27 July 2021

H1 2021 RESULTS TRANSCRIPT

Laxman Narasimhan, Group CEO

Good morning and thank you for joining us.

I am encouraged by our progress to date and have four key messages for you today:

First, we have had a solid first half of the year, despite a strong comparator and a slower Q2, with a very strong 2 year revenue stack of over 13%, inclusive of IFCN China.

Second, we continue to make good progress in building a better house in a great neighbourhood

Third, we are addressing near-term cost pressures, while actively managing our portfolio.

And fourth, we remain confident in meeting our medium-term targets of mid-single digit revenue growth, and mid 20s margins by the mid 2020s.

As usual, our agenda will comprise of three parts. I will give an overview of the half year, Jeff will go to the financial details and then I will provide a strategic update.

In the first half, like-for-like revenue excluding IFCN China, was up 3.7% and our 2 year stack growth is up nearly 18%, building on the very strong performance last year.

Including IFCN China, our like-for-like revenue grew by 1.5%, reflecting more challenging trading in China in Q2, the continued rebasing of our disinfectant business, and a record weak cold and flu season.

As anticipated, our margin, EPS and free cash flow are down year-on-year. This is driven largely by our step up in investment, which is funded by productivity; increased commodity inflation, the mix impact of lower OTC revenue, and the performance in IFCN China.

Given the moving parts in understanding the current performance of the business, it is helpful to split our portfolio in two. Separating out the brands that have been more impacted by COVID – namely Lysol, Dettol, and our key cold and flu brands, from the rest of the portfolio. There is of course some impact of COVID in the remaining 70 percent – both positive and negative – but the variance in brand performance is typical and manageable as a portfolio. This part of the portfolio which makes up 70% of our business is in effect performing consistent with our medium term objectives.

The remaining 30% is down slightly in H1 over lapping last year's particularly strong performance.

Let me take you through that portion of the portfolio in a little more detail starting with the disinfection brands.

First, Lysol and Dettol together make up 25% of the Group's revenue. As we have said before, we expect to see these brands normalising above 2019 levels, but they will likely reduce from the 2020 peak. Every market has different characteristics, either with regard to current behaviours, germ sensitivity, as well as pandemic response. It is hard to extrapolate from one market to another, in terms of level or timing. For Dettol, demand in markets, such as China, reflects more advanced rebasing, while demand in other markets reflect the sensitivity with new variants emerging. Both brands however are significantly up versus 2019 on a two-year basis, Lysol by over 100%, and Dettol by over 40%.

Overall, performance so far in 2021 is largely consistent with our expectations. Growth is slowing as expected after an extraordinary year, but rebased upwards from pre-pandemic levels. During the first half, we've seen growth in Lysol (and it also grew in Q2) and a decline in Dettol. Our challenge in Q2 came from a somewhat weaker than expected performance in North America, where a more accelerated vaccination program, coupled with government guidelines, led to some moderation in demand and earlier pipe fill. Our Lysol Disinfectant Spray (LDS) business continues to be strong, but for us, the wipes category, which has grown significantly through the pandemic, particularly reflects this earlier rebasing.

In terms of equity metrics, both brands are stronger today than they were pre-pandemic. Of particular note has been the further strengthening of these brands with their core users, and how even occasional users have come to the brand in times of need. Our brands frequently define their categories and are therefore well placed to benefit from new opportunities.

Over the past year, we have already entered nearly 70 new markets while establishing the GBS business. Our performance from market expansion is on track to expectations. Our Global Business Solutions business, which is now a year old, is off to a strong start and it has built the marquee partners, distribution and demand creation programs consistent with its long-term potential. The near-term volumes from this business will reflect the strength of sectors such as travel, offices and small and medium enterprises which are in various stages of normalisation.

And at the same time, our equity has also allowed us to broaden the shoulders of the brands, addressing new usage occasions which greater germ sensitivity has uncovered, particularly for our core base of heavy users with innovations like laundry sanitizer, Dettol Tru Clean and Lysol Pet.

As we look at current sales rates we continue to expect that the rebasing of disinfectants will be gradual, particularly in light of new variants, vaccination levels, the cold and flu season and government guidelines. We continue to track near-term underlying demand drivers carefully, and our management teams remain flexible to respond to near-term shifts.

The other segment where COVID has had a material impact is in our cold and flu OTC brands. Despite much improved execution, brands such as Mucinex, Lemsip and Strepsils were down significantly as a result of the historically weak flu season last winter. However, we are now on an upswing with Mucinex, with encouraging POS trends, reinforced by viruses like RSV, and the brand has now returned to growth versus 2019. And the chart on the right shows year on year performance by US state, where the growth in Mucinex in the states where masks are not mandatory, is clear.

We're also actively monitoring trends in Australia. A lot has been written about the public data on flu incidences, which suggest unseasonably low numbers. Our point of sale data by contrast suggests that some consumer incidences are potentially not being captured, perhaps because consumers are choosing self-care versus seeking help. Looking at POS trends in Australia, transactions have until recently been mirroring the flu season in 2019. However, recent lockdowns in certain regions, such as Victoria, have resulted in POS transactions slowing, demonstrating the impact of government guidelines.

Therefore, the key message is this, for cold and flu brands, we are encouraged by the point of sale trends we are seeing. However, it is early days and lockdowns, social distancing, and government guidelines will all influence consumer demand in the balance of the year. We see these dynamics for OTC as short term and transient. Our long-term outlook for the category is unchanged.

Finally, on our in-market competitiveness. We reported this morning that 60% of our revenue from our core category markets or CMUs were in markets where we were gaining or holding share on a two year basis. But let me show you also how our comparisons have trended over time.

As you know, we made strong gains throughout 2020, shown here in the 18 month number, which excludes IFCN China. As we were lapping the COVID pantry loading, early in the year, that measure declined, but you can see good momentum here, and in the month of May, we have returned to previous levels, with further strengthening evident in June, as our health business recovers.

Overall, our business is gaining share. We expect this picture to strengthen as the cold and flu trends improve. Our focus for share improvement is in the OTC area of the health business, some pockets in the Nutrition business (example our Philippines business for infant formula and Airborne, which is reversing some of its large gains last year) and some important competitive battles in hygiene. We move into H2 comfortable with our competitive position with plans in place.

As I have said, we are making good progress in building Reckitt into a better house and rejuvenating sustainable growth and I will detail our progress here shortly.

In the meantime, Jeff, over to you for the financials.

Jeff Carr, Group CFO

Thank you Laxman and good morning ladies and gentlemen.

Like for like Net Revenue for the group was plus 1.5% for the half and down 1% for the second quarter. Revenues were significantly impacted by weakening sales of IFCN China following the strategic review announcement and excluding IFCN China like for like sales growth was 3.7% in the half and 2.2% for the second quarter.

Since we are expecting the sale of IFCN China to complete in the second half of 2021, we will largely refer to performance excluding IFCN China.

The second quarter last year included a revenue recognition adjustment as we aligned to best accounting practice, this creates a tailwind in the current quarter of 2.8%.

In the second quarter we are facing tough comparative numbers in disinfection and for example in Lysol, we are seeing growth rates moderate from the peak in the first quarter. Having said that, Lysol was up double digits in the second quarter and our Hygiene business in total, was up just under 8%.

Additionally, in the first half we have seen a record weak cold and flu season, however our current point of sales trends are is encouraging as we look to the second half.

Overall, we have made great progress from 2019, our Group two-year stack growth for the half is 17.6% and 15.1% in the quarter.

