Reckitt H1 2024
Results & Strategic Update

Wednesday, 24th July 2024

Introduction

Richard Joyce

Head of Investor Relations, Reckitt

Welcome

Good morning, everyone. Welcome to Reckitt's Half Year 2024 Results Presentation and our Strategic Update.

Disclaimer

Before we start, I would like to draw your attention to the usual disclaimer in respect of forward-looking statements.

Agenda

Now presenting today is Kris Licht, our CEO, and Shannon Eisenhardt, our CFO. Following the presentation, will be the usual Q&A session.

So, without further ado, I would like to introduce Kris to kick things off.

Highlights

Kris Licht

CEO, Reckitt

Agenda

Good morning, everyone, and thank you for joining us. Shannon and I will kick off today's presentation with some key messages around our H1 performance followed by a deeper dive into our numbers and outlook for the full year.

I will then take you through an update on our strategic agenda, in particular the actions we are taking to reshape Reckitt through a sharper portfolio and a simpler organisation. We will finish with the usual Q&A session.

I am keen to talk to you about the actions we announced this morning to reshape Reckitt as a world-class consumer health and hygiene company, with one of the strongest growth and margin profiles in our peer group.

But first, let us talk about our H1 trading.

Key H1 Messages

In February we said that our revenue and profit growth would be back half-weighted given the seasonal factors impacting our Health business and the continued rebasing of US Nutrition. We delivered the first half broadly in line with these expectations, and Shannon will provide further details by Global Business Unit shortly.

We are revising our Group outlook for the year from 2% to 4% like-for-like net revenue growth to 1% to 3% growth because of the tornado that hit our Mount Vernon warehouse on 9th July. This is not a structural issue, nor a long-term issue for our Mead Johnson Nutrition business.

While the event will affect our revenue results this year, we do not expect a material impact on our earnings as we hold comprehensive property damage and business interruption insurance.

We see positive underlying momentum in our business as we leave the inflationary cycle of the last few years behind and move towards a more normal and balanced trading environment. Many of our brands and markets are showing good volume growth, which is very encouraging.

Our markets remain competitive, particularly in the US and in Europe, where we are seeing a return to a more normal promotional environment. Our innovation platforms are driving premiumisation, penetration and category creation. We saw good gross margin expansion in the first half. We increased investment behind our brands, and we are starting to see some good benefits from our cost optimisation programme.

We also delivered strong free cash flow, which increased by 8% in the half. As we look to H2, I expect to see an improvement in the growth rate of Health, continued broad-based growth in Hygiene and the final rebasing of our US Nutrition business, which we expect to end in Q4.

The positive momentum of the business, our strong free cash flow generation and our confidence in our future have driven the Board's decision to both increase our interim dividend and announce the next tranche of our share buyback programme of £1 billion over the next 12 months. Together, these actions show our commitment to increase cash returns to our shareholders.

I will now handover over to Shannon to talk in more detail about H1 trading and our outlook for the year.

Financial Review and Outlook

Shannon Eisenhardt

CFO, Reckitt

Group summary: H1 in line with our expectations

Thanks, Kris, and good morning everyone. Today, I am going to start by taking you through our results for the first half.

Group like-for-like net revenue growth in the half was 0.8%, with a flat performance in Q2. As Kris said, we delivered H1 broadly in line with our expectations. Absolute net revenue was £7.2 billion, a decline on an IFRS basis of 3.7%, primarily due to the negative FX from the relative strength of Sterling.

However, it is important to note that our Health & Hygiene portfolio returned to growth with volumes up 0.4% for the half. Our gross margin continued to be above 60%, and funded increased BEI, driving our adjusted operating margin delivery of 23.5% in the half.

Free cash flow grew 8%, and we delivered earnings per share of 161.3p.

Volume trends – Continued sequential improvement

I will now provide more detail on the volume results for H1.

In Hygiene, the improving trends we saw throughout 2023 continued and we returned to volume growth in H1, as expected. Growth was led by Lysol and was broad based across North America, Europe and our Developing Markets.

Health delivered a relatively flat performance in the half. We saw broad volume growth across our brands, including Dettol, Durex, VMS and Gaviscon. This growth was offset by a high-single-digit decline in our seasonal OTC brands, and we do not expect this headwind in H2.

Nutrition's volume decline primarily reflects the continued rebasing we are seeing in the United States. As previously communicated, we are returning to a more balanced growth algorithm driven by price, mix and volume in our Health and Hygiene businesses.

Group market share impacted by Nutrition

Moving to our market shares. As a Group, the percentage of top CMUs holding or gaining share has declined to 38%. Nutrition is the key driver of this change.

Hygiene CMU results are slightly down versus 2023 as we see strong competitive challenges in the US and a return to a more promotional environment in Europe. We have taken actions to improve our market positioning. However, we expect the competitiveness in these markets will continue.

Health CMU results are slightly down at 43%. Intimate Wellness is seeing good share gains and we see improving trends across OTC, Germ Protection and VMS. Specifically within OTC, Mucinex is a large CMU for us and has returned to share growth over the last quarter but not yet flipped to positive on a year-to-date basis.

It is important to remember that CMU market share reporting is a binary metric and it is useful to also look at total value market share data alongside. We are holding total value market share in both Health and Hygiene on a year-to-date basis.

Adjusted operating margin – GM expansion funds increased BEI

We are pleased to share that we were able to fuel strong brand investment though our gross margin expansion while delivering a 23.5% adjusted operating margin. Gross margin increased to 120 bps, aided by the benefit of carry over pricing actions and a more benign commodity environment.

Fixed costs represent around 22% of our net revenue and increased by around 50 bps in H1.

Fixed costs – Mitigating inflation with cost optimisation

Looking deeper into our fixed costs for the half, our cost base increased 50 bps, reflecting inflation impacts, negative FX and costs associated with our fixed cost optimisation initiatives, which we took above the line. These increases were mitigated by the benefits of our cost optimisation initiatives.

