RB Reckitt: 2021 Full Year Results

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Good morning, everyone. Welcome to Reckitt's Full Year 2021 Results presentation. I would like to draw your attention to the usual disclaimer in respect of forward-looking statements. Today we have our CEO, Laxman Narasimhan; and our CFO, Jeff Carr. They will present a review of our 2021 results, our outlook for 2022 and progress on our transformation journey. Following the presentation will be the usual Q&A Session. Without any further ado I would like to introduce our CEO Laxman.

Laxman Narasimhan

CEO, RB Reckitt

Thank you, Richard. It is great to see you all this morning and thank you for joining us. Two years ago, we established our strategy to return Reckitt to sustainable mid single-digit growth and mid-20s operating margins. We are making good progress on this journey and I look forward to sharing this update with you today.

I have three key messages for you this morning:

- Firstly, we have seen strong momentum in 2021, outperforming our own expectations on revenue growth. We have a more competitive business. This positions us well to deal with the difficult operating environment, while delivering further revenue growth in 2022 and a return to operating margin expansion.
- Secondly, we have made good progress in actively managing our portfolio to position the business for higher growth.
- Finally, we have a much stronger business than we did two years ago. We have better executional muscle, a more resilient supply chain and a bigger and better innovation pipeline. We have a strong leadership team in place. Our performance-driven culture bills on our past and is evolving to support our future. I am therefore very comfortable that we firmly on track to delivering our medium-term targets.

Before we go into these messages in more detail, I will quickly run through today's agenda. I am going to provide you some 2021 highlights. Jeff Carr, our CFO will then come up here and take you through our 2021 results in more detail plus our 2022 targets. I will finish by giving you an update on our strategic progress and why we feel comfortable with our direction of travel to deliver our medium-term goals. Let us get started.

We exit 2021 with strong momentum. We delivered a strong like-for-like growth rate of 3.5% on the back of an exceptional and unprecedented 2020 performance. This enabled us to deliver a two-year stack growth of 17.4%.

A few highlights, 62% of our core category market units by revenue are either gaining or holding share. For the recent quarter, all three of our global business units were in share growth territory overall. We still have work to do in certain areas, but overall, I am pleased with our progress.

We have made a step change in our engagement with customers, with retailers now recognising Reckitt as "top tier" in nearly half of our markets as measured by the Advantage 2021 Survey of Retailers.

A year-on-year improvement of 20 percentage points. This also tells me that while we still have some work to do, it is encouraging to see that our efforts and focus are enabling us to build much closer relationships with our valuable business partners.

We have made strong progress on sustainability. I am very pleased to announce that we hit our 2030 target of a 65% reduction in carbon emissions nine years early. This is part of our wider sustainability ambitions, which we launched in March 2021, and is a key milestone in our journey towards our Net Zero goal by 2040, which has been externally recognised.

Our performance in 2021 was broad based. 70% of our portfolio, which is less impacted by the dynamics of COVID, grew mid single digits in 2021. In fact, they grew within this mid single-digit range each quarter in 2021. We are now a stronger business than we were two years ago. We have built up our capabilities across the company, and this is now translating into our top line performance across many of our brands. Given our performance over the last two years, I feel very good about our momentum as we enter 2022.

I will now hand over to Jeff to take you through our financials for the year in more detail and our 2022 outlook and targets.

Jeff Carr

CFO, RB Reckitt

Good morning, ladies and gentlemen, and thank you, Laxman. As Laxman mentioned, we finish 2021 with strong momentum. The fourth quarter like-for-like revenues were up 3.3%, giving us a good start as we look towards 2022. For the full year in 2021, like-for-like revenue grew 3.5% – an excellent performance as Laxman mentioned on top of the almost 14% growth in 2020. Volumes grew in the year 0.6%, and for the full year the price/mix was up just under 3%. Our Hygiene business unit grew 7.5% on a like-for-like basis and is now up 27% versus 2019. Our Health business unit was flat in the year, but this is an excellent performance recovering from a 10% decline in the first half due to the lack of a cold and flu season in 2020. Nutrition grew 0.6% in the year with IFCN growing 3% like-for-like and VMS declining high single digits.

I am now going to focus on the Group performance excluding IFCN China. I am sure you will all know that we sold that business, and it completed in September 2021. Net revenue grew at constant exchange rates by 3.3%, and in actual rates were down 2.1% due to a foreign exchange headwind of over 5%. Gross margin at 58.5% was 200 basis points lower than 2020. I will go into more detail, but gross margins were stronger in the second half with 58.9% compared to the 58.1% in the first half of the year. This is despite the strengthening of cost of goods inflation as we went through the year.

Brand equity investments were favourable in the year by 60 basis points. This is largely due to the fact that we had 90 basis points of productivity delivery in the year. This included buying synergies as we brought back together the media-buying of our three business units. We also invested in technology to more rigorously measure the returns on media activities. Additionally, we have now insourced services such as digital and media production as we build in-house capabilities. This has resulted in costs being reclassified from BEI into other costs. Adjusted operating profit at £2.9 billion is down 2.6% versus last year at constant rates, and operating margins at 22.9%, down 160 basis points from 2020. The second half margin at 23.1% was up 40 basis points from the first half, which was 22.7%.

On this next page, I am going to focus on the 200 basis point decrease in gross margin. During the year, our cost of goods inflation accelerated and finished at 11% versus 2020. This is ahead of the 8-9% that we guided at the half year. This is inflation net of any hedges or fixed term contracts that we had in place. At this level, inflation impacted margins by over 400 basis points. In addition, sales mix was negative for the full year, although less so than at the half year due to the recovery in cold and flu sales. Of course, offsetting these headwinds, we can continue to deliver strong productivity initiatives and took appropriate pricing actions throughout the year.