Volumes were up 0.3% in the half and the impact of price and mix was 3.4%, largely resulting from lower trade activity in Hygiene in the first quarter and pricing actions to offset dairy inflation in IFCN.

Our adjusted operating profit margin in the first half was 21.6%, lower than last year by 290 basis points, largely as a result of lower gross margins.

At 57.8%, gross margins were down 310 basis points versus last year, we'll show a detailed margin bridge later, but in summary there were 3 main factors impacting gross margin. Firstly as anticipated our investments were weighted more heavily in the second half of 2020 and these rolled forward into 2021, the investments are largely funded by strong productivity savings which were spread across all lines of the P&L but the majority of which impacted cost of goods. Second, as expected, lower cold and flu sales from brands such as Mucinex had an adverse gross margin mix impact in the half, and finally, and not foreseen at the start of the year, we, like our peers are seeing significant commodity price inflation.

BEI was 13.5% of net revenues. 30 basis points favourable to last year, largely due to significant productivity savings in our media buying and production, additionally we continue to build more in house capabilities in areas such as digital, resulting in lower agency fees in BEI offset by higher fixed costs.

Other costs were up 10 basis points at 22.7% of net revenue, significant investments in areas such as R&D and sales and marketing centres of excellence were offset by savings in areas where we are able leverage our scale and operate more efficiently.

IFCN China was dilutive to group margins by 110 basis points and adjusted operating profit margins excluding IFCN China was 22.7%. For the full year we anticipate IFCN China would be 90 basis points dilutive to Group margins.

Moving on to our business units and starting with Hygiene. The first half has seen an incredible performance for Hygiene with growth of 18% and on a two year stack basis 34.1%. The growth has been broad based, led by Lysol but supported by strong growth in Finish and Airwick. In the second quarter it is also pleasing to see Vanish return to growth.

With respect to Lysol, Lysol is up over 100% on a two year stack basis and we are confident Lysol will be a significantly bigger brand once the Covid pandemic normalises than it was in 2019. It’s clear however that growth rates are slowing with usage probably having peaked in quarter 1 of 2021, retail shelves have largely now been restocked and supply in key areas such as wipes, we’ve seen capacity come back into the market for key competitors and for private label.

Margins were very strong for Hygiene in the half year, up 50 basis points at 25.6%, with volume related operating leverage more than offsetting increased investments and the accelerating inflation. Price and mix was up 4.1% in the half and this is largely due to lower trade promotional activity in the first quarter 2021 compared to the first quarter 2020.

Health revenues were down 10.2% on a like for like basis in the first half and 5.6% in the second quarter. On a two year stack basis Health like for like revenues were up 6.8% in the half versus 2019.

The key factor in Health is the weak cold and flu season in the first half of 2021 compared to a strong half in 2020 which included significant pantry loading at the start of the pandemic. Our brands, Nurofen, Mucinex and Strepsils remain very strong and as Laxman has said we are seeing positive momentum into the second half of the year, as the category recovers, our brands will recover.

Dettol sales declined in the half as we have seen demand normalise, and obviously we still see variations by country depending on vaccination rates and infection rates. However, Dettol net revenue remains around 40% higher than 2019 with the brand continuing to expand into new places and new spaces.

Intimate wellness had strong growth in the half with double digit growth in most major markets and we had excellent performances in other areas of the portfolio including Gaviscon and Veet.

In addition to the inflationary environment impacting the group in general, absolute adjusted operating profit and margins have been heavily impacted in Health by the weak cold and flu season.

Adjusted operating profit at £468m is down by £248m versus last year and margins at 21.8% are at historic lows, clearly we expect to see margins normalise in the second half as OTC sales improve.

Moving on to Nutrition, in the half, total like for like revenues were down 8.5%, however, excluding IFCN China, sales were down 0.9% which was primarily due to very challenging comparatives for VMS, specifically Airborne. IFCN excluding China was positive 2.2% in the first half with strong growth in North America and Latin America.

Adjusted operating profit margins for the half were 12.8% including IFCN China and 16.6% excluding, note the 16.6% is simply excluding the assets held for sale and doesn't take into account any rightsizing of overheads in the Nutrition business due to the reduced size of the operating unit.

Let me now dive into an explanation of the first half adjusted operating profit margins.

I'm going to take two different snap shots of the margin bridge, firstly you see here the impact on the group margin broken out by the performance of our three GBU's.

Hygiene, as I've mentioned has a positive margin impact on the Group of around 20 basis points due to the leverage and high productivity within Hygiene more than offsetting investments and the inflation.

Turning to Health, the majority of the group margin reduction is related to the lower Health margins in the half, 250 basis points out of the total group margin decline of 290 basis points. Health is not just impacted by inflation, but as we've mentioned the negative mix impact from lower cold and flu sales, which importantly, as I mention, we expect to be largely reversing in the second half.

Nutrition margins are down due to a weaker IFCN China performance which we are addressing. Excluding IFCN China margins are neutral year on year with strong pricing action taken in most markets and productivity offsetting investments and inflation.

That still leaves second half commodity inflation as a factor but I'll come to that later in our guidance.

My second look at the margin bridge is to look by activity, that's breaking our investments, productivity, inflation etc., this is the format we have reviewed over the last few periods.

Firstly, we have discussed the leverage benefits we are seeing in Hygiene, but these are offset by negative leverage impacts in Health and Nutrition, net we have 70 basis points year on year deleverage impact.

Next, we see a cost of goods increase of 340 basis points, this is made up of three factors, first adverse mix on gross margin principally from the weak cold and flu season, this has a 100 basis points negative contribution. Next, we have commodity cost inflation in excess of pricing actions, and relative to last year this is negative 160 basis points and finally we have various other items such as incremental co-pack costs which are 80 basis points adverse.

Next, we have productivity and investments, at plus 390 basis points and minus 270 basis points respectively. We've stepped up our productivity and I'm very pleased with the progress we've made in 2021. We are well on target to deliver £1.6bn over the 3 years of the transformation program, which will over time fund the investments we are making in growth and capability.

This gives a reported margin at 21.6%, and if I break out IFCN China, a margin of 22.7% for the first half.

That brings me to cost inflation, as we said in April we're seeing significant increases on key commodity groups and inflationary pressures have continued to rise over the last 3 months, we're now looking at 8-9% inflation on cost of goods over the full year for 2021, clearly putting pressure on the second half of the year. The incremental cost since February is equivalent to 120 basis points on the full year group margins.

We show here certain commodity increases from June last year which shows many key commodity groups such as plastics, surfactants and soap noodles up in the range 50% to 100% based on standard indices. We had hedging and inventory in place to help protect the first half but we will see more impact in the second half and it's simply not possible to address this through pricing in the short term.

Before I move on to our guidance for 2021, let me just briefly touch on free cash flow. As a consequence of the higher volumes in 2020 we saw working capital inflow in the full year 2020 of around £900m. At the time we cautioned that an element of this would reverse in 2021.

To date we have seen a working capital outflow of £416m in the half compared to an inflow of £711m in the first half of last year. Therefore, we see a significant reduction in free cash flow, down from £1.9bn last year to £520m in the current period.

Over the two years we continue to see strong free cash flow conversion at over 100% and free cash this remains a key priority.

I'd like now to turn to our margin guidance for 2021.

This page tracks the key changes in our margin guidance.

If we go back to February, we guided to 40-90 basis points decline in margins versus 2020, giving a range 22.7 to 23.2%.