Hygiene – Growing volumes & revenue

I will now get into GBU specific results. Hygiene delivered 4.5% like-for-like net revenue growth in H1, which is in line with our mid-single-digit growth expectations for the full year. All of our Powerbrands were in growth, led by Finish and Lysol, and our Hygiene GBU delivered 0.9% volume growth for the half.

Hygiene delivered 1.9% like-for-like growth in Q2, with both volumes and net revenue impacted by the reversal of a 2% sell-in benefit ahead of an SAP implementation in Brazil at the end of Q1, which we discussed in April.

Excluding this headwind, Hygiene's like-for-like growth in the quarter was closer to 4%, with volume growth of around 1%. Hygiene delivered an improvement in adjusted operating margin, up 230 bps, driven primarily by gross margin expansion.

Health – Offsetting seasonal OTC with strong volume

Health delivered 1.3% like-for-like growth H1, with sequential improvement across the quarters. Growth in the half was broad-based across Intimate Wellness, non-seasonal OTC and our VMS portfolio. This growth was reduced by softness in our seasonal OTC brands given the weak end to the cold & flu season and the impact of retailer inventory movements.

Health delivered an adjusted operating margin of 27.8% in the half, with gross margin expansion more than offset by increased marketing investment in our brands.

Nutrition – Continued rebasing of US business

For Nutrition, I will start with our H1 performance and then share an assessment of the full year impacts we expect to see because of the tornado in the US.

In H1, we saw a 9% decline in like-for-like net revenue, which is moderately better than the guidance we shared in February. North America declined mid-teens as the business rebases from elevated shares in the prior year, and we saw a low single-digit decline in our Developing Markets business.

Nutrition's adjusted operating margin was 18%, which was impacted by deleverage on the top line and a more normalised trade and marketing environment in the US.

Adjusted diluted EPS – Broadly flat earnings reduced by FX

Moving to our EPS bridge. Excluding the impacts of FX, our earnings per share is broadly flat as interest and tax expense are partially offset by growth in adjusted operating profit and the benefits of our share buyback programme. We face a 9.9p negative impact from FX due to the strength of our reporting currency.

+100% increase in cash returns

Our free cash flow generation was strong in H1. Our leverage of 2.2 times remains consistent with our capital allocation framework. And we are pleased to announce a 5% increase in our dividend along with the next tranche of our share buy-back programme of £1 billion over the next 12 months.

Mount Vernon – Tornado Update

We informed the market last week that on 9th July, a third-party warehouse in Mount Vernon, Indiana, was struck by a tornado and sustained significant damage. As things stand today, we believe we will experience a short-term impact to our sales of Nutrition products this year.

Taking this into account, our full year net revenue outlook for Nutrition will be a low double-digit decline. This is a reduction from our previous outlook of a mid-to-high single digit decline. We expect the majority of this impact to happen in Q3. Reckitt holds comprehensive property damage and business interruption insurance. We believe insurance proceeds will largely offset the impact on both the inventory write-off and our lost earnings.

We are confident that insurance proceeds covering the inventory write-offs will be recognised in this calendar year. However, we may not be in a position to fully recognise the recovery of lost earnings within FY 2024. The change to our outlook for Nutrition has impacted our Group outlook, which I will discuss now.

2024 Outlook and Guidance

This Nutrition adjustment negatively impacts our Group outlook by about 1%. For this reason, we are reducing our Group like-for-like growth outlook from 2% to 4%, to 1% to 3%. We reiterate our full year expectation of mid-single-digit growth for our combined Health and Hygiene portfolios. This is likely to materialise at the low end of the range as our Hygiene business faces a more competitive environment in Developed Markets.

As a Group, we expect Nutrition's shortfall to materialise in Q3. For Health, we expect a modest sequential improvement in Q3, with a very strong Q4 as we lap a weak comparative in Q4 2023. We expect Hygiene growth in the back half to be more weighted towards Q4.

Despite the lowering of our full year net revenue target, we continue to expect adjusted operating profit to grow ahead of net revenue growth this year. We reiterate our expectations for net finance expense, for our adjusted tax rate, and for CAPEX.

That concludes our financial summary and 2024 outlook. I will now hand over to Kris take you through the actions we announced this morning around our portfolio and our organisation.

Strategic Update

Kris Licht

CEO, Reckitt

A world class Health & Hygiene Company

Thank you, Shannon. Let me now turn to the future of Reckitt. In Reckitt, we have all the makings of a world class Health and Hygiene Company. We operate in the right categories. We grow the right Powerbrands, we have the right team, and we are putting in place the right structure. I have the greatest confidence in what this company will do.

In October we set out our strategic priorities

Last October, I set out the strategic priorities and principles that would guide our path forward. These included:

- Reviewing our portfolio for value creation;
- Driving product superiority throughout our portfolio;
- Winning in our markets by more consistently executing with excellence; and
- Optimising our cost base by simplifying our organisation and finding scale opportunities wherever they exist.

Today's update focused on portfolio & organisation actions

After a thorough review, we announce today a set of actions to re-shape Reckitt as a world class consumer Health and Hygiene company with one of the strongest growth and margin profiles in the industry.

We continue to progress on product superiority and in-market execution, and we will provide an update on these at our full year results. But today, I am going to focus on the actions we are taking on portfolio value creation and organisation. Of course, all proposals are subject to relevant employee representative and works council information and consultation, where applicable.

Our three principles of portfolio value creation

Last October I set out the driving logic behind the Reckitt portfolio and how it creates value. I said that we have an excellent portfolio of brands, but I was clear that every brand and business will need to earn its place in our portfolio by satisfying the following three principles:

- Number one, a brand or a business must enjoy a clear and credible long-term runway for growth;
- Number two, they must have an attractive earnings model. I primarily look at the strength of the gross margin. It needs to be high, and at the high end of the category in which it operates. This enables continuous investment in growth and premiumisation, as well as operating margins that are consistent with our earnings model; and
- Number three, it must have a source of enduring competitive advantage. For instance, a number one or two equity position.

