and they help premiumise. They are quite accretive and attractive for us to invest behind. It is not to say that that work is done. That work is never done. We always want to strengthen our innovation pipelines and they are much stronger today than they were in the past. What I think we will hesitate to do going forward, is to talk a lot about the size of those pipelines or future innovation that we might launch. I would prefer to talk with you all about things we have actually launched, successes we have actually created in the market. The examples that

Jeff mentioned just now and I referenced this morning are indeed sizeable examples of just that.

Iain Simpson: That is very reassuring. Thank you.

Alicia Forry (Investec): Hi, good morning, just one quick technical question and then two bigger picture questions if I can. On the technical one you mentioned that you will provide clearer FY24 guidance at the full-year stage. Can I confirm that you intend to provide annual guidance as a matter of course going forward, having established this medium-term guidance? That is the first technical question. Then a bigger picture, you mentioned in your presentation 75% of your revenue, I think it is, is covered by your net revenue management tools. Intuitively that feels I guess a little further behind than I might expect at this stage. I am just wondering how you feel about that and what are some of the main barriers and perhaps investment required to increase that coverage as it is probably a key driver of growth going forward? Then the second big picture question is there seems to be a bit of a mixed picture with regards to the consumer at the moment, obviously after a lot of pressure and bearing in mind the premium nature of much of your portfolio. Could you just give us an update on how you would characterise the health of the consumer in your categories at the moment? Thank you.

Jeff Carr: I will just take the first question on guidance. Yes, it is our intent to give guidance in the February full-year results for the coming year and that is what we have normally done. I am not going to get into the specific nature of the guidance but yes that is when we would traditionally guide to the upcoming year.

Kris Licht: On your question on RGM, revenue growth management tools, which by the way is a great question, thank you for that, I would say to you that we are not going to be happy until every one of our employees has access to state-of-the-art tools in this important area. This is really an absolutely critical area to deliver sustainable, profitable growth and to optimise the investments in the P&L. It is a main focus. The reason why I spoke about it this morning is because it highlights that we have opportunities to continue to sharpen and improve how we execute. This is a key priority. It has been an area of investment and capability building for some years now at Reckitt and we are doubling-down on those investments. We are going to see that through. I expect to be at 100% coverage within a year or two of today. This will continue to improve. By the way, it is not just access to these tools but it is the level of sophistication that our people work with them and it is an ongoing capability building exercise to make sure that we are as strong as we possibly can be in this area which is of great strategic importance.

Turning to your other long-term question in terms of the health of the consumer, first of all I would say part of the reason why we operate in attractive categories is because there is a very high level of consumer interest in consumer health, in hygiene and the link between hygiene and health and keeping healthy. Covid obviously put a bit of an exclamation mark on that connection and we continue to see a very high level of consumer interest. I think that is part of how we can explain that even during an environment where there has been significant inflation and where consumers in different parts of the world have felt the pinch, that our volumes keep growing in consumer health. You see OTC is a vibrant category still and I think it tells you that especially players at the premium end, like where we sit in our categories, we enjoy a high level of consumer interest. When we premiumise and when we launch new innovation we are seeing a lot of consumer interest, engagement and a willingness to pay more for real benefits and more effective propositions. We are quite encouraged by the overall consumer sentiment in our categories.

Now, there is no question that it has been a tough time for consumers and obviously as we see wage inflation kicking in across industries, across markets we hope that that means that consumption will get back into a more normalised environment. However, as I said, we feel somewhat insulated from the worst of those dynamics that I think other categories have seen over the past couple of years. We are in a slightly more resilient place.

Jeff Stent (BNP Paribas): Good morning, two questions if I may. The first one is, could you tell me when the medium-term starts? The second one is on Nutrition, you said against your three principles that the business meets some of them. If you could just elaborate on the ones that are not met that would be great. Thank you.

Jeff Carr: Hi Jeff, let me take the first question. If you go back to 2020 we talked about setting some medium-term targets to get this company moving again. We had not seen any real top line growth momentum over the three years prior to 2020. We were in something like a 1-2% growth regime. We initiated a transformation then to really get top line growth going and we talked about mid-term targets of mid-single digits. We are now in the mid-term and what you have seen in the presentation this morning is our CAGR over the last three years has been about 8% growth so we have actually been hitting high-single digit growth. We have actually been outperforming our peers in terms of top line growth. We are very pleased with that. I would just take those mid-term targets now to be ongoing targets. I do not see it stopping. I just see it as ongoing and that is the way I think you should look at it.