As mentioned, we have seen full year average cost of goods inflation at 11%. Looking at the breakdown of the key elements, material costs grew at a rate of low double digits, while factory conversion costs were impacted by inflation at mid single-digit rates. Logistic costs, which include ocean freight, grew at strong double-digit rates. As things stand, we will continue to see strong inflationary headwinds in 2022 with additional cost of goods inflation expected to be in the low teens. Obviously, this remains quite volatile and unprecedented in recent times. This implies around 500 basis points of impact without mitigations, but clearly we do have a strong series of mitigating actions. These include pricing and revenue growth management, ongoing productivity, the phasing out of transformation costs, improved sales mix and the elimination of IFCN stranded costs, all of which gives us confidence in being able to deliver margin growth in 2022.

Our Hygiene business unit grew 7% on a like-for-like basis. You can see on this chart that there was considerable volatility quarter by quarter. This largely was a result from changes in Lysol. Lysol grew strongly in the first half and declined as expected in the second half of the year, as we reached tougher comparatives. In total, Lysol revenues are up around 90% since 2019. Inherent in our guidance, we expect Lysol to decline in 2022 as we comp the extremely strong performance in the first half of 2021. The growth profile of the business unit is much more consistent excluding Lysol, with strong growth throughout the year from Finish, Air Wick, Vanish and many of our other key brands.

Adjusted operating profit was £1.4 billion down 6.9% versus 2021 at actual exchange rates of 1.3% at constant rates. Adjusted operating profit margin a 23.7% remains very strong in absolute terms, but down versus the first half with higher commodity costs in the second half, not fully offset by productivity and pricing actions.

For Health for the full year, revenues were £4.6 billion, and like-for-like revenues were basically flat down 0.1%. And as I said earlier, this was a strong second half of the year. The fourth quarter in fact, Health grew 17.5%, and OTC grew over 40% following strong market share gains in a positive start to the 2021/22 cold and flu season. Dettol like-for-like revenues declined low double digits in the full year, but as stated in our recent Capital Markets Day, Dettol sales have stabilised at around 40% above 2019 levels. We now expect Dettol to grow low single digits in 2022. Intimate Wellness grew mid-teens in 2021. That is quite a performance led by our flagship brands Durex and KY.

Adjusted operating profit margins recovered strongly, if you recall: 21.8% in the first half of the year to 25.5% for the full year. Nutrition like-for-like net revenue grew 0.6% to £2.3 billion with IFCN growing 3% within that mix. The US Infant Nutrition business actually was particularly strong growing over 5% in the year. As I previously mentioned, VMS declined high single digits, but this is primarily a result of the reduced amount for Airborne following exceptionally strong growth in 2020. Excluding Airborne, the remainder of our business grew strongly in double-digit growth. For example, Neuriva continues to develop as a leader in the brain category, and sales revenues doubled in 2021. Adjusting operating margins for the Nutrition business were 15.5% in the year, unchanged on 2020. That is both years excluding IFCN China. We expect Nutrition margins to benefit in 2022 from the elimination of stranded costs related to that disposal.

In addition to our reported operating profit numbers, the IFCN China business lost £67 million in the year, including £40 million of exit costs incurred immediately prior to the sale of the business.

If we move on to the next chart, turning to earnings per share, adjusted EPS was 288.5 pence in 2021. That is down from 327 pence in 2020. The majority of the movement in EPS was due to foreign exchange and IFCN trading in 2021 versus 2020, and the IFCN exit costs I previously mentioned. Excluding these three items, EPS was down just 1.7%.

Net finance expenses were 3.9 pence lower than 2020 due to lower average debt and the elimination of a prior year expense related to the interest element of a tax provision. Additionally, the effective tax rate was lower than 2020, benefiting from favourable updates to estimates in relation to certain historical matters.

I am very pleased with our free cash flow of £1.3 billion and cash conversion at 61%. Included in this reported free cash flow is over £200 million of one-time costs and tax charges related to the sale of IFCN China. Excluding these items, free cash flow would have been at £1.5 billion. And in addition, in 2021, it was obviously impacted by the exceptionally strong 2020, with free cash flow in that year of £3.1 billion. As we said at the time, this was driven by a strong working capital inflow of £0.9 billion in 2020. We stated last February that we expect an element to that working capital inflow to correct in 2021, and we did in fact see a working capital outflow of £356 million in the year.

Our balance sheet continues to strengthen with net debt moving from £9 billion to £8.4 billion. This is largely as a result, as you can see on this chart, from the net cash inflows from M&A activities.

Let us turn to our outlook for net revenue in 2022. As we have mentioned, we are expecting like-for-like growth of between 1% and 4%, while exiting the year with mid single-digit growth. Quarterly revenues over the last two years have been impacted and been more volatile because of COVID, but these impacts will normalise during 2022. This chart explains why. We are confident that our investments, nearly £1 billion in total, are paying off and driving the delivery of our mid-term targets.

First, the majority of our brands – and this is the 70% of our portfolio that we have talked about – are already travelling at mid single-digit growth rates. We expect this to continue in 2022.

Next, we have Lysol and Dettol, our world leading disinfection brands. These are at different stages in the cycle as Laxman will show later, with Dettol stabilised now at around 40% growth versus 2019 base and poised to grow low single digits in 2022. Lysol will be still annualising peak sales in the first quarter of 2022. Therefore, we expect Lysol to decline in the current year before stabilising and heading back onto a growth path.

Finally, our cold and flu brands were negatively impacted in the first half of 2021, and they will grow significantly in the first half of this year before normalising in the second half.

It is very early in the year, but our first quarter has started well with strong demand for infant formula in North America and a strong start to the cold and flu season.

In summary for 2022, we see like-for-like net revenue growth of between 1-4% and mid single-digit growth of 70% of our portfolio, offset by uncertainty related/due to COVID primarily in Lysol. We are targeting growth in adjusted operating profit margins from a base of 22.9%, and this is despite the significant inflationary pressures. We will be applying appropriate pricing and net revenue growth management actions in 2022 to offset these pressures, and we will continue to deliver in our best-in-class productivity programme.

As I mentioned, finite life transformation costs will phase out in 2022. Additionally, the margin of our Health business unit is expected to benefit for an improved mix due to the stronger cold and flu seasons. So, thank you, and let me hand back to Laxman.