Moving to a sharper core portfolio

We have concluded our portfolio assessment. Reckitt has an excellent portfolio of brands, but it can be sharpened. We have a stable and resilient portfolio of strong brands in the home care category, that do not fully meet our three principles. We therefore consider them non-core and will seek to exit this Essential Home portfolio by the end of 2025.

Mead Johnson Nutrition is also considered non-core and we will consider all options to maximise shareholder value. We will take the time it requires to achieve the right solution.

The core Reckitt business is truly special, with a portfolio of market-leading, premium Powerbrands that will deliver accelerated growth and enhanced shareholder value creation.

Self-care – 34% of the sharpened portfolio

Let us now move to our sharpened core portfolio, starting with Self-care. In this category, we have four Powerbrands:

- Mucinex;
- Strepsils;
- Gaviscon; and
- Nurofen.

We also have future Powerbrands like Move Free and Biofreeze, as well as some important local hero brands across markets. As I set out in October, this category has a long-term runway for growth, fuelled by:

- Heightened consumer interest;
- Increased disposable incomes; and
- The need to migrate to greater self-care as populations age.

And in Emerging Markets, self-care is still a nascent category with significant and long-term growth potential. Our market-leading self-care brands are trusted by consumers and known for the efficacious, medicated solutions they provide. They have delivered a very strong revenue growth CAGR over the last five years, at 7%, and have an excellent gross margin and earnings model that allows for continued high levels of investment in brand building and innovation.

Germ Protection – 31% of the sharpened portfolio

Our Germ Protection Powerbrands Lysol, Dettol and Harpic enable the highest standards of hygiene in the home and on the go, and protect against the spread of germs, viruses, and bacteria. As we saw during the pandemic, these brands and products are of the greatest importance as we seek to keep ourselves, our families and our communities safe. And in the post-pandemic world, this remains as true as ever: good and effective hygiene is foundational to good health.

We enjoy strong category and brand growth tailwinds, particularly given the penetration and category creation opportunities that exist. We have already made great progress on category creation in recent years through our successful and highly incremental Laundry Sanitizer and Air Sanitizer platforms.

Category creation will remain a key element of growth going forward. We will manage the Dettol and Lysol brands, which share R&D and science platforms, together in a unified global category team. Dettol and Lysol saw significant growth during the pandemic, and after a period of normalisation, both have now returned to growth from a higher base. And I am particularly pleased to see that both brands are delivering good volume growth again in the first half of 2024. We do expect that to continue.

Household Care – 22% of the sharpened portfolio

Our next category is Household Care, which contain our two Powerbrands, Finish and Vanish, both global leaders in their respective domains. These brands have delivered very good growth over the past five years with a CAGR of 8%. There are strong growth tailwinds for the category and for our brands, with penetration and premiumisation opportunities throughout both developed and emerging markets.

And given the premium nature of the category, the margin profile and earnings model are also very attractive, creating room for continued investment.

Finish will play a very important role for us as we move forward, given the household penetration opportunity that exists in large developing markets, where the category is today not fully developed. This provides us with a clear and decade-long runway for growth, and

our new organisation structure will provide even greater focus on that opportunity. More on that in a bit.

Intimate Wellness – 13% of the sharpened portfolio

And our fourth category is Intimate Wellness, led by Durex and Veet, both global leaders in their respective categories. Intimate wellness remains a high growth, attractive category fuelled by increasing consumer interest, normalisation and engagement. Significant innovation and product premiumisation give us confidence that this category will also enjoy attractive long-term growth. And we see the opportunity for very rapid growth in large emerging markets such as India, Africa and Latin America.

These products also generate strong gross margins. They have a very attractive earnings model. They have grown net revenue at a 7% CAGR over the last three years. We have used that to enable investment in new differentiated and superior materials and new production techniques. This will be a major focus in the coming years as we bring more of these innovation launches to the market.

A world class portfolio

So, in summary, Reckitt will become a more focussed business, driven by our Powerbrands which are beloved by consumers and hold leading market positions in categories with significant headroom for long-term growth.

The portfolio generates gross margins of around 61% collectively, which provides significant fuel for investment behind our brands and behind innovation, and a very attractive earnings and cash generation model.

It is a cohesive portfolio. Our proven playbook for how to grow and expand Powerbrands applies across. There is common science behind our innovation platforms. We enjoy scale across our value chain including procurement, manufacturing and logistics. We also have commonality in our go-to-market approach with the same customer base in many markets. Marketing activation and consumer education programmes are similar. And importantly, our brands face similar exposure to consumer megatrends.

We create and grow Powerbrands

The structural economics of our portfolio are strong, but the benefits of this Powerbrand-led approach are more wide-reaching. The successful Reckitt playbook honed over many years of successful growth and learning starts with our obsession over the consumer, a deep understanding of consumer demand spaces, unmet consumer needs and category drivers.

Our people know how to create, build and broaden iconic brands. Many of our brands are synonymous with the categories they lead, backed by the efficacious solutions they provide and our wide-reaching consumer education and marketing programmes.

Our deep understanding of consumer demand spaces, combined with our strong science platforms, enable us to create bigger, better innovation with break-through propositions. And at times we do create new categories such as laundry sanitizers and air disinfection. And we have the people, the scale and the brands to deliver excellence in execution within our markets, both at shelf and on screen through our proprietary global and local success models.

It is from this Reckitt playbook that we can drive growth above our underlying categories though household penetration, premiumisation and category creation.

I just walked you through the growth we have delivered in these core Powerbrands over the past five years, which demonstrates the power of this playbook.

We continue to benefit from a scaled global footprint

The core Reckitt portfolio will continue to benefit from a scaled global footprint with a balanced portfolio across North America, Europe and Emerging Markets. We will still have scale in every market that matters for future growth, and in many European markets we will enjoy greater operational scale as we unify our go-to-market organisations without the GBU model.