Now excluding the impact of IFCN China on a full year proforma basis will have a margin accretion of around 90 basis points, this is effectively offset by a small impact from the sale of Scholl and the acquisition of Biofreeze and the commodity inflation we have discussed net of additional pricing actions and productivity to be delivered.

In summary we expect full year margins between 22.7% and 23.2% excluding the impact of IFCN China.

We've covered margins, so looking to the rest of our guidance, on revenues we expect the third quarter to be slower due to prior year comparatives, and although it is early in the season, we are encouraged by the Q2 sales trends in our cold and flu portfolio and expect a moderate season to strengthen our performance in the fourth quarter. Based on the current situation, we therefore expect like-for-like net revenue growth to be within the 0 – 2% range set out in February 2021.

Net finance expenses are expected to be 2.9% of net debt, based on the net debt at the end of the first half, slightly lower than previously guided. And we expect our effective tax rate to be 22% down from 23% as previously guided.

Thank you and now I'll hand back to Laxman.

Thank you, Jeff,

And on to sharing with you our progress in building a better Reckitt into a better house and rejuvenating sustainable growth.

Our purpose, our fight and our compass guide everything we do as we continue on our journey to rejuvenate Reckitt.

We have 3 Global Business Units in Hygiene, Health and Nutrition. China and eCommerce accelerate our growth enabled by global functions. We focus on 100 Category Market Units with power brands and rocket brands.

We grow by increasing our penetration, optimising our market share and entering new places and new spaces.

We have six strategic drivers that will allow us to strengthen the foundations of the business to deliver sustainable growth. Let me take you through each one, in turn.

First, our brands.

We continue to invest firmly behind our brands as they are the engine of our business. The investment is reflected in our equity metrics where we see good growth, and in many areas, we are extending our leadership position versus our closest competitor.

On innovation, investment in R&D will be up over 30% in 2021 compared to 2019 levels. This is funding 450 new roles, doubling our investment in OTC, doubling the local R&D investment, and a 40% increase in our Corporate R&D function which includes the safety, quality and regulatory teams.

This has resulted in a 50% increase in the value of our 2022 pipeline compared to 2021. This gives us confidence in building momentum for years to come.

We have talked previously about making investments in a more co-ordinated manner across the 3 Global Business Units in specific science platforms. A particular area of focus is the Microbiome platform where we have significantly ramped up investment in bioinformatics, virology and bacteriology, building on our expertise in the IFCN business. We are broadening this out to include next generation solutions towards breaking the chain of infection, long-lasting germ protection and air disinfection, thereby allowing differentiated solutions to protect, heal and nurture consumers, across the three GBUs. For example, the development of Dettol Tru Clean and adult nutritional products like ProVital, have just launched in China and ASEAN. And the platform is strengthening our pipeline, as our work drives insights for vaginal health which will be used as we develop the Queen V brand, more on this later, or enhances our immune response to vaccines.

I could tell you similar stories of the work we are doing across the other platforms, but I will leave that to Angela and team for our September Capital Markets Day.

Turning to eCommerce, we continue to grow rapidly here, nearly doubling on a two-year stack basis, excluding IFCN China, which in itself has strong eCommerce capability. As we have explained before, our omnichannel and platform customers are a big part of this, but we continue to invest behind smaller, disruptive brands – our Be Bold and Be Open pillar. During the period, we have established further partnerships, launched nascent brands like Casa Home, Fight vitamins, and little yawn collective. Our approach here is to build digital-first brands, owning the relationship with the consumer, whilst advancing our channel expertise with a philosophy of 'fail fast and learn fast'.

On commercial execution more broadly, investment is improving our commercial execution.

We've talked previously about the centres of commercial excellence – medical sales, marketing excellence, eCommerce and sales outperformance. Our investment here is driving tangible results.

We are generating greater share and quality of distribution.

We are seeing better customer relationships – having recently been named supplier of the year by Walmart, for example, and as I mentioned previously, we saw a significant improvement in the annual Advantage survey of retailers.

And we are vastly improving our trade investment which is directly contributing to revenue growth, and also contribute to future productivity.

Another area of investment has been our supply chain.

For much of the last year, our supply team has been responding to the exceptional demands placed on it by COVID and has increased capacity caused by COVID. However, we know we have much to fix and they have continued to build on our underlying capabilities.

Gaviscon is a brand that is growing through good innovation and marketing, as well as market expansion. At the same time, we have expanded capacity by around 50%, driving our service levels by 20 percentage points and accelerating revenue growth from 5% in the first half of 2020 to over 30% in the first half of 2021. On an investment of £20m, we estimate our return on this to be over 50 percentage points.

This strategic progress goes hand-in-hand with the progress we are making to become a more sustainable business.

I am particularly proud of the team's efforts in recent months with another breakthrough packaging launch for Finish where we are pioneering using 30% PCR in flexible packaging at scale.

And elsewhere, we continue to improve our environmental impact as we configure our supply chain for example, with material savings made here in our US IFCN business, resulting in a 70% reduction in our carbon dioxide emissions.

All of this is done with an eye on our environmental targets, such as carbon neutrality by 2040, and the 65% reduction in greenhouse gas emissions by 2030.

To support our progress here, we continue to build relationships with external partners as indicated on the left of the page.

And our work is being recognised by third party agencies, with both our MSCI and Sustainalytics scores improving in recent months. We have recently been upgraded to double A with MSCI – just one band below the highest rating. And with Sustainalytics, our improved score means we are now ranked fifth amongst a peer set of 101 in the HPC sector.

Once again, more to do, but strong progress.

Moving on to the pillar of productivity, which is how we are funding most of our investment.

By the end of this year we will have achieved over £1bn savings since the beginning of 2020 and we feel good about the trajectory here with annual run rate of productivity effectively doubling since 2019, while mitigating our impact on the environment. We expect to continue to maintain this momentum going forward on an ongoing basis, given the productivity muscle we are building.

Actively managing the portfolio remains a key element to our strategy.

As previously announced, we completed the sale of Scholl at the beginning of June.

We have very recently completed the acquisition of Biofreeze. The business has already been growing at double-digit rates in recent years and has had a good start to the year, but we see further opportunity though.

Firstly, accelerating this growth as the brand joins the Reckitt sales and marketing platform.

Secondly, using our science and technology to expand the Biofreeze suite of products.

And thirdly, expanding geographically, with the vast majority of current revenue coming primarily from the US.

Finally, we are working to close the transaction of IFCN China and expect to complete this the fourth quarter.

The final of our strategic pillars is around leading and inspiring our people to succeed. We have built on what made us distinctive in our past and modernized for the future. Feedback from our employees is strong, as we continue to make good progress, with many of our feedback scores ahead of benchmark.

I've taken you through our strategic pillars and how we are investing to improve our foundational capabilities. Now, let me walk you through how that is crystalising in performance, as we seek to grow penetration, drive market share gains, and enter in new places and new spaces, and why it gives us continued confidence in our medium term goals.

Firstly, Hygiene. As I mentioned earlier, Lysol is now in 22m more homes than it was in 2019.

Our share in Hygiene remains strong, with 60% of net revenue in our Core CMUs holding or gaining share. An example here is Vanish, which is returning to growth after a difficult year in 2020.

A specific example of Lysol entering a new European market in the second half of last year. This market has already contributed £2.5m of revenue from a standing start and the brand has already established itself as the number 2 in the MPC market, while effectively establishing the aerosol category.