Laxman Narasimhan

CEO, RB Reckitt

Thank you, Jeff. I want to give you a quick update on the progress we have made over the last couple of years and how we have been building a stronger business. As a quick recap, our strategy is centred around addressing four of the world's largest problems. These problems address:

- How can hygiene be the foundation for health?
- How do we enable consumers to self-care at a time when health systems are under pressure?
- How do we support intimate wellness and eradicate the menace of sexually transmitted diseases?
- How do we provide enhanced nutrition for infants and for the increasing number of seniors in society?

We also capitalise on two major shifts: the broad and rising impact of digital on consumers and on their journeys; and sustainability as we realise new opportunities, while making the world cleaner and better.

Addressing these four problems and capitalising on these two major shifts puts us in a very large total addressable market. We play in very strong and attractive categories, and we do so with trusted market-leading brands that consumers love; these categories of long-term structural growth characteristics which enable us with strong brand-building, innovation and execution, to grow sustainably at mid-single digits over the medium to long term.

As we have talked about before, we see four organic growth drivers which will enable us to achieve mid-single growth target. These are penetration, market share, new places and channels, as well as new spaces and adjacencies. Let us move to each of our growth drivers, where I will provide just a few examples of what we have achieved.

Starting with penetration, Turkey has one of the highest dishwasher penetrations, and it continues to grow. In 2021, our penetration grew by over 300 basis points. Our Finish brand is the market leader in Turkey. It now reaches around 11 million households as we continue to build penetration through our target media campaigns and strategic alliances with dishwasher manufacturers. In India, we have continued to build penetration of our liquid handwash and antiseptic liquids. As we all seek to keep our family safe in these unusual times, good hygienic practices are the foundation for health, and these have never been more important.

And Neuriva, our brain supplement brand, continues to build penetration and grow the category by reaching more new consumers. We doubled our sales in Neuriva in 2021.

On market share, as we stated in our RNS earlier today, 62% of our top Category Market Units (CMUs), gained or held share in 2021. I want to share a few specific CMU successes with you now.

In the US, Lysol grew shares significantly in 2021. This success was driven in part by a "Back-to-School" campaign in August till September. Our US Nutrition business grew share in both our core formula and the specialty formula segment. And in India, our focus on increasing our points of distribution over the past couple of years has helped us gain over 200 basis points in market share in 2021 for Durex.

I have covered penetration and market share. A great measure that points to both is our share of distribution globally which increases in 2021 by 110 basis points in the markets in which we measure.

On new places, our Finish business in emerging markets has grown around 80% since 2019. We have established Finish in a number of very nascent markets, which whilst individually small at the moment, have significant long-term growth potential. India, for example, has seen a fourfold increase in dishwashers since COVID, a country where we have the market-leading brand in auto dish.

Our nascent, but fast-growing VMS business in China has made strong progress in 2021. Move Free has now become a meaningful brand there and is a market leader in joint health. We continue to make progress with our unique product Nuromol, a combination of Ibuprofen and Paracetamol into one tablet, which we have rolled out in Brazil during the course of this year.

We continue the strong progress we are making with the expansion of our OTC brands in select geographies based on our regulatory work and by connecting our local heroes like Picot and Luftal, in Latin America to global platforms.

In new spaces, we have successfully launched Dettol "Tru Clean", our first plant-based disinfectant, which has quickly established itself as one of the larger equal brands in the UK. In the US, we have been very successful in capitalising on the strong equity of Lysol by moving into the adjacent category of laundry sanitisers. We see a significant growth platform in this space, and I have been very pleased by its initial success.

Our Global Business Solutions (GBS) business, has further developed its channel and geographic footprint through partnerships. We have achieved strong share growth in the sub-sectors that we have focused on. However, we do not play in many of the large sub-sectors beyond travel and hospitality, which have significant headroom. As a consequence, we are partnering with operators such as Diversey, a leader in the development and delivery of hygiene, infection prevention and cleaning solutions. This will enable us to expand the distribution of our trusted Hygiene brands into more end markets for the protection of staff, clients and customers.

We have just spoken about our four growth drivers, which are foundational to our organic growth expectations. I would like to specifically address our two big disinfectant brands, Dettol and Lysol. We immersed ourselves with consumers asking two important questions: Will improved hygiene behaviour habits stick? Second, what will happen to Lysol and Dettol as we learn to live with COVID for a more sustained period of time?

The first point to be clear about is that Dettol and Lysol, as Jeff said, are at different places across markets. Dettol is further ahead in its normalisation, while Lysol is anchored in a highly germ-sensitive US market with very high levels of household penetration. Our global research shows that 80% of consumers say that they will maintain their new habits post COVID. This has barely changed from the 83% of people who claimed this two years ago at the peak of the crisis. In addition, globally, half of consumers are still disinfecting their homes more versus pre-COVID times. Rather become complacent once vaccinated, we actually find that vaccinated people are more likely to be more germ-sensitive and maintain this habit. I will expand on this later with particular focus on the US.

These consumer observations are consistent with what we have seen in Dettol and Lysol. In both cases, we have focused on drivers of consumption in the core as well as sought to broaden the shoulders of these two trusted brands, which have driven significant growth over the last two years. Given the markets that they are in and consumer attitudes and behaviours in those markets, they have achieved this growth in different ways.

On Dettol, if you look at the left-hand side of the slide, you will see that we have broadened the base of Dettol over the course of the last two years through expansion into new places and spaces. Specifically, disinfectant spray and laundry sanitiser were nascent parts of the Dettol portfolio in 2019, but we have seen strong growth over the past couple of years. Disinfectant spray is now 3.5 times bigger than it was in 2019. This, combined with our entry into 38 new markets, has contributed over £100 million to revenue growth. However, the real difference in Dettol is that in our key developing markets such as India and China, we have seen a step change in penetration, with many consumers using the brand for the first time. We continue to see significant headroom opportunities in core Dettol markets. As a result, we are focused on driving distribution and in educating consumers in new habits.

