Full Year 2023 Results

Wednesday, 28th February 2024

Introduction

Richard Joyce

Head of Investor Relations, Reckitt

Welcome

Good morning, everyone. And thank you for attending Reckitt's Full Year 2023 Results Presentation. Presenting today, we have our CEO, Kris Licht; our CFO, Jeff Carr; and our CFO Designate, Shannon Eisenhardt. Following our presentation, we will take the usual questions from the audience.

Before we start, I draw your attention to the usual disclaimers in respect of forward-looking information.

I will now hand over to Kris to kick things off.

Overview

Kris Licht

CEO, Reckitt

Agenda

Good morning, everyone.

Today, I will run through some key messages and a summary of 2023. Then Jeff and Shannon will take you through our 2023 financial performance and 2024 outlook.

Key Messages

2023 was a year of progress. Our full year net revenue growth exceeded our ingoing expectations, and we made significant progress from a business, earnings model and cash returns perspective. However, there is more to do. We have clear priorities that we are now focused on driving throughout Reckitt.

While we made some good progress in 2023, Q4 was unsatisfactory.

- We saw a weak OTC performance driven by the phasing and shape of the cold and flu season;
- We had a small voluntary product recall in our Nutrition business; and
- Our ongoing compliance procedures have recently identified an understatement of trade spend in two of our Middle Eastern markets.

I have zero tolerance for any behaviors which run counter to our culture of “Doing the right thing, always” and I remain convinced that the inappropriate behaviour of a few does not define our culture. Jeff will discuss these issues in further detail.

Looking to 2024 and beyond, we approach the future with confidence and momentum. And I firmly believe that we have an enduring framework for leading value creation.

2023 – A year of progress

Turning to 2023 in more detail and a brief summary of our key achievements and our ongoing priorities. 2023 was another year of broad-based growth across the majority of our portfolio.

Our Health and Hygiene businesses both grew by mid-single digits, while our North America Nutrition business started to, as expected, and held market leadership.

Our innovation platforms prove that they can deliver meaningful growth beyond the core through:

- Premiumisation;
- Household penetration; and
- Category creation.

We shared a number of these innovation successes at the CAGNY conference last week.

We drove our gross margins back to historical levels at around 60%. This enabled an increase in investment behind our brands and our innovation launches, increasing our BEI by 130 basis points to 13.1% of net revenue.

We launched our fixed cost optimisation programme, which we expect will deliver 200 basis points of net revenue savings over the coming several years. These savings will fuel both growth and earnings, and the one-time costs will be taken in the P&L above the line.

And finally, we generated strong free cash flow, and we increased cash returns to shareholders by 24%.

I will now run through some brief highlights of our three GBUs.

Hygiene Highlights

Our Hygiene business has seen high variability due to COVID and more recent inflationary pressures. Throughout this, our market-leading brands have all played their part to deliver broad-based growth. This reflects our strong brand equities and high consumer trust.

As we look to 2024, we see a more normalised environment for our categories and we expect continued broad-based growth and consistent delivery from our high-quality Hygiene brands.

The investments we are making in product superiority and innovation are driving growth in:

- Household penetration;
- Premiumisation; and
- Category creation.

We continue to focus on executing with excellence. The consistent delivery for our customers is being recognised by our retail partners, but this work is never done.

Health Highlights

Turning to Health. Our excellent portfolio of market-leading Health brands operate in attractive categories. For example, our OTC portfolio features leading brands and a very attractive earnings model. This portfolio has delivered a resilient performance and has been our strongest net revenue and profit driver over the past four years. OTC is one of the jewels in our portfolio.

Our Intimate Wellness brands have also delivered a strong performance in 2023.

We are broadening the shoulders of our brands as seen by our recent entry into the $1 billion US sore throat category with Mucinex, where we have captured a 6% market share.

In 2023, we continue to focus on executing with excellence. We invested to further strengthen our equities and see the results across most of our portfolio with double-digit growth across Nurofen, Gaviscon, Strepsils and Biofreeze and high single-digit growth in Intimate Wellness. And we continue to strengthen our supply chain to meet increased demand.

Nutrition Highlights

Turning to Nutrition. While our North America business continues to rebase, we exited the year as market leader and Enfamil remains the number one brand recommended by pediatricians. We also have a circa 45% share of hospital contracts. We drive growth in this business through both premiumisation from science-led innovation and a focus on the faster-growing and higher gross margin segment of specialty formula.

We are operating in an evolving regulatory environment. We are working closely with regulators and other stakeholders to continually improve standards. Families and healthcare providers rely on our products, and we take that responsibility very seriously. We continue to invest in our manufacturing capabilities in both the US and overseas.

Clear Priorities

Turning now to our priorities. We are determined to win in our markets and improve our competitiveness. We target levels of 60% of core CMUs holding or gaining share. I see good progress on this, although the work is not done, and this will remain a major focus for 2024. We will do this by driving product superiority and more consistently executing with excellence.

In addition, we have launched our fixed cost optimisation programme, which is a major focus as we look to fuel both growth and sustainably grow our EPS.

We have an enduring framework for value creation

Our medium-term ambitions are clear. We will continue to deliver sustainable mid single-digit top line growth with our excellent portfolio of brands. We expect to grow adjusted operating profit ahead of revenue growth. We maintain our commitment to dividend growth. We are now well into executing our ongoing share buyback program.