We continue to build Global Business Solutions business which, remember, in its current form is only now a year old. In recent months we have signed British Airways, TripAdvisor and Dubai EXPO to name just a few. Our distribution to offices and workspaces is also strengthening, as is our coverage of consumers on-the-go, where the brand is highly recognised. It is not only major corporate partners who need support from our brands, and we are of course expanding distribution to Small and Medium Enterprises as they similarly seek to attract their customers back to their restaurants and other venues. We are growing well, and given the nature of these partnerships, revenue will build over time as planes take to the skies again and travellers visit hotels. In summary we remain optimistic over the long-term opportunity for what is a new market for us.

Turning to Health. Dettol has recently been named by Kantar the brand with the highest ever penetration growth on record – growing penetration by 530 basis points last year.

I mentioned earlier the Gaviscon story of relentless share gains over the past year.

And we have continued to enter new spaces, with GaviNatura and Veet Minima. Particularly exciting is what we are doing with Nuromol – a unique formulation of Nurofen and Paracetamol in Brazil which will launch in September.

Turning to Intimate Wellness – our new name for this category, recognising the broader opportunity within this part of our portfolio.

We are already the leader in most of the markets in which we operate, yet we continue to gain share. Our brand and our consumer relationships give us the ability to significantly grow this business. Gains in the half were particularly strong in Germany and the UK – two of our largest markets - driven in part by an extremely strong eCommerce performance due to eCommerce specific pipeline and Digital Marketing strategies. Our business in China continues to be extremely strong, benefitting from the PU launch late last year.

Allied to this, we continue to build partnerships to support our direct to consumer business, and overall, eCommerce is up 25% year to date.

Earlier in the year we acquired Queen V, a Female Intimate Wellness brand focused on vaginal health. As I mentioned earlier, we are engaged in our microbiome science platform to develop this brand further. This will help us as we bring the brand back to the US later this year, with further geographic expansion plans beyond that.

Looking forward, we continue to see significant opportunity to accelerate growth in our core business through addressing incremental needs, occasions and serving our consumers omni-channel. No two sexual lifestyles or preferences are the same, and by continuously improving our understanding of the nuances in consumer needs, with improved innovation and marketing, we can better address unmet demand.

At the same time however, we are currently a small part of the overall market. Durex has a right to play in a much broader space such as female intimate wellness (Hygiene, Treatment, Libido) as well as toys, devices and broader sexual health, for example. Here, science, trust, new business model innovation at scale, and purpose-led brands are key. We are therefore optimistic about future growth and well positioned.

We also have the opportunity to strengthen our geographic presence, as our three largest markets currently represent around half of our revenue. This opportunity includes growing further in the US, the world's largest intimate wellness market, as well as playing a leading role in expanding category penetration in fast growing emerging and underserved markets.

We are moving from a single brand play with concentrated pockets of strength, to a portfolio approach with global opportunities, rooted in superior consumer understanding of demand spaces, portfolio and innovation.

We therefore remain confident in delivering high single-digit revenue growth from this business. Representing over 15% of Health revenue, Intimate Wellness should contribute around a quarter of our annual growth to the GBU target of 4-6%.

Our Nutrition portfolio has been consolidated and strengthened by the disposal of IFCN China, with strong trends in much of the rest of the business.

Across the world we are bringing more consumers in to the category: in China, through the annual shopping festival; in the US, through celebrity influencers for Neuriva and in Brazil, through increased investment in Sustagen – one of our local hero brands.

On market share, US IFCN grew share by 100 basis points in non-WIC - women, infant and child segment of the market. This continues to be driven by the strength in Neuropro where we have built marketing campaigns around its Omega 3-DHA claims.

Additionally, as we have said before, we see the VMS business growing mid-single digits medium term, with a strong e-commerce and digital play, a core strength. On Airborne, we had a very strong presence in 2020, and like our hygiene brands, we are seeing some unwinding of that this year.

Across the Nutrition portfolio, excluding China, we are gaining share, with over 70% of revenue from core CMUs gaining or holding share, and we have good momentum here.

Turning to specialty infant nutrition. This is our highest margin business, and it is a business that has taken a while for us to fully put the building blocks in place. The allergy segment is large and growing at 7% historically as a result of increased prevalence with very supportive consumer trends, grounded in science. We've recently become market leaders in the US. We see a global scaling opportunity for this business with our current offering and believe we can grow this portion of the business in the near-double digit range.

So drawing this all together.

I have talked about how we are executing against our growth drivers of penetration, share, places and spaces, to outperform in each of our categories. And this slide summarises, directionally, how we see that contributing to the overall growth rates for the three GBUs you will be familiar with, and why we believe in our medium-term revenue target of mid-single digits growth.

Our hygiene business grew at 4 percent in the two years before the pandemic. Post the pandemic, we continue to see significant opportunity to grow Hygiene and Dettol through increased penetration. The equity in these brands provide the basis from which to broaden their shoulders into new spaces and new places. Some of our hygiene brands also have significant opportunities with eCommerce, as well as with emerging markets. This therefore gives us confidence in the medium-term growth ambitions of 4-5 percent.

In Health, we see similar opportunities with Dettol, with even greater opportunities in emerging markets. Through our work on consumer demand spaces, we will strengthen our OTC brands to address broader unmet health needs across both acute and chronic pain management. Our Nurofen and Biofreeze growth plans in pain are an example of that.

Additionally, we are expanding our brands like Gaviscon and Nurofen into new geographies with clearly articulated playbooks, and linking our local heroes, like Tempra in Latin America, to the pain platforms, to scale innovation, as appropriate.

In the case of Intimate Wellness, we have the best globally recognised brands, but play in a small part of the market, and it's another area where we expect our leadership capabilities in e-Commerce to provide greater opportunities for growth. We also see opportunity across all of our growth drivers, penetration to expand the category, new spaces, and new places we are taking the brands to (like QueenV): Building off the strength of our brands, innovation, omni-channel presence and increasing direct to consumer relationships to grow this business. As I said earlier, we are moving from a single brand play, to a portfolio approach with global opportunities.

All of this provides the basis for 4-6 percent growth rate we see in our Health business.

Our Nutrition business has multiple parts. In infant nutrition, we continue to look to strong innovation and premiumisation as opportunities to offset systemic birth rate declines in our base Enfa basis. In specialty, we now have the building blocks in place to grow our Nutramigen and Puramino business in existing and new places while expanding into adult nutrition with Provital. We also believe that our Vitamins, Mineral and Supplements business can grow mid-single digits. This gives us confidence in the 3-5 percent growth rates we have set out for our Nutrition business in the medium term.

It is of course these segmental growth rates that give us confidence in the three GBU targets that we have set out and, in turn, our mid-single digit growth for the Group in terms of revenue.

I am pleased with our progress in H1, despite a slower Q2. H2 will be slower, with a very strong comparator from last year.

Yet, it is particularly encouraging to see the benefits of the investments that we have made in the business starting to come through in terms of innovation, quality and service levels. This all bodes well for the future and builds my confidence in the medium-term outlook.

Short-term we are obviously continuing to operate in a very dynamic market place with 30% of our revenue more impacted by COVID and its impact on consumer behaviour; government policy and through a challenging cost environment.

As I look at the plans, we do expect to exit 2022 with revenue growth in the mid-single digit range. What gives me that confidence?

First, I believe that where we play- our neighbourhood is great. Dynamic in many parts, but great.

Second, I have talked today about the progress we have already made in our underlying brands, as well as in our commercial, supply chain and eCommerce, capabilities, as well as our productivity muscle, but there is more to do and more to come.