On the right-hand side of this slide, you can see that after a sharp rise in 2020, our revenue has stabilised over the last couple of years at a level of around 40% above 2019. In fact, as Jeff said, Dettol was back in growth in Q4 2021. We feel confident that we will be able to sustain a significantly higher level of absolute revenue versus 2019, primarily due to the significant penetration opportunities we see in Dettol markets, along with our work in broadening the shoulders of the Dettol franchise. As Jeff said earlier, we are now targeting growth for Dettol in 2022.

Let us now turn to Lysol. Our primary focus in Lysol is in driving the core, both with investments in strengthening the already strong equity of Lysol, but also in driving consumer awareness and behaviour, like the "Back-to-School" campaign I mentioned earlier. We have gained 700 basis points of share versus 2019. Our US consumer research also shows that the heavy Lysol users are the heart of the franchise. These heavy users tend to be both vaccinated and germ-sensitive across demand spaces. These heavy users drove a majority of our core consumption growth in the US. They also increased their purchases of additional units in Lysol's adjacencies. Like Dettol, we have been active in broadening the shoulders of Lysol over the past couple of years, and this continues to remain a big opportunity for us.

Lysol has seen over £250 million of additional contribution from new spaces and places, including the uplift in laundry sanitiser and the Global Business Solutions business, which did not exist in any meaningful manner before the pandemic. Contribution from new market entries is solid. We see real strong traction in markets like Mexico, the Philippines and Spain, which created a new tranche of growth markets for us and confidence in our expansion success models, which we are also using to refine our approach in some other markets. We do expect some normalisation of Lysol in 2022 as the world adjusts to living with COVID, but the work we have done to broaden the shoulders of this iconic brand, our strong share gains, the anchor we have with heavy users who trust in Lysol, all give me confidence that when we do see some stabilisation, Lysol, like Dettol, will be at significantly higher levels over 2019.

I have walked you through our organic growth drivers. I have commented on our views on Lysol and Dettol. I would now like to talk to you briefly about the fundamental changes that we have made over the past two years across six areas to build a stronger, better business.

Core to our success is the strength of our brands. We invest heavily behind them, both in terms of insights, innovation, understanding preference, driving distribution and driving behaviour change. We have adopted a category-led approach to our brands and identified new demand spaces for future growth. We have invested in and seen strong growth in the equity of our brands in 2021. I am very proud that a number of our brands won Effie Awards in 2021, the 'Effies' being the pinnacle of brand and marketing recognition anchored in performance.

Just a few examples from the Middle East and North Africa region, Dettol won a Gold Effie Award. During the height of the pandemic, the Dettol team focused on not just advertising but also educating, acting and empowering our consumers through our campaign to fight and protect the little things we love so that we can keep enjoying them. Durex won an award through its Everyday Celebrations campaign, celebrating the big and small events that happen in our lives. And finally, I would like to play you our Finish video, a gold award Effie winner in our Middle East, North Africa, as well as in our European regions, that ran across many markets, and highlights that we still waste millions of tons of water prerinsing dishes. However, we all agree that water is too precious to waste.

[VIDEO]

I hope you found that as inspiring as we do, as we recognise the importance of shaping sustainable consumer behaviour through our long-term brand building. Our category-led demand space models and our investment in science platforms come together in our innovation pipeline. Our innovation pipeline is stronger than ever and 50% larger than last year. In January of this year, we launched our latest Finish Quantum All in 1 innovation in sustainable packaging, which provides deep clean and sparkling shine without the need for a prerinse. We are leveraging the strong equity of Mucinex in the US to launch Mucinex InstaSoothe for our sore throat relief, clinically proven to numb pain fast. And in infant nutrition, we are launching Enfamil Enspire Optimum, our closest ever formula to breast milk, which contains up to five times the amount of key ingredients found in other formulas.

A key focus for us over the past two years has been improving our relationships, our reliability and our overall service delivery to our customers. Our commercial execution is significantly stronger, and this has helped us increase our share of total distribution points, which increased by 110 basis points in 2021. Earlier, I mentioned our Advantage 2021 retailer survey results. We still have work to do, but I am pleased that our efforts and focus are enabling us to build much closer relationships with our valuable business partners. It goes beyond statistics. Our customers are recognising our efforts with their own awards, and we have listed just a few here.

Moving to our investment in capabilities and starting with supply, we've been making fundamental improvements across our supply chain. One of the tangible improvements is in quality. With the strong improvement in the quality of our supply chain and our products, we are seeing good reduction in both the costs associated with non-quality and our time taken to test and release our finished goods from our factories.

We are building a very strong muscle in eCommerce. We now have eCommerce capabilities in every market in which we operate. Excluding our business in IFCN China, eCommerce is now 12% of our Group net revenue, and we have bold ambitions to get to 25% by the mid-2020s. We will do this through partnership with our key stakeholders such as Amazon, where we are collaborating to share best practices, expanding into new spaces and innovating to keep our brands on Amazon relevant to our consumers. Our brands are rated, on average, 4.2 stars on Amazon, and we have grown share in our categories on Amazon. Additionally, we have four different operating models in eCommerce. We are investing to continue to make our technology platforms and supply for eCommerce even more robust. One additional highlight is the digital native brands or capabilities that we have invested in, that are scaling up as well.

Our world-class productivity programme is a key element of our earnings model. It enables us to fund our growth drivers, build our capabilities and invest in innovation while delivering the margin expansion we are targeting in 2022 and beyond. As you can imagine, there are no silver bullets here. Over £1.1 billion of productivity savings over the past two years have been delivered, and they are made up of over 14,000 individual initiatives that we monitor, track and assess progress in, ranging from direct procurement on raw and packed materials, right to the end of the value chain with revenue growth management. We are increasingly embedding these behaviours and practices into our organisation to become business as usual. We are ahead of our plan on the targets we established, and we have increased our ambition to hit £2 billion in four years.