As we look to 2024, we approach the future with confidence. We target another year of mid-single-digit growth in Health and Hygiene as we continue to invest in and harness the growth from our strengthened pipeline. We will advance our fixed cost optimisation programme and grow adjusted operating profit ahead of net revenue growth. And we will further increase cash returns to shareholders, aiming to double what we returned in 2019.

I firmly believe that we have an enduring framework for value creation.

I will now hand over to Jeff and Shannon to talk about our 2023 performance and 2024 outlook in more detail.

Financial Review

Jeff Carr

CFO, Reckitt

Group Summary: A year of progress

Thank you Kris and good morning everyone. I am going to cover, as Kris said, our 2023 performance, and then Shannon will take you through our outlook for 2024.

But before I go into further detail, I just want to be clear and talk about the issues we identified in the two Middle Eastern markets as shared in the RNS this morning.

Late in our year-end close process, we identified through our own internal compliance procedures, an understatement of trade spend in two Middle Eastern markets related to the current quarter, quarter four, and prior quarters in 2023.

As a result, our full year net revenue performance is £55 million lower than we previously expected for 2023. Some of the impact was related, as I mentioned, to earlier quarters, but the correction has been fully reflected in our Q4 results. So basically, it has been totally corrected in our Q4 results. And to be clear, it has no impact looking forward to 2024.

As a result, adjusted operating profit was also impacted by £35 million. Following the investigation that we have conducted, we concluded a small group of employees had acted inappropriately and they have now exited the business. We are confident that this was an isolated incident, specific to these two markets, and as I mentioned, does not affect our outlook for 2024. So we see this as a one-off effect in 2023.

As Kris mentioned, we have zero tolerance for any behaviors which run counter to our culture of "Doing the right thing, always" and as I have mentioned, we have already taken appropriate disciplinary action. So let me now move on to the numbers.

We grew net revenue 3.5% on a like-for-like basis led by:

- Pricing actions in the year;
- Positive mix benefits;
- Innovation; and
- Premiumisation.

Volumes in the full year were negative 4.3%, and I am going to look at that in a bit more detail on the next two charts.

In quarter four, net revenue declined 1.2%. Now we saw continued strong growth in our Hygiene business, while our Health business was impacted, as Kris has mentioned, by high seasonal comparatives in our cough, cold and flu brands.

Further, our North American Nutrition business continued to rebase from the highs in 2022. And of course, the quarter was impacted by the lower net revenue we reported in the Middle East. That said, I am pleased to see gross margins back to historic levels at 60% of net revenue.

Adjusted operating profit at £3,373 million was slightly ahead of last year at constant exchange rates. Adjusted operating margin was 23.1%, down 70 basis points versus last year's reported AOP margin. But if you recall, that included 80 basis points of benefit from the disruption in the IFCN North American market.

Adjusted diluted earnings per share was down 5.4% with the slight growth in operating profit at constant exchange rates, offset by negative foreign exchange rates and an increase in the effective tax rate.

We delivered strong free cash flows at £2,258 million, up 11% versus last year.

Now before I move on, you'll see from the RNS this morning that we have taken an impairment on our IFCN business of £810 million. This is primarily reflective of an increase in the pre-tax discount rates, which increased from 9% in 2022 to 11% in 2023. Hence, IFRS operating profit is reduced to £2,531 million.

Quarterly volume trends by GBU

So turning to volumes. I would like to go into a bit more detail on our performance and the trends that we are seeing.

Our Hygiene business has been delivering improving volume trends through each quarter, in line with what we communicated at this time last year. Q1 was particularly soft as we were still lapping COVID comparatives in Lysol, but that is now in the past. We have been through that cycle.

And we have seen volume trends improve in the subsequent quarters. In Q4, we saw further sequential improvement in Hygiene volumes, in line with what we communicated in Q3. As we look to 2024, we expect to see continued volume improvement.

Our Health volumes remain robust. Volumes were broadly flat in 2023. Q4 saw strong volume growth in Intimate Wellness, but this was offset by the expected weakness in OTC volumes as we lap the tough seasonal comparatives. That was particularly true for Mucinex and Strepsils.

Looking forward, we expect to see our Health volumes to remain robust as they have over the last few years.

In Nutrition, we see a combination of the rebasing in US and North American volumes following the competitor supply issue in 2022 and some market volume weakness in developing markets. And I am going to go into that in a little bit more detail in a few more charts.

Group margins: Gross margin expansion and increased BEI

So let us move on to the P&L. Gross margins expanded by 220 basis points to 60.0% with pricing actions and productivity initiatives more than offsetting mid single-digit cost of goods inflation.

2023 was a year of some important innovation launches, and these were well supported with brand equity investments, which increased by 130 basis points to 13% of net revenue.

Our fixed cost base grew by 160 basis points due to:

- General inflation;
- An increase in performance-related incentives; and
- A step-up in our investments in digital and AI technology.

Let me also remind you, we had a one-off benefit in the previous periods from the sale of land in the Philippines.

Our cost base has opportunities for optimisation and Kris highlighted a number of areas in his strategy update last October.

We delivered adjusted operating profit margins, as I have said, of 23.1%, 70 basis points below last year for the reasons I have mentioned.