Third, I have talked to you about the 30% increase in R&D investment and the 50%+ growth in innovation pipeline which this is driving in 2022.

Fourth, we have demonstrated our ability to be active managers of our portfolio and are executing actions consistent with our objectives

And finally, I have talked about the culture change we are bringing about in our people where we have made significant progress in unleashing the talent in the company- and which will be even more embedded a year from now.

Clearly there will be many factors related to COVID that are impossible to predict but we anticipate that, by the second half of 2022, the short- term or transient effects of the pandemic will be largely behind us. Once the coming months have been navigated, we trust that the steady progress we are making in building a better house in a great neighbourhood will become even more apparent.

We therefore remain confident that we will exit 2022 with the run-rate that should get us to deliver mid-single digit revenue growth in 2023. As Jeff has also said, the mix of our portfolio and the increasing strength of our execution and where we play, as well as how we win, including the elimination over time of some of the above-the-line transformation and one-time costs will lead us to delivering upon our margin objectives.

So, to recap: I am encouraged by our progress to date and have four key messages:

First, we have had a solid first half of the year, despite a strong comparator and a slower Q2, with a very strong 2 year revenue stack of over 13%, inclusive of IFCN China.

Second, we continue to make good progress in building a better house in a great neighbourhood

Third, we are addressing near-term cost pressures, while actively managing our portfolio.

And fourth, we remain confident in meeting our medium-term targets of mid-single digit revenue growth and mid 20s margin by the mid 20s.

Finally, I would like to thank all our people, all our associates at Reckitt around the world, our customers and our partners for their continued support.

Thank you all for joining us this morning.

Jeff and I will be glad to take your questions shortly.

Q&A

Celine Pannuti (JP Morgan): Yes. Good morning everyone. So, my first question is clearly on pricing and the margin guide for this year. So, thank you for all the details you have provided in the presentation on the bridges by the way. So, question is you have higher [inaudible] inflation and it does not seem that you are able to pass on this through pricing maybe yet. So, can you talk about the pricing environment, do you think you have what it takes in the set up and the visibility for that pricing implementation as we start 2022? So, that is my first question.

The second question probably related. Thank you as well for providing an update on the top line exit trade for 2022. Can you also talk about next year we should have the benefit from having less restructuring cost into the margin? I know you are not providing a guidance here, but if you could give us some help on understanding the building block of margin realisation as we progress towards mid-20s by mid-20? Thank you.

Jeff Carr: Hi Celine. It's Jeff here. First of all, in terms of the guidance for 2021, it is fair to say that when we see this type of commodity price inflation, there is a lag in terms of the offsetting measures and that is what we will see in the second half of this year. We will see an inflation in the region of 8-9% in terms of our total cost of goods which will be a bit high on the second half than it was in the first half. And as we lay down in the margin bridge in the presentation, this is about 120 basis points of commodity inflation relative to where we were looking at at the situation in February.

We are able to offset elements of that in this year around 50 basis points through incremental pricing and productivity and we will continue to work on that in terms of the pricing and productivity opportunities across all of our GBUs as we get into 2022.

So, just very briefly, if you look at the nutrition, for example, we have priced a significant part of the inflation coming through in this year both in the US and in Latin America and ASEAN. We have been able to take pricing in terms of IFCN for example. Hygiene also we are seeing pricing come through this year and we will continue to work on – as you know in some regions, the pricing comes through in different windows. So, in Europe, for example, we will be looking to take pricing at the next opportunities. Obviously, as we take pricing, we look at the competitive position to make sure that we remain competitive and maintain our strong performance in terms of market share delivery. For offsetting the commodity inflation will be a mixture of productivity, pricing, and we see a bit opportunity in overall revenue management as well.

In terms of the building blocks for 2022, clearly, we have said all along, and we said this in February, that 2021 will be the low point in margin in terms of our margin reset programme. As you know going back to 2020, we deferred some of the investments out of 2020 into 2021 and, therefore, we said this year there will be another 40 to 90 basis points of margin investment. As we looked to next year, clearly, we have one-time costs which will fall away. We have invested the one-time costs in 2020 and 2021 for the transformation and to some degree, they will fall away in 2022 which will help in terms of the margin recovery in 2022. So, we do expect to see margins improve in 2022.

Of course, there's areas like COVID costs which are difficult to predict how much of those at this point will still be in place in 2022, depending on how we operate in our factories, for example, in our offices; but, clearly, we are quite clear that we will see margins improve in 2022.

Celine Pannuti: Thank you.

Pinar Ergun (Morgan Stanley): Good morning. Thank you. Thank you for taking my questions. A quick follow up on the guidance. You are now excluding the China ACM business from your 21 guidance which indicates a softer outlook for the China ACM business. Is this purely because of the rising input costs or have you seen any changes in the competitive landscape? Can you please talk about the drivers behind the mid-single digit like-for-like exit rate in 22? How do you think about category growth, share gains and so on?

Now, my second question is on your investments. You have remarkably invested £1 billion into your businesses 2020, that is about 8% of your pre-COVID sales and 30% of EBIT invested in just a matter of 18 months. So, how did you go about identifying the areas where this investment was most needed in light of the changes brought about by COVID? How do you make sure you generate good returns on this investment? Has all of it gone as you expected so far? Thank you.

Jeff Carr: I think, Pina, you managed to get more than two questions in there but anyway we will try to answer as best we can. In terms of guidance for 2021, let me just be clear – and, I think, the presentation laid this out very, very clearly. We have excluded IFCN China from the margin guidance because we expect that to complete in the second half of the year. I think it is just clearer to take that out of 2021 rather than have the uncertainty of when does it complete, what is the contribution in 2021.

We were clear last year the impact of IFCN China was 90 basis points diluted to the group. We have been clear in the presentation, take out that 90 basis points, we should have an accretion of the base business by 90 basis points. Then we have laid out the reason that we are then holding this year's guidance to 22.7-23.2%. So, it is clear in that that we are not recovering all of the commodity inflation this year, and that has effectively a 70 basis points impact on this year. I just want to be clear. We are not trying to cloud the situation with IFCN China. We have decided to take it out the guidance trying and be clearer about where we are coming out this year and take out the timing of the completion and how that impacts things.

So, the 90 basis points is a good guide to what we expect the dilution for IFCN China to be this year. Taken that out, then what we have is the offsetting factors of the commodity inflation offset by 50 basis points by additional pricing and productivity actions that we are able to take this year. That is in terms of the guidance.

I think, maybe, in terms of the 2022 mid-single digits was the next question.

Laxman Narasimhan: Next question, yeah. So, Pinar, just back to your question on what is driving the sense of the exit rate for next year being mid-single digits. I think in the presentation what we tried to lay out was why we believe in the revenue growth algorithm for the overall business across hygiene, health and nutrition, being in the mid-single digit's range. There was a build-up and I am happy to talk more about it if needed, but there is a build up as to why we would get to that in the medium-term.

If I think specifically about the exit to 2022, what we are clearly seeing is the fact that there are dynamics happening in the near-term with COVID and with the cold and flu season that are playing themselves through, both this year as well as the early part of next year on the COVID side with the lap that we would have for hygiene overall. What we have shown in the presentation is that 70% of our portfolio at this time is already operating at the mid-single digit's range and we try to isolate and focus on the fact that if you look at Dettol, Lysol, Strepsils, Lemsip and Mucinex together, that is 30% of the portfolio and in the first half of the year, they had modestly declined.