As a performance-driven company, we embed sustainability into everything that we do. We have developed a sustainability calculator to determine our environmental footprint on each product we make and measure ourselves on the level of revenue we make for more sustainable products. We also hold ourselves to account on our level of greenhouse gas emissions and absolute carbon in our operations, as well as contributing to building a fairer society through our Fight for Access Fund. We have recently released our social impact report, and we are significantly ahead of target on the commitment we made to donate the equivalent of 1% of our operating profit to causes and communities. I am pleased to tell you that we have been recognised as a sustainability leader after being listed in S&P Global's 2022 Sustainability Yearbook "Gold Class" distinction. The gold class is only awarded to companies in the top 1% of the industry and is based on the company's Dow Jones Sustainability Indices (DJSI) score. Only two companies in our industry, household products, managed to achieve gold class in 2022, one of them being Reckitt.

We have been active managers of the portfolio as we repositioned the company towards higher growth. In 2021, we divested our low-growth brands of IFCN China and Argentina as well as Scholl, along with the proposed sale of E45. We made a strategically important move into the world's largest pain management market, with the acquisition of a great topical analgesic brand called Biofreeze. This has been a busy year for us as we have turned over 9% of our portfolio, while remaining fully focused on the organic growth drivers of our business.

The Biofreeze team have done a great job in building an outstanding brand and expanding distribution in the past few years, as evidenced by strong double-digit growth over three years, but there is huge potential for further expansion. Consumer penetration for Biofreeze is low at around 5% and well below the segment penetration of 31%, and the segment penetration is well below the pain category penetration of 82%. The Biofreeze brand has a unique franchise with the major sports teams, as well as with physical therapists. I call it the Gatorade of pain, and it provides a strong growth model for expansion. We are very focused in driving awareness and building further penetration and whilst early days, we have made a strong start in line with our acquisition case. I feel very positive about its prospects.

Before I wrap up, I want to give you an update on our culture. All of these strategic imperatives are underpinned by the work we are doing to inspire our talent and evolve our culture. We have a terrific senior team, energised by the transformation, enabled by a more systematic approach to talent management. The unique culture of Reckitt is one of the most important building blocks of our future. We are a company which has always been run by owners, and this remains firmly embedded within the DNA of the business. Over half of our employees own shares in the company. Culture is shaped by behaviours. I have talked to you at length about our leadership behaviours on previous occasions. We own, we create, we deliver, and we care. We have engaged the organisation extensively on these behaviours. They build on the success of the past while enabling the future.

Some examples: over 30,000 colleagues are now actively engaged in inclusion activities. We have made great progress in creating a more inclusive workplace, and our LGBTQ+ community are far more supported in bringing their true selves to work. Over 75% of our employees are already feeling the positive impact of our leadership behaviours rolled out through the course of this pandemic. I am delighted that we have recently been recognised in Fortune's Most Admired Company list in 2022.

I want to finish by reiterating the key messages I opened with today. Firstly, we have seen strong momentum in 2021, outperforming our own expectations on revenue growth. This sets us up well for further revenue growth in 2022 and operating margin expansion. Secondly, we have made strong progress in actively managing our portfolio to position our business for higher growth. Finally, we have a much stronger business than we were two years ago. I am, therefore, very comfortable that we are firmly on track to delivering our medium-term targets.

Thank you. With that, Jeff and I will be glad to take your questions.

Q&A

Martin Deboo (Jefferies): Thank you. I have two straightforward questions, one to the grand strategy and one a bit geeky I am afraid. The grand strategy question is clearly, it will not have escaped your attention there is a lot of corporate action in the OTC space, GSK spin, J&J spin, etc. How are you thinking about that, and do you want to be a player in consolidation or a victim? That is the first question.

The second question, and geeky, Jeff, for you. Sorry, he is very good at it. You said the finite life transformation costs were phasing out. There has been some debate whether they are partially phasing out this year or fully phasing out.

Jeff Carr: I will start with the easy one. No, they will be fully phased out this year. The transformation programme we said would go over a two-year period, but with COVID, it is basically going into 2022. However, this will be the last year where we talk about finite life transformation costs.

Laxman Narasimhan: I thought the first question was easier. We are very pleased with our portfolio. We have plans in our business that will get us to mid single-digits growth and mid-20s margin, so we feel very good about the progress we are making. Clearly, what is happening in the world outside is there is a lot of corporate action, as you have rightfully said. I think some of these things in the consumer health space will just take a lot of time to fully play itself out. My team and I are fully focused on delivering our plan and are focused on ensuring that we do everything we can to hit our medium-term goals of mid single-digits growth and mid-20s margin.

Guillaume Delmas (UBS): Two questions, the first one for you, Jeff, on the 2022 margin outlook. Could you provide some granularity on the margin bridge for this year? I get that you have a 500 basis points input cost headwind. You are going to mitigate part of that, but that would still assume gross margin down, compensated by a decline in other and BEI, so any granularity on this would be helpful. You also mention in the press release that it is going to be back-end loaded, so should we assume some margin decline in the first half of the year?

Then my second question is on the tension between like-for-like sales growth and your medium-term margin target, mid-20s, by 2025 because you showed in your presentation, Laxman, all the opportunities for Reckitt in terms of penetration gains, in terms of white space opportunities. Why, facing almost a risk of curtailing your investments and your organic sales growth by pursuing this medium-term margin target? Would you not be better off dropping the margin altogether and trying to accelerate your organic sales growth further? Thank you.

Jeff Carr: Let me start with 2022. I am not going to get into too much detail, but I would start by saying what we are projecting is margins will grow, and I went through in the presentation, the kind of levers that we have in place in 2022. A lot of those levers are levers which affect gross margin, not just pricing, revenue management, but also a considerable part of the productivity programme. In 2021, pretty much 50% of the COGS inflation was offset by productivity, and I think that is a good rule of thumb to work forward to, going forward. So, within our guidance, we are not necessarily projecting a gross margin decline. We also have the benefit of a full year of cold and flu sales coming through, which will give our Health GBU significant mix favourability, both in terms of operating profit but also in terms of gross margin. We are not going to get into detailed forecast of individual lines, but we are not talking about cutting investments in 2022. We will continue to invest in our brands, we will continue to invest in our businesses. You did see BEI go down in 2021, but I explained what the reasons were behind that in 2021. Then in terms of the first half, second half, I am not going to get into specifics. All we have said is the growth will be more weighted towards the second half, both in terms of like-for-like revenues but also in terms of margin growth. For like-for-like revenues, that is not least because the first half in Q1, we have a huge comp in terms of hygiene, but also in terms of margin, our pricing actions in 2022 will be being implemented as we go through the first quarter, and there will be pricing actions into the second quarter.