Hygiene: Broad-based growth

Now let us move on to our GBU's starting with Hygiene performance. As you recall, we started the year with low like-for-like net revenue growth, of just 2% in quarter one due to the final effects of Lysol lapping COVID. Therefore, to deliver the mid single-digit growth of 5.1% in the full year, I think is truly commendable. The performance was underpinned by some important initiatives resulting from investments we have made in R&D and technology over the past years, which are now really starting to deliver returns.

In particular, Finish delivered a year of double-digit growth with a strong performance from our latest thermoforming tablets Finish Ultimate Plus All-in-One. Thermoforming products now represent around two-thirds of our Finish portfolio, whereas they only represented 10% of our portfolio four years ago.

Additionally, Lysol returned to growth in the full year 2023 despite the high teens decline in Q1. Laundry sanitiser, for example, continued to increase household penetration. Lysol wipes grew distribution, and we created a new category with Lysol air sanitiser, which launched in the US in June 2023.

As I mentioned earlier, volume trends improved sequentially through the year, and we expect to see continued strengthening of volumes in 2024.

Operating profit was £1,236 million, and this grew 4.7% at constant exchange rates, although operating margins are still below historic levels and 30 basis points below last year due to the increased investments in BEI.

Health: Strong growth across OTC and Intimate Wellness

Turning to Health. We also delivered a strong year in Health with like-for-like growth of 5%. And remember, this followed a year of double-digit growth in 2022.

For the full year, we saw strong double-digit growth for Nurofen, Strepsils, Gaviscon and high single-digit growth for Durex. Dettol declined however by mid-single digits, but we do expect to see Dettol return to growth in 2024.

Operating profit at £1,690 million grew 6.3% at constant exchange rates with a margin of 27.9%, up 40 basis points versus last year.

Turning to the fourth quarter, like-for-like revenue was down 2% in the quarter, which is slightly disappointing, but this is primarily due to two issues. First, a high single-digit decline in our cough, cold and flu-related OTC brands, specifically Mucinex and Strepsils. As you are aware, the quarter lapped a very strong and early cough, cold and flu season in 2022. Now to give some market context, our net revenue performance was totally in line with what we have seen in terms of US category data.

Our non-cough, cold and flu-related OTC brands continued to grow in the quarter, with a particularly strong performance from Gaviscon. The second key issue is Dettol declined by low double digits in the quarter, primarily due to the performance I have mentioned in the Middle East, which is a significant Dettol market.

Encouragingly, we see share gains in Dettol in China and India, and our ASEAN Dettol business has stabilised in the second half of the year.

It is important to note the Q4 result is not an indicator of momentum for this business, and we are confident of a strong performance in our Health GBU in 2024.

Nutrition: US Nutrition Rebasing

So turning to Nutrition GBU. For the full year, like-for-like net revenue was down 4% with volumes down 10% and price/mix up 6%. Operating profit margin at 18.5% was down 460 basis points. But again, that is from a very high and unsustainable level in 2022.

As expected, we continue to see a rebasing of net revenue in the North American market during the fourth quarter. The total result for the quarter was net revenue of minus 14.8%, which included a 200 basis points impact from a returns provision in respect to the voluntary Nutramigen recall that happened right at the end of December.

We saw net revenue growth in Latin America, but this was more than offset by category weakness that continued in ASEAN, resulting in high single-digit declines in our total developing markets.

Given the circumstances that have taken place in the last couple of years, I am going to provide some additional insights to our Nutrition business on the next couple of charts.

US Nutrition Rebasing

The purpose of this next chart is to give clarity on the status of our US IFCN business. As you look at the left-hand side, the bars show volume market shares for 2021, 2022 and 2023. And the right-hand side show value market shares. Now above them in the bubbles, we have shown the starting shares in January 2021 and the exit shares in December 2023.

The two key takeouts. First, we exited December 2023 in terms of volume market shares and value market shares as market leader and with higher shares than the pre-crisis 2021 levels. Second key takeaway, the average 2023 value share, as you can see, was 47%. But in the first half of 2023, we had a share of nearly 50%. Therefore, there is further rebasing in the first half of 2024. Remember, we exited 2023 with a 42% share. So there is further rebasing in the first half of 2024 as we comp these higher shares before we stabilise our position and restart growth late in 2024.

Now let me also now show some further detail on volume and price/mix across our different geographies.

Nutrition – NA volume growth offset by DVM market challenges

Overall, our Nutrition net revenue is 18% larger than in 2021 while volumes are down 4.2% but with volume growth in North America, which was more than offset by some quite significant volume declines in our developing markets.

Just to be clear, our North American volumes remained stronger than 2021, and the volume declines in the other markets are broadly in line with market volume trends where we are seeing an impact from a combination of declining birth rates, increased breastfeeding rates and some stage three mothers switching from infant nutrition to cheaper alternatives.

The decline in DvM volumes was also impacted by the exit from our Brazilian IFCN business and the cessation of a third-party supply agreement between Reckitt and Primavera.

The drivers of growth in our developing markets business remain science-led premiumisation and a focus on the faster-growing specialty segments.

Adjusted EPS – Growth in AOP Offset by tax and FX

Moving on to earnings per share. Adjusted earnings per share decreased in the year, as I mentioned, by 5.4% to 323.4 pence per share. However, do recall, 2022 included that higher operating margin from the Nutrition business in 2022. The decline year-on-year in adjusted EPS was therefore driven by the higher effective tax rate at just over 25% and the negative translational foreign exchange impact due to the relative strength of the British pound during the year.