Kris Licht: On the question on the principles, I think it is premature to get into a detailed conversation about any one part of our portfolio against the criteria but a couple of observations. I think it is clear that we have a vantage point from which to compete in Nutrition. Look at how effectively our team has competed and we have market leadership. We have the most trusted brand in the US in this category. It is not a bad place to be. We have also seen very strong growth. Obviously, we have to set apart a bit the unusual circumstances of the supply crisis of last year. I think we have to judge the long-term runway for growth and obviously the earnings model is quite attractive on its own merits but it is different than our Health and Hygiene earnings model. That is clear for all to see. I think we will continue to assess that question and it is an abnormal time in infant nutrition in a lot of ways in the US. As we see that settle out, we can give a firmer answer to that.

Celine Pannuti (JP Morgan): Good morning everyone. My first question is on the mid-single digit growth ambition. You said that your category exposure is about 3-4% so clearly you need to get ahead in terms of market share gains. When I look at what has been achieved and the investment you made in the past three years it seems that auto dishwash is clearly coming out very strongly with encouraging share gains and premiumisation, as you discussed. However, I do not see a lot else elsewhere. I know you talked about some platforms in innovation. Kris, maybe as you look into where you see opportunities, can you talk about areas where you think you are not probably delivering yet market share and where there is more where you can step up? My second question I think is quite typical. About what you said today on the strategy, if I look at my model over the past years earnings have been at best flat, I must say, since 2019 and now you are talking about leading TSR performance. That will be quite a step-change in terms of EPS growth, total TSR and share buybacks. Could you tell us what you think is leading TSR? Are we talking about low-double digits? Is that what you have in mind? Thank you.

Kris Licht: Okay, let us talk about the growth ambitions that we are setting forth and really we are reiterating our growth ambition that we have exceeded in the past three and a half years. One thing that I want to give you a little bit of a sense of is if you look at where this growth has come from, this growth that is ahead of our peers and ahead of our categories over this timeframe, it is really broad-based. That is a really important thing to see. Frankly it is important to us because it also tells us what these brands can do and what we can deliver going forward. This is part of why we feel a comfort level with mid-single digit as a medium-term growth target. I will just give you a sense of where this growth came from. Actually the fastest-growing parts of our portfolio over the last three and a half years have been OTC brands and really broad-based. Every one of our large OTC franchises have grown double-digit CAGR. Some of them have little to do with Covid, like Gaviscon as an example. Durex has posted an 8% CAGR over this timeframe which is really quite good and tells you about the runway for growth in that brand as we have innovated in PU and expanded the footprint of the brand in emerging markets. As you said, Finish has grown very strongly but other brands in the Hygiene portfolio have also outgrown their markets at a healthy clip. As an example, the Harpic business has done so. Then of course, as we have talked about before, Dettol and Lysol have had a very good run and are much bigger businesses today.

It gives you a sense of the broad-based nature of this and that broad-based nature is also true geographically. We have exposure to very high growth markets that we think will continue to fuel our growth. I mentioned China and India but frankly even in the US we have very attractive growth opportunities. I can tell you is as we sit here today, as we assess our performance and we look at the excellence of our brand portfolio we think we can do that. Is it stretching in some respects? Yes, it probably is but it also should be for a market leader in these categories.

Jeff Carr: Celine, I will just mention about the earnings. First of all let me just say it should not be a surprise to anyone that earnings have been flat during the last three years. We talked about the margin reset in 2020 and we talked about then investing in our businesses, getting the growth moving again at Reckitt. As I just said in the last question, our growth pre-2020 had been about 1% in the three years preceding that and we have been averaging an 8% CAGR in the last three years. That is a real evidence of the success that we have had and the success of the margin reset. It should not have been a surprise that our EPS has been flat over the last three years but what we have said is that we now expect to see delivering a return on those investments which means that there is now more focus on getting EPS moving in the right direction and improving EPS as we go forward. Now, we are not setting a TSR target but what we have done is we have now put TSR into the long-term incentive programme for management so that gives a clear focus that we want to be in the top quartile versus our peer group in terms of TSR, if not at the top of that range. That is why TSR we consider to be important to KPI and that is evidenced by the fact that it is now a key part of our long-term incentive plan.

Celine Pannuti: Thank you.

Chris Pitcher (Redburn): Good morning, thanks very much. Apologies for going back to the Nutrition business but in terms of both the US and the underlying performance in Latin America, could you give a bit more detail? You are saying that you have held on to 50% of the exceptional sales last year which would indicate that the core business is in decline despite some quite significant price increases. Can you say how those price increases have been received and how your share has developed sequentially in the non-rebate business? Then I appreciate there are some in-market challenges in the ASEAN region. Could you give a bit more colour into what those actually are because the developing markets' performance has been under what we had expected this year? LATAM to be flat in an inflationary environment again seems weaker. Can you give us an idea of how you are looking to get that developing market business back into what would be that more normal high-single digit growth rate? Thanks.