Importantly, our geographic mix will be further shifted towards faster-growing emerging markets such as India, China and Africa, where we have thriving businesses today. Maximising our growth potential in these and other high growth markets will be a major focus and priority, which has also informed how we organise our core going forward. This scale in our manufacturing and go-to-market networks enable us to partner effectively with our customers and continuously grow the distribution of our brands.

When coupled with our excellent brand portfolio, this creates the opportunity to rapidly scale and execute consumer preferred propositions around the world.

Simplified organisation for faster decision making

Now, such an excellent portfolio of Powerbrands deserves the right organisation structure to unlock its full potential. Reckitt will move to a simpler and more effective organisation with fewer management layers and reduced duplication, to accelerate speed of decision making and improve efficiency. We will remove the Global Business Unit structure and create fewer but bigger leadership roles within our markets. And we will continue our journey to create at-scale, cross functional end-to-end shared services.

We will run a simpler, more effective organisation

We will move to a unified category structure, operated through three geographies, namely, North America, Europe and Emerging Markets. The global Category organisation will deliver consumer insight, category expertise and innovation, with the geographic areas focusing on execution excellence for our consumers and customers. This will deliver a step change in organisational effectiveness. And it will allow us to enable the Reckitt speed and harness the entrepreneurial energy that remains core to our culture and people today.

Experience Reckitt operators to deliver this opportunity

I am very pleased to announce the appointment of a number of talented, long-term Reckitt leaders to the Group Executive Committee, with an average tenure of 22 years at the company.

Ryan, Jérôme, Eric and Nitish, all have proven track records at Reckitt and a deep understanding of our businesses. They live and breathe our values every day. I look forward to working closely with them and the rest of our Group Executive Committee to deliver this exciting growth and value creation opportunity.

Essential Home

That was an overview of our new core business. I want to quickly talk a bit about our two non-core businesses and our plans for them. Let me underscore, these are good businesses with strong brands.

Essential Home is a portfolio, focussed on North America, Europe and Latin America with full year 2023 net revenue of £1.9 billion, containing iconic brands with market-leading positions, consumer recognition and loyalty, including Air Wick, the number one air care brand in Europe, number two brand in LATAM and number three brand in US; SBP, the number one pest control brand in Brazil; Calgon, the number one European brand in water softeners; and Cillit Bang, the number four brand in surface cleaning in Europe.

It is a stable and resilient business with high margins and strong cash-generation. Essential Home will be led by one of our most experienced commercial leaders, Paolo D'Orso, who is currently Executive Vice President for Europe Hygiene.

Mead Johnson Nutrition

Mead Johnson is a leading nutrition business with a portfolio of strong global and local brands, including Enfamil, the number one global infant formula brand and the number one infant formula brand recommended by paediatricians in the US; and Nutramigen, the number one allergy brand in the US.

This business will continue to be run by the same world-class management team, and led by Susan Sholtis who has significant experience in caring for the needs of our most precious consumers.

I will now hand over to Shannon to run through a number of topics, including our Fuel For Growth programme.

Fuel For Growth

Shannon Eisenhardt

CFO, Reckitt

Fuel For Growth – Enhanced programme for cost optimisation

Thanks Kris. As Kris mentioned, we will expand and accelerate our existing fixed cost optimisation programme to drive improved effectiveness and efficiency of the organisation. This programme will deliver a step-change in organisational effectiveness, with fewer management layers and greater proximity to the consumer.

These changes will unlock cost efficiencies delivering at least 300 bps of reduction in total fixed costs as a percentage of net revenue as we exit 2027. This equates to an annualised reduction in fixed costs of £450 million, which means that we will land at an ongoing fixed cost base of around 19%, compared to 22% today. One driver of these savings will be the organisational simplification Kris talked you through.

Additionally, a greater adoption of shared services, right-sizing of historical investments, leveraging automation, and benefits from digital and generative AI opportunities will help us achieve this goal.

We have already made progress in some of these areas and this will be accelerated as we implement our new structure early next year. We expect to incur estimated one-off cash costs of around £1 billion through the end of 2027. This includes restructuring and transformation costs but does not include any potential tax or deal costs.

Capital allocation framework remains constant

Our capital allocation framework remains unchanged. The actions we have announced today allow the company to focus our capital against the brands that offer the best long-term opportunity for growth and value creation. Our leverage expectations remain the same and we will continue to pay a progressive dividend and return surplus cash to shareholders, including any excess proceeds from future transactions.

An attractive earnings model

We are not providing guidance for the new Reckitt earnings model today. We will do this with our year-end results. However, the actions we are taking to sharpen the portfolio and simplify our organisation will certainly deliver a stronger long-term earnings model for Reckitt.

These actions will drive enhanced net revenue growth. The market's current medium-term growth expectation for Reckitt is around 4%. Our sharpened portfolio should deliver around 100 bps higher growth, within a mid-single-digit range. Our Gross margin profile will be stronger at 61% based on the improved mix our portfolio.

We will drive significant progress in our fixed cost base through our Fuel For Growth programme, taking out 300 bps, or £450 million, as we exit 2027.

The strong gross margins and fixed cost savings will fuel incremental investment in support of our brands. We will continue to drive adjusted operating profit growth ahead of a higher net revenue growth base.

New structure from 1 Jan 2025

Before I hand back to Kris, I would like to set out how Reckitt Group will report in 2025. We will have three reporting segments:

- Reckitt;
- Essential Home; and
- Mead Johnson Nutrition.

Within Reckitt, we will report our three geographies:

- North America;
- Europe; and
- Emerging Markets.

We will provide you with pro forma data in due course.

Now back to you, Kris.

Conclusion

Kris Licht

CEO, Reckitt

Summary

Thanks, Shannon. To summarise the actions we are announcing today.

We are reshaping Reckitt as a world-class consumer health and hygiene company, with one of the strongest growth and margin profiles amongst our peers. This involves significant sharpening of our brand portfolio to focus on our market-leading Powerbrands. These high-growth, high-margin Powerbrands are beloved by consumers and hold leading market shares in categories with significant headroom for long-term growth.