While adjusted EPS does decline year-on-year, we are recovering well from the low point of 288.5 pence per share in 2021 following the strategic investments that were made in 2020 and 2021. And the priority, as Kris mentioned, is for sustainable EPS growth driven by our earnings model and supplemented by an ongoing share buyback programme.

Strong free cash flow generation

Moving on to cash flow. We had a very strong year of free cash flow generation with free cash flow at £2,258 million, up 11% versus the prior year, representing a 97% cash conversion rate. The improvement in free cash flow is primarily due to improving net working capital performance versus prior years, somewhat offset by increases in interest costs and tax.

Net working capital in absolute terms was broadly flat year-on-year led by a strong focus on improved inventory control and inventory management.

Thank you. I will now hand over to our CFO Designate, Shannon Eisenhardt.

Financial Overview

Shannon Eisenhardt

CFO Designate, Reckitt

Introduction

Thanks Jeff, and I just want to take this opportunity to quickly thank you for all of the guidance and support you have given me as I have been onboarding over the past few months.

Good morning, everyone. I am excited to be here today, and I am very much looking forward to taking over as Reckitt's CFO. Since October, I have had the opportunity to spend time both at our headquarters and out in a number of our larger markets. I have also spent time with our executive leadership team as well as the Board. And this onboarding time has been invaluable as I have not only learned about where Reckitt is headed, but I have also learned about the history that has shaped where we are today.

Reckitt has been on a journey in many areas from both an execution and governance perspective. And I look forward to building on what has been achieved over recent years while recognising that we still have work to do.

2024 Outlook and Guidance

I would like to start today with our outlook for 2024 and specific guidance. We are confident in the year ahead.

We expect our Group like-for-like net revenue growth to be between 2% to 4% with mid single-digit growth for our Health and Hygiene portfolios.

Specific to Nutrition, we expect a mid- to high-single-digit decline as this business continues to rebase in the first half of the year and will return to growth late in fiscal 2024.

Overall, it is important to note that we are not expecting our Group net revenue growth consensus to change on the back of this outlook today. And for profit, we expect a leveraged P&L for the Group.

Some additional perspective, our adjusted net finance expense will be in the range of £300 million to £320 million. This is reflecting the higher interest rate environment. Capex is expected to be in the range of 3% to 3.5%, as we invest in the long-term growth of our business. And our effective tax rate is expected to be in the range of 25% to 26%, which is largely consistent with our 2023 results.

2024 revenue and profit growth second half weighted

I thought it would be helpful to provide some additional context on what the shape of the year will look like. Our revenue and profit growth will be second half-weighted. Specific to Health, we will be lapping some European retailer inventory rebuild on our OTC products from Q1 of last year.

Specific to Nutrition, there are a few factors that are impacting our North America Nutrition business. In Q1, we are lapping retailer inventory shelf refilling from last year. Additionally, until 28th February last year, we received a temporary benefit in states where our competitor held the WIC contract. And we have the continued rebasing of our US non-WIC market shares. As you saw from Jeff's chart, our exit market share was in the low 40s compared to an average share in the first half of last year of 49%. Clearly, this delta will have a high teens negative impact on our US business in the first half of the year.

Given this, we expect our total Nutrition business to deliver a low teens decline in the first half, and that business will return to growth late in the year. The phasing of this revenue delivery will also impact the phasing of our profit delivery, and we expect that to be more weighted to the back half.

Leverage reduced

Moving on to leverage. As Jeff mentioned, we delivered strong free cash flow in fiscal 2023. This has enabled us to reduce our leverage to just below 2 times EBITDA. It also enabled us to fund a 5% increase in our dividend and the execution of our ongoing share buyback programme. This programme started in late October, and we have purchased around £200 million of shares by the end of December.

Capital allocation priorities

I would like to take a moment to just review our capital allocation priorities. We will invest in organic growth, and this remains our top priority and will be funded through our organic earnings model. We will prioritise strong free cash conversion. We are committed to continuing to grow our dividend, and we target a single-A credit rating.

In October, Kris shared the three principles for capital allocation that we will use to manage our portfolio.

Finally, we are committed to returning surplus cash to our shareholders.

Increased cash returns +24%

We are proud of the increased cash returns to shareholders we delivered in 2023, and we are committed to continuing this in 2024. We generated £2.3 billion of free cash flow in 2023 of which £700 million was used to reduce our net debt, and £1.5 billion were returned to shareholders via dividends and share buybacks.

Our balance sheet and debt levels are in a good place, and I expect the majority of our free cash flow to be returned to our shareholders.

We have an enduring framework for value creation

Kris walked us through our framework for value creation. In 2024, we are committed to delivering 2% to 4% top line growth, and we will grow AOP above net revenue growth.

Finally, we are committed to further increasing our cash returns to shareholders.

I will now hand it back to Kris.

Conclusion

Kris Licht

CEO, Reckitt

Recap – Key messages

Thank you, Shannon. To recap, 2023 was a year of progress and laid the foundation for future value creation. We are confident in our business and plans for 2024 and in delivering 2% to 4% top line growth and a leveraged P&L. We will continue to generate strong free cash flow, and we will increase returns to shareholders.

Thank you. Jeff, Shannon and I will now be happy to take your questions.