Laxman Narasimhan: On your second question about the medium-term targets, as you know, we have been very disciplined about what we are trying to do. We are fortunate that we are in very attractive categories that have attractive margins. The mix of business is going to play to our strengths over time, just given what we are, where we see the growth and the kind of investments that we are making. Our intention is to invest in order to drive growth. When we see opportunities to grow, we will clearly make the investments, but we want to do this in a very disciplined manner. We do not see any need to get away from our medium-term targets because we see opportunities in productivity, we see opportunities in continuously driving further efficiencies. Growth is obviously a very big and important element, but we are going to be very disciplined about how we get there. I think the category mix – the category presence and the mix we have – really plays to our strengths.

Jeremy Fialko (HSBC): A couple of questions from me. The first one is can you talk a bit about the visibility that you have on costs at the moment? How much you are hedged through the year, how much you are covered, that mid-teens number and what the variables relating to that are. Then secondly, can you talk a bit more about the Nutrition margins? 15.5% is obviously a very long way below where they were when you bought Mead. I think you went on record saying that the US margins were in the 20s, which, obviously, we can do the maths on what that means for the rest of the division. Could you talk a little bit about what you think are sustainable margins for that business? Do you think there is quite a lot to go for on that side? Thank you.

Jeff Carr: The visibility we have either through hedging or through kind of contracts in place, probably around about 50% of our cost of goods is covered for 2022. I am not going to break out the difference between hedged versus non-hedged, but including that, those contracts and those hedges in place, we see cost-of-goods inflation going to the sort of low teens in 2022. It is highly volatile, lots happening both geopolitically, fuel price, oil prices and such forth, but that is where we currently stand.

I think on Nutrition margin, let me just say, it is important that we address the stranded costs that were left from the IFCN China sale. This Nutrition business obviously includes VMS, which had some specific one-time costs that were incurred in 2021, and so we are confident we will see margins improve as we go. I am not going to give you a target for Nutrition, but we will see margins improve and move over time closer back to the group average margins.

Tom Sykes (Deutsche Bank): Just firstly on the top line guidance, is Lysol the biggest swing factor in the 1-4%? When do you envisage Lysol actually getting back into growth or stabilising?

Then there has been some commentary that it is a short cold and flu season. I wondered whether you could make some comments on that and maybe where you think inventory levels are, where we are with the sell-in versus the sell-out and perhaps where your innovation is benefiting you in cold and flu?

Laxman Narasimhan: I think in the first question, yes, Lysol is the biggest swing factor, and we expect that over the course of this year, Lysol will normalise. We cannot give you a precise in a month, quarter or whatever, but over the course of this year, we will see that. We will see, by the way, changes over quarter by quarter as we go, but really the expectation is this year, it will normalise.

What I feel good about is all the things we have, particularly on broadening the shoulders of the brand and the activity we are seeing in market in order for that to happen; and feel good about the expansion into additional categories with the Lysol brand, the countries and so on. I think to me, that is the swing factor over the course of this year.

In terms of the cold and flu season, I think just a couple of things I just want to correct. One is, I know we look at a lot of data that exists out there around things like ILI and so on. The challenge with some of these statistics, particularly over the course of the pandemic, is that they are a bit decoupled from actual events because there are a lot of people not going to doctors and not going into clinics in order to report themselves. One has to take some of that data with a pinch of salt, particularly with what we see but on the transactional side. If I look at the inventory levels, I mean they are normal. There is no excess. Clearly, as you look at some of the availability challenges – you have seen pictures all over – obviously, if you had more, you could even sell more. However, the fact of the matter is that it is a business that is off to a good start for this year.

John Ennis (Goldman): My first is a follow-up on Lysol. I wondered if you could give us a bit of a flavour for the exit rate so far for the start of Q1 in terms of how sales are trending. In answer to your previous question, you said that is the big swing factor. If we use that as the swing factor, I guess you could assume Lysol sales down in a range of 10% to 30%. Is that a reasonable set of parameters for this year?

Then my second question is on portfolio review. I think you said that you have changed 9% of the portfolio roughly in two years. Is that the right sort of level of change for a business like yours on a two-year basis, or should we expect that magnitude to slow going forward? Thank you.

Jeff Carr: I think that is a reasonable range in terms of the 10% to 30%, but we will see double-digit decline in Lysol during 2022. Obviously, as we talk about exit rate of this year of mid-single digit growth, we are looking at all of the brands contributing to growth. We are not giving a specific forecast of when Lysol will start growing again, but inherent in that guidance is you would expect contributions from one of our, if not, our biggest brand. However, that range of numbers that you have talked about, I think 30% is at the high end, but certainly within that range. I think in total, Lysol did grow last year, but obviously it was declining, and we have said double-digit declines for this year. I would not get into the current run rate any more than that.

Laxman Narasimhan: I think with your second question about is the 9% the number that one should think about over the next couple of years, we do not have such numbers, to be frank. We are active managers of the portfolio, but I think we have taken a lot of actions. We feel good about those actions because they do position our business in high-growth spaces. We are always on the lookout. If there is another Biofreeze or asset like that, we would obviously consider it, but we do not really have any targets to tell you that it is a 9% number.

Fulvio Cazzol (Berenberg): I just wanted to throw it out there – obviously, the elephant in the room – which is the IFCN business. There have been reports in the press that you may be considering whether you are the right holders for that asset, so wondering if you can either rule out or comment on whether more disposals could be possible.