Kris Licht: Yes, I think firstly I just want to make sure I understand your first question. We have taken pricing. We have been fairly successful in passing through that pricing. It has not caused any major issues. As you know, we did not price right away in North America even though we were impacted by inflation. We only took pricing early this year and as we said we are holding on to market share and leadership. I do not think that there is anything about that that gives us concern. Mexico is a very important business for us in infant nutrition. Market share gains, business performing well ahead of our plan expectations. I think broadly speaking we are not concerned with our execution of pricing in this business, nor the ongoing trading. We actually think it is good.

Now, in ASEAN a couple of things that we are doubling down on is our medical sales efforts where we had an opportunity to sharpen, to be honest. It just was not strong enough and it is an absolutely critical element of our business there. We are adjusting some of our marketing messages, the advertising and the product proposition. However, these are tweaks around our commercial proposition. We think they are going to make the difference and, like I said, we are executing on that at the moment. The signs we are seeing in terms of momentum are encouraging.

Jeff Carr: Let me just summarise, in the developing markets we had like-for-like growth of 5% for the quarter. We are not happy with that but it is an improvement in terms of our performance in the first half of the year. We are pleased with the overall development of the developing markets. 5% in those markets is not where we would like it to be but it has shown signs of improvement versus the last quarter.

Chris Pitcher: Sorry Jeff, can I just confirm you said the developing markets were +5% in Q3. You said last time it was stable and it read like ASEAN markets were negative. Actually the ASEAN markets must have been –

Jeff Carr: Correct. Sorry, I was talking about the total number for the Group was +5%.

Chris Pitcher: Thank you. Maybe one last one on your medium-term targets. You were talking about them being ongoing targets. Does that effectively mean the margin outlook is not really a change? You could still get to mid-20%s, it is just it has become an ongoing target rather than anything specific.

Kris Licht: I think that is a good way to interpret what we are saying. This is meant to be an evolution of our margin guidance and not a departure. It is just that it is better for us and we can do better I think in terms of serving shareholders if we have the flexibility to invest in profitable growth when we see it. We have a lot of operating leverage in our P&L and we have fixed cost opportunities. With those we are confident that we can expand margins over time and we will do so. However, we also recognise that we are sitting at the high-end in terms of margins of our peer set. You probably saw some of those stats this morning and obviously you have access to all that anyway. It is clear that we are already at high margins and we want to continue to do that. That is part of who we are as Reckitt and we are very proud of it. We will grow and expand them but it is really an evolution.

Chris Pitcher: Thank you.

Jeremy Fialko (HSBC): Hi there, okay, so my couple of questions, the first one is looking at Nutrition from a volume perspective. Last year your volumes were up 7% and then this year they were down almost 16% so that would imply that your volumes in the Nutrition business are considerably below where they were two years ago despite still having some of the benefit from the recall. Can you talk about the business through that lens? Then also what perhaps was more difficult in Q3 in this division than you had expected given you were not flagging such weakness at the H1 stage? Then secondly if you could just go into more detail on Dettol, more detail on some of the interventions you have taken, where the price gaps have now been closed and what sort of market share trends you are seeing and when you think that gets back to growth? Thanks.

Jeff Carr: Let us start by looking at overall Nutrition position. Volumes tend to be obscured not just because of WIC and non-WIC but also because of the different performances in different regions. Overall, in North America our volumes are slightly down versus a year ago but, as we mentioned, we have taken pricing this year and our overall market share in terms of price, in terms of net revenue market shares are significantly ahead. Now, we took price at the beginning of this year which reflected the fact that we had not taken any price in 2022 during the crisis. That reflected a catchup in terms of pricing. It is true to say Abbott has not yet priced. Whether they continue to hold their pricing or not is to be seen but our expectation is they will have to price at some stage with the cost inflation that we have seen over the last two years. Volumes we would expect would be impacted once they do price but we will have to wait and see how that develops. Do you want to mention Dettol?

Kris Licht: Yes, on Dettol I think it is a stable business at this point, as we talked about before. It is a very competitive marketplace. We were transparent about the fact that we stubbed our toe in a couple of places in ASEAN in the first half and we have intervened both in terms of price gaps, as you talked about, and made a couple of other tweaks as it relates to the assortment and where our team is focused in terms of the commercial execution. We are seeing improving trends. As I said, some of those things take a little bit of time to shake out in the marketplace and so I fully expect Dettol to have a good year next year in ASEAN but we are seeing improving trends in Q3 in that region. Actually, other parts of Dettol's footprint are doing really well so we are in very strong growth in China, as an example, which is a really important part of this business. It is actually twice the size of ASEAN if you look at the footprint. Dettol had a really, really strong quarter in Q3 in China. Overall we are still looking to grow this business. We have been through the normalisation post-Covid and we have an exciting innovation pipeline. We have good momentum in places like India and China which are heartland markets for Dettol and incredibly important that we do well. It is a very competitive environment and as commodities fluctuate we see competition reacting. We will stay very vigilant. We do not intend to stub our toe any more on this business.