We will seek to exit our non-core Essential Home business. We will consider all strategic options for Mead Johnson Nutrition. This sharpened portfolio creates the opportunity to move to a simpler, faster and more efficient organisation.

We will expand and accelerate our fixed cost optimisation initiative to drive improved effectiveness and efficiency in the organisation.

And our capital allocation framework is enduring. The actions we announce today will however allow the company to focus capital against brands that offer the best long-term opportunity for growth. We will continue to pay a progressive dividend and return surplus cash to shareholders, including excess proceeds from future transactions.

What happens next?

Finally, I want to set out our next steps. Our priority remains to deliver 2024. Our plan will generate significant value but will take time to execute in full. We will provide a further update on the progress of our actions with our Q3 results.

When we share our full year results: we will include:

- guidance for 2025;
- progress on our actions to reshape the company; and
- an update on our other strategic priorities.

Thank you for listening. Now, Shannon and I will be happy to take your questions.

Q&A

Guillaume Delmas (UBS): First, two very quick housekeeping questions. Destocking in the US for Health: is it now over? So we start from a clean base in the third quarter? And anything you could say on the phasing of this fixed cost optimisation and restructuring. So is it evenly spread across the next 3.5 years or more back-end or front-end loaded?

And then my two questions. The first one on competitiveness. Because when I look at the market share data, you are getting further away in both Hygiene and Health from your 60% target. This is almost five years into Reckitt's new strategy, which entailed a significant margin reset, step-up in investments, strengthening the innovation pipeline. So bit of a candid question, but are you happy with the results you are getting under this strategy? Why are you not getting more traction? Is it an execution issue still? Or the categories are not as structurally attractive as you once thought? So any colour on that would be helpful.

And then the second question on reshaping the portfolio. You mentioned you would return surplus cash to shareholders, including excess proceeds from future transactions. Should we interpret this as a signal that you would be looking at stepping up your buyback effort, not

rolling out a special dividend? Does it also mean you are not very much interested in medium or large-sized acquisitions, so you are happy with the size of new Reckitt £10 billion revenue?

Kris Licht: You want to take the first two, I will take the second?

Shannon Eisenhardt: Sure. So first off, as far as the US destocking, yes, we believe that is behind us. As we look at what retailer inventory levels in the US look like across OTC, it is very similar to what it looked like a year ago. So I think that is a headwind that is behind us as we head into the second half.

Around the phasing of the restructuring and transformation costs: that will occur over a 3.5 year period as we discussed. I do not have specific guidance to share right now year-by-year, but I would say I would expect to see it more front half-weighted versus back half across that time period. So that is how we are currently thinking about how that will transpire.

Guillaume Delmas: For the restructuring, will it be taken at above the line?

Shannon Eisenhardt: No, the intention is, given the magnitude of the programme we are undertaking, that restructuring will fall below the line.

Kris Licht: And we know we have to give you more details on that, and we will be back with you when we can do that.

On competitiveness, I am not going to be happy until all our businesses are above 60%. So no, I am not satisfied with what we have. I do think that there is context and reasons, as Shannon talked about. Actually Health and Hygiene are holding value share year-to-date. So we have some good trends. In particular in Health, outside of some of the impacts in OTC, the majority of our Health businesses are gaining share in the last quarter, and I expect that to continue through the year.

So Health I feel quite comfortable that we are headed where we need to be. Hygiene is very competitive, and we have to make choices. We want to stay competitive but we are not going to stay competitive at all cost. We also want to deliver our financial performance. And so, if we see some overly aggressive promotional behaviour in the market, we are not necessarily always going to be matching that. We are going to make smart choices and we are going to deliver our results and our guidance.

What I will say about Nutrition is that is going to flip eventually. So obviously, we are in a period of normalisation. So I think the Nutrition share number is not so important right now, to be honest. What is more important is that we have a higher market share in the market that we did pre the infant formula crisis. That is actually more important. And that makes our business better.

Now I will just say one thing. You said that it has been five years. It actually has not been five years because during that timeframe, our businesses were above the 60% threshold at various times. It is just that when we went through the inflationary cycle and we had to price and we are market leaders, as you saw in most of our categories. So we have to lead the pricing, and that has an inevitable short-term drag on share. So we knew that we were not going to hit all KPIs as we went through this inflationary historical spike. But now we need to get back above 60%.

So to answer your question, no, we are not happy until we get above 60%.

And your fourth question, excess proceeds and so forth. We are fully committed to what we said today. So when we say excess cash return to shareholders, we mean it, including proceeds from any transactions that might happen.

In terms of the method of that, the quantum of that, that is all for later. We do not know that today. But we will, of course, communicate that clearly and transparently when we can.

Large acquisitions? No, I do not think that is in the cards for us right now. You can see that we do not need it to create shareholder value. You saw this core portfolio that I showed you today, it is spectacular. It is one of the best portfolios you can find. So we should invest organically in driving that portfolio and driving the growth. And that will create a lot of shareholder value, I am certain of that.

Now if we see the opportunity to do a tuck-in acquisition, which historically we have been successful with, tuck-in acquisitions is how this excellent portfolio was built over time, we will look at that, but we will stay disciplined. We have our three principles for our portfolio and for capital allocation, and they are enduring. We will not deviate from that. But if we can find good assets at a reasonable value that meet those criteria, we are always going to be interested. But I do not think anything big is on the horizon right now.

Chris Pitcher (Redburn Atlantic): Can I just understand this whole fixed cost optimisation story? You have effectively declared roughly 30% of your revenue as non-core today. Under the new reporting structure, how much of those fixed costs are shared across the three different new operating units? Is this 3-point reduction in fixed costs going to come close to offset the implied earnings dilution from selling these assets? How much of Nutrition is now stand-alone in terms of shared costs, and how much of it is between Health and Hygiene?

And then forgive me for going on to the Nutrition strategic options. But can you lay out what all strategic options mean? Is a carve-out feasible?