Now, our belief is that the back half of next year we will see a more normalised environment. We believe, as we have seen from the build up to the mid-single digits, that we play in a neighbourhood that is great. It is dynamic in many parts but it is great.

We can touch on the investments. That is a question you also had. If you look at the investments and what we have been doing, we were making investments that both catch up investments as well as get ahead investments that we have been making in our underlying brands. The investment have commercial capability and we have seen the results of that just in terms of customer feedback, in terms of market share evolution.

We are making investments in our supply chain. Again, you see that with the improvements of service levels as well as the better realisation of demand in the brand, for example, like Gaviscon that we have shown in the presentation.

We are also investing the e-commerce and digital and as you see there just the commerce stacked growth rate over the last two years is over 100%. Furthermore, we are investing in our productivity muscle which, as you know, as you know, has realised over £1 billion of productivity in the business which, of course, is funnelling, all being funnelled into the investments that we are making. The underlying platform or the underlying business that we have is much stronger.

You see that translate as well into R&D. As we have talked about, 450 new heads in R&D. The pipeline was we see it today is 50% higher going into next year as it was in 2019. Again, from a pipeline of innovation and what we are seeing, we are seeing strength in that. Furthermore, if you look at the underlying company, the culture change we are bringing about, the level of engagement of the business, we feel very good about that and we feel that it is going to be more embedded a year from now.

So, if you look at the more normalised environment in the back half of next year, look at what we are already doing at 70% of the portfolio and the fact that the underlying capabilities of translating into a much stronger competitive position as demonstrated as well in our market share numbers, what we see coming out of the backend is confidence that we will exit 2022 with the run rate that should get us to deliver mid-single digit growth in 2023.

As Jeff has also said, the mix of our portfolio, the increasing strength of the execution, where we play in terms of the categories and the elimination or the unwinding of some of these above-the-line transformation and one-time costs will lead us to delivering upon our margin objectives as we had said in the mid-20's.

So, that overall is why we have confidence in the exit rate coming out of next year.

Pinar Ergun: Thank you. Appreciate the response.

Bruno Monteyne (Bernstein): Hi, good morning. Just to clarify on the revenue recognition. Am I right to understand that without that revenue recognition adjustment, the organic growth was, actually, minus 3.8% in quarter two rather than minus 1? Just to make sure that I don't misunderstand it.

The second one is around the global business solutions. I think, previously you said that it expected to contribute 100 basis point to organic growth. Is that still the case? Is that the kind of contribution you have seen in the second quarter or have expectations changed with that? Thank you.

Jeff Carr: Hi, Bruno, it is Jeff. Let me take the first question. Yes, we have been absolutely clear, revenue recognition gave a tailwind in the second quarter of 2.8%. So, if you choose to take that off then the minus 1 becomes minus 3.8. Obviously, a big effect of the minus 1 was China IFCN which we are dealing with. If you exclude China IFCN, we are at 2.2% for the quarter and 3.7% for the half. However, your math is correct. Minus 1, minus 2.8 does equal minus 3.8, correct.

Onto your second question of global business solutions. We have been at this for a year. We feel very good about the progress that we have made. A lot of Marquee accounts have been identified and deals have been signed with them. They are in the travel sector. They are in the hospitality sector. They are also in the commercial offices setup, both large as well as medium and small-scale companies.

The share of what business we are gaining is strong. The volumes from this business will depend greatly on the activity levels that we will see from those sectors. As you know, the consumer is still going through a transition.

I feel good about our long-term ambitions in the business and we are making steady progress. At that point in time, I would say that we are awaiting more of the volumes in some of those sectors to go up in order for us to meet the objectives for this particular year. Having said that, the progress is strong and shares are good.

Bruno Monteyne: Okay, thank you.

David Hayes (Societe Generale): Thank you so much. Two from me. Firstly one on OTC and then one on the hygiene business. So, just an OTC, can you give us more of a sense of when you talk about a normalised flu season second half, where that kind of sits? Are you thinking lower end of what you would normally have seen? I guess can you relay that into the range that you have given on the sales growth and the margin for the full year? Is it basically a good flu season? Perhaps a bit better than you are hoping is the top end and then worst, worst, case OTC wise, if it really does not take off at all in the US and Europe through the second half, you are at the bottom end of that range; is that we should think about it?

And then the second question on hygiene. You were quite bullish through last year that everyone was going to be sanitising themselves in one way or the other for a prolonged period of time. There was a mindset shift; and you put a lot of commitment, I guess, behind that in terms of supply. The question is, are you now meeting the demand with the supply? I think that was for the shortfall last quarter. Is that now in equilibrium? Is there a risk that you were maybe overly bullish? Would you concede that and that your habits are changing? Maybe just tying into your comment just now on professional services, are you seeing that hygiene volume drop off perhaps quicker than you felt? Thanks so much.

Laxman Narasimhan (CEO): Let me take the first two questions and I will just translate onto Jeff for any comments on margin. But just on the OTC question, we have assumed in our guidance an average OTC season; an average over the course of the last three years. In terms of what we are seeing, let me just go to Australia. I think there's been a lot written about Australia and a lot written about the publicly available information about the incidences of flu in Australia. What we saw in our POS data, our point of sales data for Australia, was that the traction on our cold and flu brands in Australia most closely tracked 2019. What we saw, though, was that when Melbourne and Victoria went into a lockdown and later on in New South Wales, it did have an impact on it. So, clearly, government guidelines will have an impact on the cold season.

What we are seeing in the US is we are coming off a historically record low cold and flu season. So the lapse, particularly from last year, are incredibly favourable in that sense. What we are seeing so far is in the recent months, weeks even, particularly with the scale-up of the RSV virus, as well as the recognition of other viruses, we are seeing growth. And in June, Mucinex tracked higher than 2019 levels, and the number is even higher in the early weeks in July.

Then naturally all this depends on how this plays itself out. It is too early in the flu season to call it because many of the dynamics that are at play with cold and flu this year are very different from what you would normally have given shifts taking place in mobility across countries and alike. So we can only really call it early October.

What we are saying, though, and what we are seeing in the market is it feels from the data that it is consistent with what we would define as an average cold and flu season, which is really what is driving our guidance.

On your question on hygiene. We have said all along that hygiene will come off its peaks from 2020. Some of the peaks that you saw there were quite significant just in terms of the overall partake. To give you a sense of markets, there is no one number that you can look at across all markets because it is very specific to what happens in a market. You have some of the markets that are more advanced in terms of their rebasing. A lot of the Dettol markets are in that place. However, also, if you have a sudden variant that emerges, what you see is growth in consumption, India, for example, being a great example of that, where there is rebasing, but once there's a new variant and people understand what it is, they certainly behave that way.

If you look at the US, what we saw in the second quarter is we saw an earlier tail off than what we had originally expected given the expansion of vaccinations in the country as well as guidelines from the government, certainly had an impact. I think what you saw in Q2 was a tail off that was quicker than we thought. We clearly do see a tail off.

In terms of data on it, if you look at the US at the end of February, it probably reached its peak in terms of the category of US disinfectants. The category was significantly higher, maybe 85% higher in February '21 than where it had peaked in COVID February '19. Lysol, of course, was higher than that because of share gains that Lysol has consistently seen and sees so even today.