James Edwardes-Jones (RBC): Two financial ones if I may. First restructuring costs, should we expect restructuring costs to increase as the fixed cost reduction programme ramps up? Secondly, working capital always used to be a big part of the Reckitt culture and the Reckitt financial model. It has not been such a big element in recent years. Is there an opportunity there?

Jeff Carr: Let me take those, James. We are not going to be charging any one-time, below-the-line restructuring charges as we go forward. The way we see the cost optimisation programme it will be self-funded within adjusted operating profit and we will take those charges as we go along. It is not a big bang programme but we do see significant opportunities to optimise our costs and that is why we are pulling it out and talking about the potential for 200 basis points of improvement in our fixed cost base.

James Edwardes-Jones: Just to be clear Jeff, sorry, are you saying there will be no restructuring charge or just that they will be charged as incurred?

Jeff Carr: No, they will be charged as incurred within our adjusted operating profit. We are not pulling them out below the line as one-time costs. Okay? Is that clear?

James Edwardes-Jones: Got it. Yes.

Jeff Carr: In terms of working capital it is fair to say our working capital remains a key focus in the business. It is fair to say we are not at the levels we were two or three years ago and I am not sure we will get back quite to those levels but we are now in a position where we are starting to see some improvements in working capital. We will continue to have industry-leading working capital. We run high-single digit negative as a percentage of sales on net working capital and I would expect us to show opportunities to improve as we go forward. There is no lack of focus on net working capital in the Group. It is a key part of the remuneration structure for all of our people, including Kris and myself, and we will continue to focus on it. I would expect to see stable to slightly improving net working capital as we look forward.

James Edwardes-Jones: Thank you.

Karel Zoete (Kepler Cheuvreux): Good morning, thanks for taking the question. I have two questions. The first one is basically a follow-up on Chris's one on the emerging market. You already gave us an answer on LATAM IFCN but the overall picture is not super clear to me. Why are volumes down 2.5%? What are the big drivers in your big markets that basically explain the emerging markets performance? The other question is a bit more longer-term. What are the ambitions for the VMS segment? It is a fragmented space. You have some local deals but also local positions. You are quite focused. Do you see opportunities for these trends to travel further or are there M&A opportunities? That is basically the question on VMS. Thank you.

Jeff Carr: Can I maybe take the emerging market question? As I said, the Group number was 5% growth in developing markets with -2.5% volume. That is a significant improvement on the first half of the year and it is not a number we are satisfied with. We are still showing negative numbers in terms of Dettol in terms of volumes but it is improving significantly and we expect to continue to see that improvement as we implement the remediation programmes that we have talked about. Pretty much the biggest impact on the developing markets number has been the impact of Dettol but that is an improving picture and one we expect to continue to improve.

Kris Lichte: Yes, I would just build on that and say obviously if you look at the last four months we are going through this unusually sharp inflationary spike and we are passing on very significant pricing like the rest of the industry is. I think this is a point in time phenomenon. As I shared this morning in my strategy update, we have been very successful in emerging markets and we have grown both volume and revenue. As an example, a place like China we have a thriving business which incidentally connects to your other question about VMS. We have a thriving VMS business in China and we think that will continue to grow and grow well. That is absolutely volumetric growth. That is category creation that we are engaged with there. I would just say emerging markets we have really strong businesses across Latin America, India, China and a number of other markets. This will be a source of really strong growth for us going forward, I fully expect. The trends point in that direction. I do not think we are far away from seeing the volumetric growth swinging positive.

Your question on VMS first of all it is a pretty big space. There are very attractive places within VMS and there are also more commoditised perhaps less interesting parts of VMS. I expect this space to continue to grow. As an area it is a bit different than say our OTC business. It is a little bit more trend-based and so it is important to have the right proposition at the right moment that catches the consumer interest and is timely. The good news is, like I said, we have a thriving VMS business in China and I see a lot of runway for growth. As you consider expansion of that, what you have to appreciate is that VMS markets around the world are actually quite different. Some have a lot of room for premiumisation, some do not. Some are very well-developed, some are not. We are looking at that and we will be selective about our expansion of VMS. That is not to say that there are not interesting opportunities. There are a few that we are looking at but I would not say that that is the main area where we are looking to expand our portfolio. We have a lot of other categories, like OTC, Intimate Wellness and Auto Dishwash and Disinfectants, that have significant runways for growth and for category creation.

Karel Zoete: Thank you.

Richard Joyce: Okay, that is all the questions. Thank you very much for dialling in and we will say goodbye there. Thanks a lot.

[END OF TRANSCRIPT]