Q&A

Guillaume Delmas (UBS): So two questions for me, please. Firstly, on your 2% to 4% like-for-like sales growth guidance. Within this, you are guiding for mid to high single-digit decline in Nutrition, which effectively implies a like-for-like sales growth, I mean, close to the midpoint of the mid-single-digit range for Health and Hygiene combined. So that would be above consensus. That would be pretty much in line with what you reported in 2023. So my question on this is, what underpins your confidence in another strong year in Health and Hygiene at a time when pricing is normalising and from the market share development, you are holding or gaining shares in less than half of your Health and Hygiene business? And also related to that, do you expect a consistent mid single-digit delivery every quarter for Health and Hygiene?

And then my second question is on the trade spend understatement in the two Middle Eastern countries. I mean, maybe if you can provide a bit more detail on that on exactly what happened. And I guess more importantly, what gives you confidence it was an isolated incident, whether you do not have to strengthen your supervision or processes that you have got in place? And fundamentally, is it the limitations of having this unique culture of being a company of owners?

Kris Licht: Good questions. I think I will start with the outlook for the year, and then Jeff will speak more to the Middle East issue.

So the outlook for the year, the reason why we feel confident is if you look at the year we just had, we have significant momentum in our Hygiene business and our Health business. We have invested in innovation. That innovation is working, and we see lots of signs of improvement.

I recognise you cannot see all that we can see in terms of market shares, but our outlook on market shares is positive, and we have positive momentum. So what I will tell you is we feel confident that these businesses can deliver mid single-digit growth, and it is not just down to a price volume equation. It is very much because we are investing in innovation. We are investing in increased capacity. We are investing in expanded distribution, and we are stretching our brands. And so we are not just sort of beholden to the market dynamic that you are describing. These investments that we have been making over the years to strengthen these businesses are genuinely working.

So that is probably what I will say about the outlook for Health and Hygiene. We are feeling good about it. Notwithstanding that it is a complex market environment, like you said, but we can see that and we can navigate that. And as you see, our volumes are now coming back to a much more normalised place, and we will have a balanced algorithm in 2024.

Jeff, maybe you want to talk to the Middle East?

Jeff Carr: Absolutely. Look, I see this very much as a one-off factor in 2023. We have done extensive work around it. We have isolated the issue. The people involved who have exited the business did not have accountability over other markets. We have done significant additional extensive checks into our markets. And we feel very confident that this was isolated to these two markets in the Middle East.

As a consequence of the investigation, several people have left the business. As Kris said, we have zero tolerance for any behaviour which runs counter to the culture of "Doing the right thing, always." I do not see this having an impact on 2024 at all. And the investigation initiated in Q4 was really in relation to some commercial practices and not really anything in terms of trade accruals, things like sales into the grey market and stuff like that. It was only late in the investigation that this came to light.

We have acted very quickly. It has really come to light as a consequence of our own internal control. So I am very pleased that we found this within our own internal procedures, and the adjustment has been fully booked in these numbers. So we are not correcting any prior misstatement. The adjustment is fully represented in these numbers. We feel we need to be transparent. We are disclosing it because it is a variance on our Q4 performance, which is now lower than we had previously expected.

I think that is all I would say on the subject. As I said, I treat it as a one-off item. We have a culture, a strong culture in the Group of "Doing the right thing, always."

Now ownership strengthens that culture. As owners, we have a duty to do the right thing for all stakeholders. And I see that every day. In Reckitt, this happened to be a small group of people who were not doing the right thing, and we have dealt with it.

Kris Licht: I would just build on that and say I am in my fifth year at Reckitt, and I have been all around the business, and I know that this is not who we are. I know this is not our culture. We cannot exclude that there will be one or two or three individuals that do something inappropriate, and we will deal with it. And as Jeff said, our control framework did prove that it was working, albeit late in the process.

Victoria Petrova (Bank of America): I have two. First, could you elaborate a little bit on mix through the year specifically in Health and maybe a bit more details around fourth quarter? We have very different dynamics within subcategories. Did you have a negative mix as a result?

And my second question, when I look at Hygiene, the volumes are below 2020 levels. Why do we not see the impact of broadening the shoulders of brands, innovation? Why is it not reflected in the volumes? And should we expect it maybe to recover or rebase in 2024?

Kris Licht: Maybe I will start on the Hygiene question. So sometimes when we premiumise and you have to appreciate in Finish, for instance, we are moving from hard-pressed tabs to thermoforming, the premiumisation impact of that is very significant. So a lot of the value of innovation is also in premiumisation. And sometimes, to your point, it is actually volume-driven because we are creating new categories like Lysol Air.

But at the same time, as you saw in Jeff's chart that he walked through, Hygiene was the one of our businesses that was most impacted by inflation and the pricing that we had to pass through. And so we did take a sizable step backwards in volumes, right, which we are now climbing our way out of and we expect to enter into a more normal environment. So those things are offsetting, and that is why you are seeing what you are seeing.

But it is certainly not because we are not getting great volume growth out of our innovation. We really are.

I think on Health, we do have a lot of mix effects in Q4, as you say, because some segments went up quite a bit, and some segments went down. The net picture is actually not a dramatic shift in mix. But when OTC declines a bit, that has a mix effect. Conversely, though, Intimate Wellness grew strongly. And so that is also a high-margin business. So net-net, the impact is not as big as you may expect with those moving parts because some of them were offsetting.