What has happened in Q2 is you have seen a tail off where the category in the US has declined by about 35% from its numbers early March. Lysol has declined less again because of share gains. What you see where Lysol is at this point in time is Lysol is probably at this stage, over 70-75 % above its pre-COVID levels, while the category is about 35% above pre-COVID levels. Our intention and what we are doing very much is ensuring that we encourage behaviours. What we are seeing as well in places with high vaccination levels in the US as well as places of low vaccination levels, we are seeing uniformly strong consumption. In states with higher vaccination levels, we are seeing people rely on protection because that is also explaining the vaccination levels that you have. Our core consumers, for example, heavy users of our brand, and certainly from a behavioural standpoint, both penetration and frequency remain strong. We are also seeing the same thing in states with lower vaccinations. Just to give you a sense from a consumer perspective what is going on.

On the global business solutions, what we see is germ sensitivity outside the home is higher than germ sensitivity inside the home. This has been something that is been consistent over history, but what has happened is the level of awareness of what happens with germs is actually stronger today because of the pandemic than what it was before. We are seeing that with the innovation we have put in place on the retail business with regard to on-the-go solutions. Therefore, we fully expect that that will manifest itself as people look to go to work as well as people are on the go.

From a consumer data standpoint, at the pandemic worldwide, what we saw was 76% or 80%, close to that, essentially change their behaviours and their routines. They changed their routines. That number is about 50%. However, if you look at hygiene behaviour, it is down only about 10% in terms of ensuring your homes are clean, ensuring that your hands are clean or you are washing your hands. It is about 10% down from the peak.

We continue to see germ sensitivity, concern about COVID. The majority of consumers still are concerned about COVID and we are seeing shifts in behaviour. However, what we did see in Q2 in the US in particular, was a tail off that was higher than we thought, which is precisely why you saw Q2 forming the way it was. That is the hygiene story.

Let me go back to Jeff and maybe he can touch a bit on your question on margins.

Jeff Carr: My other question was, I think, on top-line guidance. I think it is reasonable. David, you asked about the range of top line guidance relative to a strong or a weaker flu season. Clearly that would have an impact. A stronger flu season will obviously benefit our performance in the range and a weaker flu season will be a negative.

Just a to cover off of one other question was about demand and supply very much around Q1. At the end of Q1 we very much had we got our supply back in line with demand and that allowed us to do quite some restocking as well in the US, particularly on Lysol around the first quarter. Therefore, we are in good shape relative to demand and supply for disinfectants. Thanks. Thanks very much, David.

David Hayes: Thank you.

Guillaume Delmas (UBS) : Thank you. Good morning, Laxman and Jeff. Two follow up questions for me, really. The first one going back to cold and flu, because you mentioned this morning, both in the press release and in the presentation, some encouraging signs from a consumer uptake standpoint in cold and flu. However, clearly, this is yet to be reflected in your like for like sales growth. Therefore, wondering where this discrepancy between selling and sell out is coming from and if it is potentially down to retailers inventory levels. I mean, could we still see an adverse impact from this in the second half of this year at least?

My second question is also going back to hygiene. Dettol slowed from flat like for like in Q1 to down circa 20% in Q2. Just wondering if you see Q2 as the trough for Dettol. Simplistically, the basis of comparison gets easier for Dettol from Q3. Related to this, to what extent Dettol is or is not a good lead indicator for Lysol, which I understand we are still expanding in double-digit territory in Q2? Thank you.

Laxman Narasimhan: Sure. Just on your cold and flu question. Retailer inventories are fine. They have had very little impact on that statement around sell out. We are not at the stage where we have to worry about that because clearly there's been consumption over the course of the last several months as well. We feel good about that.

On your question on hygiene, this is a very market-specific question, Guillaume. Dettol. clearly is in markets where the pandemic has seen greater, I would say, it is more leading edge if you look at a market like China or even a market like Australia and so on. What we have seen in many of these markets is the consumption of disinfectants. There is a rebase and it is structurally higher. Dettol is at about 44% above where it was at the time of the pandemic. But the reason why we cannot really extrapolate is that you do see very different levels of germ sensitivity in various markets.

If you look at penetration levels in the US and Canada versus, let us say, penetration levels in Germany, Germany, the penetration levels are low. They went up in the course of the pandemic. They have sustained, but they are significantly lower than the US and Canada, which tends to be a lot more germ sensitive, and the consumer is quite concerned about it and actually does take action. Brands like Lysol are very strong in their psyche. Therefore, it is hard to really extrapolate from Dettol to Lysol therefore say this is where it is because the markets are quite different in that sense.

Guillaume Delmas: Thank you very much.

Fulvio Cazzol (Berenberg): Yes, good morning and thank you for taking my questions. Most of the topics have already been covered, so I might just ask a little bit about the innovation pipeline. I guess you will start to have some tougher comparables for some of the businesses that last year benefited from innovations such as the Durex business. Could you highlight what you have got coming that might be worth noting, particularly in light of higher prices to recover commodities? How is the innovation pipeline shaping up please? Thank you.

Laxman Narasimhan: The innovation pipeline in Lysol is very strong. We feel very good about it, and it is also grounded in the strength of the brand. The brands equity has increased significantly over the course of the last two years. Our franchise of loyal consumers is very strong.

Additionally, what we are seeing is that some of the more, I am going to call it, repertoire consumers, who have come into the category, particularly in moments of need. You saw that during the pantry loading. If you look at the equity, even with those consumers, it is actually strong. So what we are doing is we are broadening the shoulders of the brand. We are looking clearly at different opportunities to serve met and unmet needs for consumers with whom we have a strong franchise. We are also expanding, as we have said, to additional markets. That is largely on track. Moreover, GBS the brand relevance in the global business solutions is strong, too. I think you are going to see a broad suite of innovations in Lisel.

If you look at the intimate wellness, which is our branded, so to speak, sexual wellbeing business, I think with Durex as well as with Queen V and with KY and the suite of brands we have, we have a terrific set of innovations coming in as we fundamentally rethink that business. It is a business that we are strong in three major markets where we have a global player linked with e-commerce, of which of course we are very pleased with the progress in e-commerce. And that gives us the ability to scale that business with the investments we are making in the science platforms. The investments in the science platforms and polymer science on microbiome being just two, sensory being a third. There are various things that we have put money into and that is actually giving us the ability to bring to market great innovations, particularly in the sexual wellbeing business, but just more broadly, across almost all of our various businesses.

The adult nutrition expansion is happening, and, you know, we have launched in ASEAN and we see good results initially, but of course, it is too early to tell. Then just more broadly, our speciality nutrition business is back to leading share gains, given some of the innovations being brought in and some of the fixes we have made in terms of go to market. And that gives us confidence in the scalability of that business not just in North America but also globally.

Therefore, the innovation pipeline feels a lot stronger. I think what we are doing now is essentially prioritising what we have built in order to ensure great execution next year. But we feel good about the plans that are coming into place for that to happen.

Fulvio Cazzol: Great. Thank you.

Jeremy Fialko (HSBC): So two questions really. The first one is, can you just give us a little bit of help on the balance of the year in terms of the like for like sales rates? Obviously, you are saying you expect a slower Q3 and also a slower H2. Perhaps you can spell out what sort of decline you might expect in Q3/growth you might see in Q4.

Then the second, also with a bit of divisional context there. Then the second question is if you could talk about IFCN. Your organic growth, excluding China was quite good, but your volumes are quite weak; if you just give us a bit more colour on some of the volume price mix trends and also any impact from the WIC programme within that. Thanks.

Jeff Carr (CFO): Hi, Jeremy, it is Jeff. I will cover off the first part of your question in terms of the balance of the year.