Shannon Eisenhardt: So the way to think about the fixed cost ambition is that as we look across the full portfolio we have today, we expect to pull 300 bps of savings out of that entire portfolio. So that is the £450 million that I referenced. That does not come to full fruition until the end of 2027, as I said. Those savings are not reliant on the successful execution of the transactions that we have talked about today.

Should those transactions occur, then we have stranded costs that we will deal with and that we are committed to tackling. The other piece I would add is that as you look at what Reckitt looks like going forward, as we have discussed, our expectation is that we will be down to 19% off of whatever the new revenue base is when we get to completion of these transactions, which we feel puts us very competitively set within our peer set from a fixed cost endpoint.

To your Nutrition question, Nutrition is relatively stand-alone today. There are, of course, some functions and support that is shared. And so we will have to deal with that as we see what the future of Nutrition looks like. But it is already relatively managed on a stand-alone basis.

Kris Licht: The only other thing I would add to that is the core portfolio is a fairly high-growth portfolio. So as you do the work and look at that financial profile, as we give you also

the information to do that, I think you will see that while on paper right now it is a 30% reduction in revenue, core Reckitt will actually grow at a reasonable pace and we will get back to a scale that is similar to today fairly quickly.

On Nutrition - all options. What we mean is all options. So you know we are in a complex litigation, and litigation always creates uncertainty. But fundamentally, this is a very good business. It is a very stable business. It is stronger than it was pre-infant formula crisis. We have the best brands I think in the industry. So this is a good business, and I think there will be options for this business.

What we are trying to also communicate today is we are not going to rush. We are going to do this properly, thoughtfully. We are not going to rush and do something that would cause us to regret what we did 6 to 12 months later. We want to do what is right for shareholders, and we will look at all options to do that, and that includes all options!

Jeremy Fialko (HSBC): A couple for me. First of all, maybe a bit more detail on some of the promotional environment that you have mentioned, any particular areas where you have seen a notable increase from a geographic or category perspective?

Secondly, maybe Shannon, can run through the H2 margin puts and takes? Because I guess you did a bit better than people expected in the first half. And then just a very quick follow-up on the post-trial motions in the Watson case. I would have thought we had seen something by now, maybe I have missed it, but if there is any brief update on that as well, or maybe not.

Kris Licht: So, the promotional environment. It is more promotional. We expected that. We built our plan that way and we communicated that we thought that would happen and it has. We see it significantly in North America and in Europe. And in particular, it is our Hygiene business that is most exposed to heightened promotional activity. I want to be clear, though, this is what we expected. This is what should happen. And frankly, it provides a lot of good opportunities to grow volume. And it is a normal element of our business.

Most often, our competitors are equally focused as us in ensuring that categories retain profitability. And so by and large, what we are seeing does not concern us. Sometimes, we have a competitor here or there that will do something quite aggressive, and we are not really interested in following that. So that was the point I made before about trading off market share and making smart decisions that preserve the profitability of our business and our category, and we will be disciplined on that.

But we are investing more in promotions and we will continue to do that in the back half to make sure that we are competitive. The good news is most of our competitors are very focused on driving the category growth, which we are also very focused on. So we try not to play a zero-sum game. We try to make this about category growth, household penetration and being more and more relevant for consumers and that is I think, by and large, what we are seeing. But we are watching this closely. And it is a key priority for us to make sure we thread that needle in the second half. Margins?

Shannon Eisenhardt: Yes. So from an outlook standpoint, just to try to be as clear as possible, what I shared was the fact that we do expect our H2 and full year revenue to be

impacted from Nutrition. So we talked about 1% of Group, which if you do the math, that is about £150 million from a top line standpoint.

Our H1 margins, since your question was margin, did come in better than we had communicated and expected. Our phasing of revenue across the year continues to be back half-weighted. And so as we think through full year margins, we are not looking to make any change in guidance versus where our full year margin rate consensus currently sits. We expect that this will come in right in that range. And really, the overdelivery in the front half is primarily driven by just phasing and pacing of some investments between halves.

Jeremy Fialko: And NEC question?

Kris Licht: I think the question was about any news. No, we do not have any specific news to share today on NEC. We will commit to sharing any news, and we are trying to be very timely with the news that we do share with you. I do want to hit on a couple of points on NEC. One is what we have said before, which is some of these individual trials will not drive the outcome of this litigation. So it is just always important to remember that. And in particular, I think the Watson case is not going to be a driver of the ultimate outcome of this litigation.

The second thing I wanted to say is, it is encouraging for us that we are seeing more and more voices in society in the US, both in the industry and outside of the industry, people speaking about the public interest and the public health issue that this litigation can create, which is a severe issue that it could create, which none of us want. And I was pleased to see, for instance, that The Wall Street Journal had some very thoughtful points about this in the last 24 hours. I do not know if you have seen it, but I would encourage you to see what they said. We agree with them.

James Edwardes Jones (RBC): One thing that has become clear from other companies is you need clarity in management. So is the category manager is going to be in charge or the country managers? Who is the boss apart from you, Kris?

Secondly, is it plausible to imagine for us to imagine – sorry to push you on this again – that Mead Johnson could be sold while the litigation is ongoing, or is that just not really in your thinking at all?

Kris Licht: So, clarity on who is in charge. As you say, it is absolutely critical that we are clear about who is in charge. This organisation model will reduce duplication and we will have fewer executives running our business, and we will have more proximity. We will have fewer layers. That all helps a lot in making quick decisions, being close to the market and driving accountability, which will help me.

Now I think in terms of who is in charge? Any complex global organisation that runs multiple categories in multiple geographies cannot give a binary answer to that, because the fact of the matter is we have leaders that are in charge of different things. Our category organisation is in charge of our long-term category strategy, innovation and our brands, the strategy for our brands. But the geographies is where our P&L sits, is where the daily operations occur, is the execution.