Chris Pitcher (Redburn Atlantic): Kris, you put up that target of going from 44% of CMUs holding or gaining share to 60%, which looks quite a heroic leap. But if my math is right, half of that is getting US infant nutrition back to stability or growth, which clearly is not going to happen in the next 12 months. Can you give a target for this year? Would you be hoping to get to 50% without the Nutrition side of it?

And then on Nutrition, we have had a period where you have had cost savings, excess profits, investing in the business but you have got a product recall. We have the FDA letter. Is that a business that needs more capital investment and more marketing investment to deliver on that ambition? Because Jeff mentioned that 2022 was an unsustainable level of profitability. I mean really should we just be thinking 18% is the level now for Nutrition despite where your peers are?

Kris Licht: All right. Let us start on share. Look, we are not going to be happy until we are at 60%. I am not going to be happy until we are at 60%. And we are going to continue to report and share with you the progress that we are making. What I am telling you is I am feeling confident in what I am seeing in the business, right? Much of this has to do with things we are either lapping. I will give you an example. Even though OTC has traded well this year, many of our competitors' supply chains have come back.

Last year, our supply chain actually did better than our peers' supply chains and OTC. So that creates a natural share drag, but we know when that ends. So we have a bit of a forward look. So I feel very good about the fact that we are going to see gains in market share and in that 44% number, that is going to improve.

You are also right that the Nutrition business and the normalisation in the US creates a headwind in that number, that is clear. But we are not going to use that as a reason, okay? We want to get to 60%. That is what we are focused on. And hopefully, we can show it to you that we are going to get there quick.

Jeff Carr: Can I just say a little bit about Nutrition margins?

Kris Licht: Yeah, sure.

Jeff Carr: I mean, look, you are right to identify that there will be some step-up in capital and operating expenses as a consequence of the more intense regulatory environment following the Abbott recall. So we refer to that in the notes to the accounts that we will see some step-up in Capex and some step-up, albeit, relatively small in operating expenses.

We did say the margins were unsustainable from a short-term perspective. But what I have said consistently is we do see a low 20s margin as a longer-term ambition for this business, and that is something we still target is a longer-term ambition.

Kris Licht: By the way, capital investment can enable part of that, right? So we are investing in our supply chain in infant nutrition, and I expect us to continue to do so. We have to. It is a good idea, but it also comes with some returns. So hopefully, that helps.

Chris Pitcher: Just one quick follow-up. In the chart you put up on Nutrition volume and value share. You had a 7-point gap value over volume in 2023, but that closed to a 4-point gap in December 2023. Can you give us a quick colour on the pricing environment with your main competitor now back in full supply, etc?

Jeff Carr: Yes. Look, I would say that gap closing has more to do with the rebate environment around the WIC rebates that we were previously getting, which are no longer in the market. So it is more related to that than any gross pricing movements or retail pricing movements. So we have not really seen our trade pricing change since the early part of 2023 when we implemented that low double-digit price increase in the US, which is catching up from 2022.

James Edwardes Jones (RBC): Can I come back to this accounting anomaly, please? Can you tell us exactly what happened? It is obviously more than just a misallocation in that it had an EBIT, not just sales impact. And related to that, Shannon, what is your initial view of Reckitt's internal controls? Can you see any weaknesses?

Jeff Carr: Well, let me start by saying this was a consequence of a group of individuals suppressing the quantity of trade liabilities through 2023. This was uncovered through the internal control processes at Reckitt, and we have corrected it, and it is fully reflected in these numbers at the end of 2023. So there is no misstatement from prior periods or no material misstatement from prior periods.

The correction is booked in our full year accounts. One of the reasons we are reporting it, is one of the reasons that we have missed effectively our Q4 expectations with, before this was identified, we had expected Q4 to be £55 million higher than actually been reported. So I take some comfort from the fact that we identified this through an internal control process. We have corrected it, and the individuals that have were involved in this have exited the business.

James Edwardes Jones: What was the cash impact? I am trying to understand who paid for this? Were these individuals paying extra £35 million out of their own pockets?

Jeff Carr: No. This was effectively an understatement of trade liabilities. So there is no cash impact. It was just basically a balance sheet accrual issue. Suppressing information, which meant that it was not immediately identified. But again, during our year-end processes, we did identify this, and we have now corrected it. And Shannon?

Shannon Eisenhardt: Sure. I mean, obviously, I am disappointed, and I think we are all disappointed to have to share this news today from a control standpoint. As far as my impressions of Reckitt's control environment, I have worked at two other large multinationals with similar complex footprints and certainly understand that controls are important at all companies of this magnitude, and there is no finish line.

It always needs to be invested behind in a focus area. I am really pleased to have seen and learned about the focus this has been at Reckitt for the past few years, which, I think to Jeff's point, is evident in the fact that we were able to detect this in a timely manner and make the necessary corrections before we shared our results. And I think it is clear this will continue to be a focus area that we will invest behind going forward, not just for the finance function, but for everyone at Reckitt.

Celine Pannuti (JP Morgan): So my first question is on cost inflation. I think you said mid single-digit in 2023. What should we expect for 2024? What does that mean for pricing? I mean I think that all derivative prices have come down. Could you talk about the pricing dynamic in both the Hygiene and the infant formula category or specialised nutrition category?