The other one is on Finish, Air Wick, some of these other brands that may have benefited from people spending more time at home. We are now all back into offices. Do you see some potential headwinds for some of those hygiene brands in 2022? Have you factored any of that in the guidance? Thank you.

Laxman Narasimhan: I think on the first one, we do not comment on speculation. We are pleased with the overall portfolio that we have. If I look at our Nutrition business and you look at the performance of the business, separating from VMS, by the way, which as you know, was lapping a very high sales increase in Airborne. So, you take Airborne out, the VMS business did very well, I mean strong double-digits growth other than for Airborne, which is lapping a big number. If you look at the nutrition business, and as Jeff has pointed out, it grew 3% last year. We are off to a strong start this year as well, so I think we feel good about it. We feel the US has grown at mid-single digits growth for the last many years. The margins are very attractive. Our business in Latin America has stabilised. We know that we have a margin improvement opportunity there. We also know it is the same thing in the case of ASEAN. I think looking across the board, our Nutrition business is performing well, and I do not make any comment on any speculation that you might have.

Jeff Carr: Yes, on the other brands, we continue to see those brands growing, the Air Wicks and the Finishes. Certainly, of course, we take into account any factors. The million-dollar question is to what degree people return to the office, and I think we all agree, probably, it is not a 9-to-5, five days a week. It is going to be some sort of hybrid going forward in the future, so we take that into account, of course, in our planning.

Laxman Narasimhan: Just one thing I would say. The penetration opportunities for those brands is very high still. We see both what is happening online, what is happening in homes, and so we see a play there for that as well.

Alicia Forry (Investec): Two questions: the first one, I wonder if you could talk about the pricing environment that you are seeing thus far in 2022. What percent of the pricing that you hope or plan to take for the year have you got in the bag already?

Secondly, I think you said you are moving the VMS business into Health and out of the Nutrition area or division. I wonder if you could talk about what you hope that move will achieve for both VMS and for Nutrition. Thank you.

Laxman Narasimhan: The first one, our pricing plans are proceeding much as we have planned. I think we have pricing in North America that is going through, pricing in Latin America that has gone through. We are obviously very conscious of competitiveness and how we ensure our brands are competitive, but the pricing plans for North America, the first wave have certainly gone through. There will be more to come in subsequent waves over the course of this year. I think we see that in the developing markets, largely, the pricing has gone through. In Europe, we are still working through the pricing environment in France and Germany, but the rest of it we feel good about. That is the nature of what we have on pricing.

To get to your second question on VMS, that business has traditionally been focused on North America and China. In a lot of ways, it was representative of the way it was organised and how it was run. We see a major opportunity for that business in various other parts of the world, and we needed a growth chassis that would actually drive it. The Health chassis provides us the ability to, frankly, scale it and scale it faster. The regulatory environment for VMS is different from that for OTC, and we see lots of growth spaces and lots of growth potential for that business, which is why we have, in fact, made that move.

Celine Pannuti (JPMorgan): Thank you for taking my question. My first one is coming back on the 1-4% guidance. Should we expect that there would be a volume growth within that? Obviously, there is the impact of Lysol, but I am referring whether you would expect some pressure on volume from raising prices, some elasticity that some of your competitors are talking about.

My second question is on consumer health. Clearly, some of your competitors are looking at scaling businesses. You have been adding Biofreeze. At the same time, the exit of IFCN China probably weakens somehow your capabilities in China. How do you see consumer health going forward? Is it really about concentrating in few geographies and capabilities, or do you think that scale will be important?

Jeff Carr: I think the second question was more about strategically, how do you see the growth from consumer health geographically and such forth. I think the first question was about volume growth. Celine, I would say it is really difficult at this point to talk about precisely pricing and volume because obviously, we are in this really dynamic period, and so of course, we target volume growth but as a target. However, I think it would be unwise at this point to break down the guidance into specific numbers in terms of volume versus price.

Laxman Narasimhan: On your second question on consumer health, the consumer health business is three parts: it has Dettol, it has OTC and it has Intimate Wellness. The Intimate Wellness business is a global business. We are strong in a few geographies, but the growth potential we have across the world is very large. In addition, our ability to expand what we do in Intimate Wellness is very high too, which really underpins the high single-digits growth that we have in Intimate Wellness. Our expectations at OTC, as you know, have been a 2% to 4% growth avenue for us. What we are seeing is a combination of expanding what our brands do in OTC, the ability for us to take our local jewels and link it back to our global platforms. We are bringing science platforms as well as consumer insights to drive new innovation, and we are also seeing global opportunities in terms of growing these brands through either in-licensing, but also just through expansion. The Nuromol expansion in Brazil is a very good example of that. That part of it, the global expansion of some of the OTC, is obviously slower than what it might be in some of the other categories that you might see. The third on Dettol, it is really about driving penetration in many of our markets, particularly in the emerging markets, where, as you know, it goes through the pharmacy channel, in some cases. That business is one where it is about penetration increase and how we drive it. For us, China is very important. It is a business where we have a very good Intimate Wellness business, a very good business with Dettol. As you know, the Chinese regulations are changing as well with regard to what happens in OTC, so future growth potential there is clear.

Iain Simpson (Barclays): Firstly, I wondered if you could talk at all about your Philippines IFCN business. It is a pretty fast-growing market. It is basically a duopoly with you and Nestlé. Can you give us any colour on your performance there? It feels that we have not heard much on that for a while.

Secondly, I appreciate you do not want to get dragged down the rabbit hole of decomposing your guidance, but just when I think about price/mix this year, now you are guiding incremental COGS pressures this year to be modestly higher than they were last year. Given that you took 2.9% price/mix in 2021, would it be reasonable to expect price/mix in 2022 to be kind of comparable with or slightly above 2021 price/mix, given the worsening input cost headwinds or are there other sort of specific factors we should be keeping in mind? Thank you.

Jeff Carr: Let me hit the second one very quickly. I think the answer is yes. Yes, we would expect the price/mix to be higher than the level in 2021. Again, not going to get dragged into how much higher, but you have seen everything in terms of the consumer price indexes in various countries. We would expect it to be higher.