So if you want to ask me who is ultimately accountable for the delivery of the P&L every day, every week, every quarter, it’s the geographies. But they cannot do it alone, it requires

teamwork. So we need to drive a lot of teamwork in this organisation, and we will do that. When you have fewer leaders in an organisation and a simpler structure, it is much easier to drive great collaboration. I am confident that we can achieve that.

What helps my confidence is the group of leaders that I shared, who know each other extremely well. They know the business really well, and they definitely have a collaborative spirit, a team spirit. They want to do the right thing for Reckitt. I know that. So that gives me confidence that we are going to sort this out. But it is a perennial topic in large global organisations, as I am sure you appreciate.

On the MJN timing, I would not rule that out as a possibility. I would also not say that I think there is any certainty in that. And that is why we are deliberately saying we will explore all options and we will take the time it takes to find the right solution. If we can do it faster, that will be a welcome development. But I cannot promise that, and I do not want to promise something that I cannot be sure about delivering. So that is all we can say today, but I would not rule it out as a possibility.

Iain Simpson (Barclays): A couple of quick housekeeping questions from me, and then a wider strategic question. So I will do the quick housekeeping questions first. So are you going to disclose category growth going forwards in your four new categories and will we see that quarter-to-quarter? In the event of any disposal, could we assume no tax leakage, given all the Mead Johnson write-down, does that give you a tax shield? Or am I wrong in assuming that and there are scenarios where a sale would result in a tax leakage?

And finally, I noticed we are talking about Mead Johnson again. It has been a few years. Should I read anything into the resurrection of that name and its repeated appearance during the way that you talk about that business?

And then just moving on to the strategic question. There is an awful lot going on within this business. So you have got carve-outs of Home Care, a bit of carve-out of Nutrition, you have got shifting your layering system, you have got slightly tweaking the geographies, you have got reworking your category matrix and the relative importance within that, and you have got a fixed cost reduction programme. Now the last time we saw this level of operational complexity, I think was when you tried to simultaneously do RB 2.0 and Project Supercharge, and it was not a terribly happy experience for anyone, I do not think.

So how confident are you that this amount of structural change can be driven through the organisation, while at the same time, whoever is in France whose job it is to sell dishwasher tablets, thinks regardless as to what all this overhead changes and who my boss ends up being, that will sort itself out, I am just going to get into the office each day and sell as many dishwasher tablets as I can?

Shannon Eisenhardt: So I would say we are still landing exactly what the level of disclosure would be, but I think providing category perspective will certainly be important. So I would assume that, yes, we will.

From a tax leakage standpoint, we are super clear on the structure and timing of the deals. I do not have any numbers to share around what the tax impacts will be, and so that will obviously come in due time as we see how these deals and businesses will materialise.

[to Kris] I will let you hit Mead Johnson.

Kris Licht: Yes, and it is on purpose. It is not an accident. I think it is important. I think Mead Johnson is a great company. It has faced many challenges. I think the resilience of the people at Mead Johnson and their pride in what they do is exceptional. They are very good people in a crisis. They are among the best I have ever seen. They have dealt with a lot of crisis. And I have no doubt that that robustness and resilience will also help us now as we navigate the latest event with the tornado.

They are very proud of where they work, and I think they know where they work. They work at Mead Johnson, a wholly-owned entity under our Group. But I want to recognise that, because there is a strong legacy there and that legacy will thrive I think in its future. So it is not an accident.

In terms of your bigger question on complexity and our capacity to execute these various moving pieces, I think it is an absolutely fair question. It is something we have spent a lot of time on. I can say that I joined the company in the aftermath of what was RB 2.0 and Supercharge, and I saw the relative instability and the damage that some of these programmes had done, which was, I think also exacerbated by a lack of leadership continuity.

Now leadership continuity in my experience is everything when you go through big change. And that is why we have appointed a team of core operators that know our company inside out. And while they may be in slightly new chairs, the scope of their responsibility is very related to the businesses they currently run. I will give you some examples.

Ryan, who is going to be our Global Category Officer, is currently the category leader for all of Self-care, a really important part of our portfolio and he knows many of the other categories. He knows the people that run those categories.

Eric, who is going to run Europe has been in Europe for decades, has run businesses there. He knows every one of the GMs. In fact, he hired many of the people that are going to work for him. So it will enjoy a lot of continuity. In the markets where we will have change, I mentioned consolidating our go-to-market systems in Europe, we will aim to select candidates to the greatest extent possible that are incumbents. That is because we want continuity.

Now we cannot always do this. There will be factors and reasons why we cannot always do this. But 80% of the time, I would like to see some continuity in the people that are leading various aspects of this programme.

That being said, there is no question that this is an ambitious plan and that there are many moving parts. And we will, therefore, have to resource it accordingly. So the reason why we will incur certain costs is also to govern this, to performance manage this, to track it properly.

There are many organisations that have been through large transformations and programmes like this, and many of them have done it well. I am entirely convinced that we will take those learnings from them and that we will seek the advice and the expertise that we need and augment our team with other resources on a temporary basis, such that we can run this with a lot of discipline.

I have no interest in repeating any of our more painful lessons from the past. I want this to go very well, and we are going to make sure that it does with the right resources, and like I said, a very seasoned team that really knows this company.

Fulvio Cazzol (Berenberg): The first one is on the strategy update and the review of these non-core assets. Are you concerned that this might leave Reckitt lacking scale across some of the key markets? And also, it will leave it more exposed to OTC, which I know you like as a category and you showed the growth in the margin, but it also tends to be a highly volatile category given the cold and flu season being very variable from one year to the next. So how do you think about that? And is there anything that you can do to reduce that volatility year-on-year for that business, which will become more important?

My second question is on the £150 million of lost revenues because of the tornado. How quickly do you think that you can claw those back? Will that be a 2025 thing, or could it take a little bit longer for you to rectify, presumably some of the soft market shares that you will suffer in Q3 because of that?

And then lastly, on the dissynergies. I know, Shannon, you mentioned them briefly that there could be some dissynergies from the separation of those two units if sold or spun off or whatever. So can you maybe just quantify how big those could be? I know you mentioned that Nutrition business is relatively stand-alone, but is there anything you can say also on the other business?