My second question is related potentially. Gross margin, you said that reached historical level. What is the path going forward? And can we talk about as you look at implementing your cost savings, how you plan to redeploy those savings between the reinvestment in BEI and the bottom line?

Kris Licht: Okay. That sounded like quite a few questions, Celine, which is great. Let us start with COGS inflation. Maybe, Jeff, do you want to speak to briefly what we are seeing at the moment, and Shannon the outlook?

Jeff Carr: I think one of the issues going back to the question on Hygiene volumes, over the last three years, we have seen inflation that many of us have not seen in a generation. So yes, we are actually pleased if you go back to 2019, you could say Hygiene volumes are flat versus 2019, which is actually quite an achievement in this inflationary environment.

For 2023, we saw mid single-digit cost inflation, and we see that moderating into low single digits as we go through 2024.

Kris Licht: Do you want to add anything to that?

Shannon Eisenhardt: I mean I think you hit it. So we just see it moderating, and we will continue to be driving our productivity programme as a key lever to offset the moderating inflation that we see.

Jeff Carr: I would not say anything specific on specific items in terms of pricing. But pricing will obviously be more moderate, therefore in 2024. There is obviously carryover pricing that we will see, and there is pricing that comes through effectively through premiumisation. We report mix and price together. Some companies have mix in with volume, which obscures the volume numbers, but we have it with pricing. And as a consequence, from mix premiumisation, some of the carryover pricing. And of course, there will be some pricing in 2024 through inflationary countries and such forth. There will be a little pricing.

But as Kris mentioned in the discussion in the presentation, the algorithm for price mix and volume will be much more normalised in 2024 than it has been over the last two or three years.

Kris Licht: Just on inflation, I will just add that we do see wage inflation, much like the broader marketplace, and that also impacts our cost structure. So I think what you heard on commodities is absolutely the case. But wage inflation is running higher than normal, and that will take some time to pass through our P&L.

Obviously, we aim to offset that in our fixed costs with our cost optimisation programme that I have talked quite a lot about.

In terms of gross margins, you asked about the return to around 60% gross margins. Look, this is a hallmark of what a portfolio like ours can do. We have a premium branded portfolio. We are known to be able to generate high gross margins, and we are back at a historical level. That is quite a good level. I do not have an ambition to dramatically expand that. In fact, I think we are at a good place. Now the question is about reinvesting in growth, which is exactly what we want to do.

So to your last question, where we are going to deploy those resources that we free up, we are going to make those choices as we go. But we see a lot of areas where we can invest further in our brands. We have an innovation pipeline that is stronger that we would like to fully support. So those are big areas that we can invest in. And there are other areas of the business where we still need to expand our capacity and strengthen our supply chain, which also yields growth in this case.

So all of it does not have to be towards growth. We are going to be judicious about that. We are going to make smart decisions based on the returns of the investments that we see. And then obviously, we are completely committed to growing our EPS going forward. That is an overwhelming focus for us. And part of this enables us to do just that.

Tom Sykes (Deutsche Bank): Just on the BEI level first, it looks like it is just shy of £1 billion in the second half of the year, so up to close to 14% of sales I think. So is that the correct run rate? And can you maybe say something about the payback if there is a step-up in Nutrition, or having to step up the BEI and Nutrition despite the fact that you are expecting share losses?

And then just on the difference between the DM and the EM businesses perhaps mostly in Hygiene, you have seen perhaps as having a high price point versus in some areas, the value proposition that you have that you are obviously making that up with innovation. Within emerging markets, do you think that is particularly accentuated or not because you have not really seen the emerging market growth that perhaps peers have seen? And is that an issue for 2024, please?

Kris Licht: Okay. So on marketing, I would say we are pleased that we can raise the support for our brands. I believe that is absolutely the right idea. Some of the phasing in the year is also a function of when we have certain launches, big innovation, etc. So some of that is a function of how we plan the year and events during the year.

I think as you see us go forward, we are looking to fully support our brands. And there are places in the portfolio like OTC that I talked about before, which is such an attractive business. And we still have some CMUs around the world where we think we have an opportunity to invest even further. And that is the place that I would look to invest more BEI as well as supporting the innovation platforms that we are rolling out. We talked about Finish. We talked about Lysol Air. These are great innovations, and we have an opportunity to support those as well as we can in as many markets as we can.

I do not think Nutrition is particularly a place where I would direct incremental BEI to answer that question.

Now I think as it relates to DvM and the Hygiene business, yes, we are a premium priced player in most markets. There are some of these segments that are doing very well. There are some segments where we are not doing well enough. I mean Finish is performing very strongly in many emerging markets. We are very pleased with it. That is a premium product for sure. It is at the high end of the category, but that is where Finish belongs. And it is commensurate with the product experience and the proposition, the strength of the equity.

I think there are other segments where your question is a good one, and we are looking at that because if we do not have product superiority, premium pricing is not a winning strategy. I think there are some segments, but we have work to do. I have highlighted pest as an example before. It is not a really large business for us, but it is a business that could be doing better, and that is something that we are working on at the moment.

Jeff Carr: Can I just answer specifically, I would not necessarily therefore, because of the phasing of those initiatives, take the second half run rate as an expectation into 2024. But looking at the full year, we do expect that we will continue to increase our investments in BEI.