Laxman Narasimhan: On the Philippines business, thank you for asking the question. It is obviously a growth market for our infant nutrition business overall. We have had a few challenges in that market, but the team has done a great job in fixing those. What we are seeing now is growth is back, and we are seeing new innovation go in across the portfolio of brands we have. In particular, we have really focused on execution in the medical channels in the Philippines, and that has been helpful to us in terms of building brand and brand preference.

Jeff Carr: I think with China and the US, the Asian markets did not perhaps get the management focus. We have also seen market share growth in, for example, Thailand, so it is really encouraging what we are seeing in Asia.

David Hayes (Societe Generale): If I can come back to costs and investments in two parts. Just first part, on the BEI down 90 basis points in the second half, which you talked about before, Jeff, on efficiencies and changes of in-house. There is two parts to the question, but one: is that the kind of level we should we be thinking about in 2022 on your base case budget? More specifically, on the second half that we have seen, what are projects that dropped out that go into 2022 because I know, in asking that, is obviously input costs were higher than you thought towards the end of the year, but you still hit the margin targets? Was there some costs that you avoided, or were you able to get very quick pricing in the last couple of months of the year, which kind of offset that input cost inflation level?

The second part of the question, just in terms of cost versus investments, you gave the number about £1.1 billion of delivered cost savings. I just wondered can you give a number of investments against that equivalent number? I think it was running something like £900 million, you said at the first half stage. When you talk about the £2 billion, I am not sure we were given a number of spending against the £2 billion across the three years or four years? Is there a number that you can give us, or what is the investment level and, therefore, what is the net benefit or cost when you put the investment side of that £2 billion? Thank you.

Jeff Carr: The first question was in relation to generally BEI and what happened to BEI specifically in the second half and how do we manage to hit the margin for the full year, having seen COGS inflation accelerate during the course of the year. The second question was in relation to productivity versus investments. If I start with the productivity and investments, I think we were tracking the investments and talking about a specific pound investment in the business during the transformation phase and the investment phase that we are going through. We have come through that phase, and those step-change investments really finished in the first half of this year. I do not think it is helpful to continue to talk about what additional investments we are making in the business. The productivity programme contributed £700 million this year. I think what is fair to say as we look to 2022, the productivity programme will be more weighted towards funding the price inflation than perhaps investments into other areas. We will be putting more of the productivity programme to offset COGS inflation pressures than perhaps we did in the last two years, and that is just a necessity as we look to manage our gross margins.

Laxman Narasimhan: At the same time, we are going into this era with a business that has been invested in, and so we feel very good about that as we enter this next phase.

Jeff Carr: Yes, and I am not implying we are not going to be making investments. I am just saying it is more in the normal course now, so that is why quoting an investment number is a little artificial.

In terms of BEI, all I would repeat is what I said. We had a lot of productivity. We spent, in 2021, £100 million in absolute terms more than in 2019, £100 million more investment into our BEI. As a percentage, that has come down, but we have also delivered significant productivity savings. As I mentioned, just bringing back together the media-buy that had been split between Health and Hygiene, those types of actions have delivered significant productivity. We saw 90 basis points of productivity in that BEI line in 2021. I know it is difficult to be precise, but we are not cutting the investments and the effectiveness of the investments in our business.

In terms of the margins, we saw inflation increase. We guided 8% to 9% cost of goods inflation at the half year, and then we ended up at 11%. The levers we had to pull is, yes, we had pricing coming through in the second half of the year, which I think was one of your questions. We modified that as we saw the inflation coming through, and we also stepped up our productivity goals. The £700 million in 2021 is a really significant and best-in-class number.

Pinar Ergun (Morgan Stanley): Two questions. Do you see any threats from private label this year and next? What gives you confidence that consumers will not trade down from your brands?

The second one, Laxman, you have brought quite a few external talents to the leadership team in recent years. Any key learnings or different perspectives the company has got from these executives? Thank you.

Laxman Narasimhan: Thank you for that. The first one on private label, a very good question. We obviously watch this very carefully. Our brands are premium. They are well invested in. Really, what we have to ensure that we are doing is bringing in real preference from the consumer perspective. I think you have to recognise as well that the cost inflation or pressures are also hitting private label, so I think you are going to see that too play itself out. We feel good about that. We feel good about the brands and the strength, the investments we are making end-to-end, so we feel good about that. We have actually obviously looked at this very closely.

The second one on the external talent coming in, we have a combination of terrific leaders in the first three layers of the company. They include people from the outside, and I think you have met many of them as part of our Investor Day, as well as we have internal talent that we promoted as we go through this. I think it really builds it together, what we have said before: the strength of the culture of the past, but we are clearly evolving it for the future. What these people bring is they bring a respect for the past, but they also bring new ways of thinking about the business in ways that are triggering new growth ideas for us and building new capabilities for us. As we look at strengthening some of these capabilities, we have had people come into functions in ways to strengthen our business overall, and that has been the big contribution, Pinar, that they made to it.

Closing Remarks

Laxman Narasimhan

CEO, RB Reckitt

I wanted to close with three messages that I thought I would leave you with, and I hope you will take away from this. First, we have seen strong momentum in 2021. We have outperformed our own expectations of revenue growth. We have a more competitive business, and this positions us well to deal with a difficult operating environment, while delivering further revenue growth in 2022 and a return to operating margin expansion. The second message is we have made good progress in actively managing our portfolio to position the business for higher growth. Finally, we have a much stronger business than we did two years ago, with better execution muscle, more resilient supply chain and a better, bigger innovation pipeline. We have a strong leadership team in place. Our performance-driven culture builds on our past and is evolving to support our future. I am, therefore, very comfortable that we are firmly on track to delivering our medium-term targets. I just want to make one scheduling comment. As you know, we have been doing investor seminars. We started doing them in September. We have another one coming up on 6th April, and it is focused on ESG, and so you get a chance to interact with our team on that.

Thank you again for your engagement. Thank you for your investment in our company. We deeply appreciate you joining us this morning.

[END OF TRANSCRIPT]