Kris Licht: On scale, I showed you that we are at scale in our big geographies and we will remain at scale. Nutrition already operates as a fairly stand-alone business. So that is not really giving us any scale benefits today. If you think about it operationally and commercially, it is quite a separate business. It runs quite differently.

In terms of scale, we are actually going to gain operational scale from this programme in Europe because we are going to unify our go-to-market structures. You may recall that in Europe we still run a Health business and a Hygiene business, and they are actually stand-alone in terms of their go-to-market systems and their management teams, and we are going to unify that as part of this programme, just like we have unified those structures everywhere else in the world already.

So we will actually pick up some scale from that, which is exciting because we can reinvest some of those benefits in growing faster in Europe.

In North America, Nutrition is already fairly separate. And the Essential Home portfolio makes up a relatively small portion of our North American business. So I do not anticipate having any real impact on the North American business. And in Emerging Markets is, by and large, outside of the perimeter of Essential Home. It is only really Brazil that is significantly impacted by this. But Africa, India, Southeast Asia, China, the Middle East are not in the perimeter of Essential Home, and so there will be no change to our scale.

So maybe that is a fairly detailed answer, but just to give you a sense that actually, the scale impact of these things will be fairly isolated to a specific couple of places, and we have that counteracting effect in Europe, where we are actually picking up scale.

On OTC exposure, yes, we will be more exposed to OTC. I do think that is a good thing to be exposed to OTC. You are right, we have a seasonal business, and seasonal businesses always have some volatility, and being good at managing that is part of our job.

Now I think we have seen more volatility, obviously, in the past years. We had what we call the 'no-season', not a low season, but a no-season when everyone went into lockdown. And

we have had record seasons, and then we have had more normal seasons. I do not foresee us being in quite that volatile an environment going forward, so I think that we can hopefully have a more normal trading environment and we can manage the seasonal swings as we normally would.

The other way that is going to compensate for this is that we are growing extremely fast in our non-seasonal OTC business. And actually, there is probably no part of our business that I am more excited about in terms of its potential and runway for growth than that non-seasonal OTC business. Gaviscon and a number of local heroes are growing extremely fast, and these are businesses that we really want to scale. So when I talk about growth in Emerging Markets, those are absolute powerhouse brands that we can use to build categories all across emerging markets. That will help us not be as exposed.

But exposure is unavoidable. I used to work in a beverage company. That is a seasonal business. I think many other consumer goods categories have some seasonality to them. It is a question of how you manage it. But fundamentally, they are very attractive businesses. So it is worth doing that.

On lost revenue from Nutrition, yes, I think we will recover that. I do not think that this will take a long time. It is a significant short-term operational disruption because it is one of our three warehouses and it took a very substantive hit. It is a lot of damage to that warehouse. But it is not something we can't structurally overcome. I think Shannon already covered that we are looking at alternate locations.

Our supply chain is functioning. We are shipping to customers. So I think this is a short-term issue, largely contained to Q3. By 2025, I definitely expect us to be fully recovered from that.

Shannon Eisenhardt: Yes. And then regarding your question on dis-synergies, obviously we are looking to minimise what the dis-synergies would be as these transactions would occur. We are confident, as we have sized that up that over time, it is something we can manage and fully deliver the cost savings we are looking for and get to right run rate for fixed cost for our business. Right now, not ready to disclose what we think the magnitude of those are. But over due course, as we understand how the transactions are shaping up, we will be ready to share more.

Tom Sykes (Deutsche Bank): Just a follow-up on the last question. I will ask it a different way. Of the £1.9 billion of revenue in the Essential Home business, how much of that is on stand-alone manufacturing and how much of that is on shared manufacturing? Can I indeed buy a brand that has its own manufacturing infrastructure?

Just to come back again on another question, the geography versus category. Is the A&P budget and the person who decides when a product is launched ultimately a geographic sign-off rather than a category sign-off, even if it is a collaborative approach?

Kris Licht: You mean the product launch, like an innovation launch?

Tom Sykes: Yes. And there is one final question. Just the gross margin of 61% on the core business, where would that be versus history, please?

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Kris Licht: On manufacturing, it is something that we have assessed. There is a fairly significant stand-alone manufacturing network that would convey with Essential Home. I am not going to give you any exact numbers because we are still assessing how we would do it. But to give you an idea, two-thirds or so is dedicated already to that portfolio. We do have some sites that are co-mingled, that is normal. And we can work in terms of transitional service agreements, or we can shift things around such that the footprint is more contained, but this is all work to come. But maybe that gives you a rough idea. So it breaks fairly cleanly. It gives us a good start.

On innovation decision rights. Any large global innovation that is a platform innovation that has a permanent new addition to our business, we are going to make those decisions at the global level - with consultation, of course, with the geographies. But these are strategic decisions. They require capital. They require long-term investments in the brands or brand-new propositions. So those are big decisions that we will make in the Group Executive.

Now if we are talking about a specific smaller innovation, of which we do many all the time, maybe a refresh of a new flavour or a refresh of packaging or something, those types of things will be up to the market. They will have the right to decide. They have to, however, get the approvals from the people that run the brands if it is under a Powerbrand. So for Powerbrands it is very important that we show up in a consistent way. We run the playbook that we know how to run.

And so for Powerbrands, there will be some oversight from the category. For local heroes, it is up to the local market. And that is how we run today as well. So that is not really going to be a big change, and I think that is the right way to do it.

Shannon Eisenhardt: Just to clarify, is your question on the 61% gross margin, whether that is in line with how that going forward portfolio has performed historically? That is your question?

Yes. I mean it is obviously, when you look back at the past few years, a little bit bumpy because of the macro environment and commodities, etc. But I would say it is broadly in line with historical performance. It is certainly not assuming that we take this portfolio and significantly step-change the gross margin performance of that portfolio.

Richard Joyce: Okay. We will wrap it up there. Thank you very much for coming and have a good morning.