Fulvio Cazzol (Berenberg): I have got a couple. The first one is on industry pricing power. I was wondering if you can give a few comments across the business units or what you are seeing there. Are you seeing rising pressure from private label, increased promotional intensity from some of your competitors? And perhaps if you can give some comments on where these are versus, say, 2019 levels?

And then my second question is on portfolio management. I guess you are implying not much to spend on M&A, given that you intend to return quite a lot of cash to shareholders this year. But what about on your existing businesses. Is there potential for you to review some of the businesses that you have currently that you cannot add more value to drive better growth? Could we see some disposals through 2024?

Kris Licht: So let us talk about the environment first. Look, I think maybe it is helpful to set the stage a bit in terms of as we headed into this inflationary spike, which was historic in nature, it was an open question as to whether elasticities would follow what our normal models would say or what exactly would happen. I think if you zoom out, what we have seen is that we have been able to pass through more pricing with less volume declines than we thought would be the case going into it.

Now that being said, of course, there are some businesses that have been elastic, and you have seen the consequences of the pricing, and that is fully to be expected. Now we are coming out of that cycle, and we are coming into a more normal cycle. What we are seeing at the moment in our categories is that the environment we are moving into is a more normal environment. That means that there is more promotional activity, but it does not mean that we are giving back in some significant way what we have built in terms of the protection of our earnings model.

It is just that we are moving into a more normal environment where promo and different promo price points are playing a bigger role.

Now there are certain segments, I would say, certain segments in Europe, where we are seeing perhaps a bit more of that happening. And those are also incidentally places where private label is more developed. It is just a matter of how the market is structured. But for instance, in the US we are not seeing that. And so overall, we feel like we are in a reasonably rational pricing environment. And we certainly hope that, that will continue, and that is the approach that we want to take.

At the end of the day, we are here to grow our categories, to delight consumers, to launch and scale innovation. And those are the ways in which we want to grow the business.

Jeff Carr: Portfolio. You asked about portfolio. I think we have always said at Reckitt, if there are good assets available, we will look at them. And I think the fact that we are returning funds to shareholders through a share buyback programme does not limit that. There is plenty of opportunity for us to raise funds for good assets. That is all I would say on that.

Kris Licht: The other thing is at Q3, and we referenced it today, we set forth a set of principles that are very clear about how we want to manage the portfolio. And my commitment, just as I said in Q3, is that we are going to hold those principles up against our whole portfolio as well as potential inorganic opportunities. And these criteria are pervasive for that. And when we conclude that there are businesses that do not meet them, we will, in a practical way, in due course, we will act on that.

Iain Simpson (Barclays): A couple of questions for me, if I may. So you talked about how you did not expect full year 2024 organic sales growth consensus to change. But you also guided Q4 infant formula to down mid-single to high single digit. And I think many of us, given the performance for infant formula in the last few quarters, will probably lean more towards the down high single-digit than the down mid single-digit. Consensus at the moment is down about 3%. So you're broadly speaking, putting forwards like a 5% swing on 15% of the business, say, that takes the best bit of a percent of consensus. So if Group level consensus is not moving, but infant formula is coming down, other bits have got to be going up to leave it unchanged. What should we be upgrading and why, I guess, would be my first question.

And then my second question. Dettol had a pretty tough time in 2023 if I recall correctly in ASEAN. How should we think about that? Has it stabilised? Is it rolling on to easier comps? Should it have a better 2024? And then very quickly, a bit of housekeeping. You said that you put mix into price, whereas many of your competitors put it into volume. Can you just remind us how big mix is for you, please?

Kris Licht: Should we take them and do you want to take mix?

Jeff Carr: I will take the mix. Do you want me to get that out of the way quickly?

Kris Licht: Yes.

Jeff Carr: Look, generally, mix is, I would say, runs at less than 1%, but it could be up to 100 bps. So in that 50 to 100 bps category is the normal type of area that we see the mix running at.

Kris Licht: And on Dettol, the ASEAN business has stabilised, and we expect that business to start growing again. The other poor performance in Dettol that you are referencing was the Middle East driven, to some extent, by the issue that we discussed about trade accruals. And we expect that business to have, let us say, a benign lap and to be able to return to growth.

Fundamentally, Dettol is actually trading well. We are gaining share in our biggest markets with Dettol in China, in India. We are very pleased with the outlook for Dettol. We have a lot of great innovation behind Dettol, too. So I am not going to minimise the fact that it was not a great year for Dettol. It was not. But it is not an indication of where we think that business is going to go, and we expect to grow it.

Shannon Eisenhardt: Then I can try and take the top line guidance. So Ian, I think you reiterated the guidance quite well. So we are not trying to change the Group consensus number. We do not see a need for that to change for fiscal 2024 in total. We do expect across the portfolio of brands, growth will be back half-weighted versus front half. Specifically to Nutrition, what we would be guiding for the first half of next year is net revenue growth that is in the decline in the low teens. And again, that is a function of the rebase as that continues in the front half of next year.

We do believe Nutrition, as we exit the year, gets back to growth. And then yes, what this means is Health and Hygiene, we expect versus today's consensus, that will float up a bit, and they will deliver in the mid single-digit growth range for the year, again, with Health being slightly back half-weighted.

Richard Joyce: Thank you very much for attending. Thank you.

[END OF TRANSCRIPT]