I am not going to get into a quarter-by-quarter guidance, but we have indicated that we see Q3 being relatively weak, but then a strengthening of Q4 as we see a stronger performance of our health business and also in nutrition, specifically in terms of the MS that we expect a stronger

Q4. So I would expect to see the trend for hygiene continuing where we were up some 28% in Q1. The hygiene GBU was up 8% in Q2, but I would expect hygiene overall versus the tough comps that they have to be negative in the second half and expect health, which has been negative for a few quarters now to be positive in the second half. I would expect certainly to see a stronger performance from our new nutrition division.

All in all, we do, as we have always anticipated, as we planned, expect to see hygiene come down once we get into the tougher comps in the third and fourth quarter. And I guess that peaked in the first quarter of '21. Up against those comps, hygiene will come down, but we will see health, as I said, strengthening through Q3 and Q4.

Laxman Narasimhan: On the infant nutrition business overall, let me start with China. Our performance in Q2 in China was disappointing. What you see in China clearly play itself out is the birth rate decline; 18% birth rate decline in that market. In addition to that, I think what we saw was with some of the destocking that took place in the process of the strategic review has clearly had an impact on that business. It is down significantly and explains a bit the performance. However, also what you saw there was the playing out of some of the structural challenges that we have referred to at various points in time. If you look at the birth rate decline in larger cities, it is higher than the birth rate decline in smaller cities, and that is just one example of why structurally ensuring that we get to the lower cities is very important. I think what we have done with that business is we have found a buyer, Primavera, a partner of ours, who over time will help unlock the potential of that business.

If you take the rest of the IFCN business ex-IFCN China, that business was in growth. I think it grew about 2.2% overall. Now, what you see there as well because of the pandemic is you see the impact of the birth rate declines in many geographies. However, our strategy has been quite clear. If you look at the IFCN business, it is really about offsetting the birth rate decline with innovation and premiumisation in order for us to get to the revenues that we said are possible. What we have said long term is that part of the business is a 0-2% growth business.

What we saw in the US with the work that was done, and it is taken a while to get all these different building blocks in place, particularly on the medical side, is you saw the speciality business grow significantly. Overall market shares in North America are positive. We have seen real gain in market share in North America, and we feel good about that and the progress made in particular on the speciality side, but also on the base and for business.

Our business in Latin America is in share gain and we feel good about that, particularly lapping the drier change that we made in the early part of the year last year. Our business in ASEAN has turned a corner and is now in share gain. Naturally, that market is facing both rate declines and is offsetting that with all the actions, but if you look at shares in ASEAN for us, they are gaining.

We do have some problem spots. Philippines is a problem spot for us in the case of IFCN and we are going into it. Our e-commerce performance is strong as well. However, overall, on the IFCN business ex infant China, the combination of innovation, the strengthening of our execution of the medical channel, the ability for us to further scale our strong speciality business coupled with our performance in e-commerce, all give us confidence in the trajectory of the business. Clearly, we have addressed the challenge in infant China.

Jeremy Fialko (HSBC): Okay, thank you.

Iain Simpson (Barclays): Thanks very much. Two questions from me, if I may. Firstly, just to come back to the margin, you seem to be investing significantly more in your business than you set out in February last year when you announced the margin reset. Are you able to give a little bit more granularity on where the spend is going? I guess professional build-out is one of those areas, but where else to spend is going and sort of what benefits we should see from that in terms of top and bottom line and when?

And then just a second question, if I may. It looks like many emerging markets across Asia ex China, bits of Africa, bits of Latin America are currently seeing another COVID wave. Is this having any impact on Dettol when we think about the sort of June, July run rates? Thanks very much.

Jeff Carr: Hi Iain, it is Jeff. Let me talk about the investments that we have been making. You are right to say, and the story has not really changed since February on the investments; the messaging has not changed and the quantums have not changed. What we said back in February is we during 2020 took advantage of the extra leverage that we had. As a consequence, we were investing more than we originally talked about back in February 2020. We have increased the level of investments and, to some degree, we have increased our productivity to fund those.

The key areas that we have been making investments obviously include pricing, and in this current environment, there have been more price investments than we talked about then. But we have also, I go back to the areas that we talked about back in February, been making significant investments in R&D. We have made significant investments in what we call our centres of excellence, which includes sales excellence, marketing excellence, but also ERB, well, I guess it is e-Reckitt now as we now call it, in terms of our e-commerce business, which we are very pleased with, the overall performance, delivering on a two-year basis, over 100% growth in e-commerce sales.

In terms of measuring those investments, clearly we track, on a regular basis, all of the investments we make. Certain areas will pay off differently. If you look at sales excellence, for example, we can see both qualitative and quantitative results in terms of the response to those investments. For example, if we look at customer surveys, we see our record improving in terms of our performance. In terms of customer surveys, we see our delivery statistics improving in terms of the order-fill rates and so forth, and we get qualitative feedback from customers that we have made significant improvements in our performance over the last 18 months to two years.

R&D, Laxman has talked about the pipeline. Clearly, we are measuring the pipeline and see a significant improvement in terms of the new initiatives in the pipeline. What we have to do is translate that now into significant net revenue improvements in terms of the net revenue percentage coming through from new product initiatives.

Supply chain, we have talked about some of the investments we are making in capacity, the investments in capacity of Lysol, for example. A lot of that is with co-packers which is an incremental cost in order to manage 100% increase in the size of the brand over an 18-month window, which is not something we would normally plan for in terms of our own manufacturing capability.

So, there is a whole multitude of areas of investments and clearly the paybacks tend to be over different lifecycles, but we are tracking all of them and measuring them all on a regular and quarterly basis.

Laxman Narasimhan: I think if it is fair, if I can just add one perspective, that there is no question that we have invested that we have invested in the core of this business, both catch-up investments as well as get-ahead investments, and it is more competitive now than it was, hopefully as you have seen through the presentation's various areas of examples of the investments that we have made.

To get to your question on the emerging markets and the variants, the variants are having an impact on consumers and having an impact on consumer concern around germs and on disinfection. I think that what we are seeing – and India is an example where with the recent wave that happened there, I think you did see translation into consumption in India. Now, two years' stack growth in India is extremely strong overall across all the businesses that we have had. I think you see this in the US with what is happening with the Delta variant across the various states. It does not matter whether you are vaccinated or not, you have clearly seen that impact there too.

So, the variants are unknown in terms of are they going to be more or not, so I think overall variants do have an impact on consumption.

Iain Simpson: Thank you very much.

John Ennis (Goldman Sachs): Good morning, everyone. My first question is on price positioning within categories. I think last year you repositioned some of the price points within your portfolio. I just wondered are you comfortable with your relative pricing now, or are there certain categories or brands where there is more to do? Are you pricing slightly less than inflation to further support some of those initiatives last year? That is the first question.

My second question is on Intimate Wellness. It is clearly a big building block to get to your medium-term guidance because you are targeting 7% to 9% growth there. What do you see as the market growth for that segment, and what proportion of your target is reliant on market share gains? Can you also remind us of the three-year average sales growth for that business for you? Thank you.

Laxman Narasimhan: On price points. It is a great question. I think in February 2020 where we talked a bit about some of the investments, we did actually invest in competitiveness in several places, and we felt good about the price gaps versus competitors as well as the trends that we were seeing in that space. I think the best way to look at it is to take a look at, certainly market by market how are we doing, what is our price gap, what is our competitiveness as measured by market share and what specific actions do we need to take to offset some of the inflation we’re seeing.

We have a very clear view of how we do this. The first one is on productivity. It is very important to get our productivity programme in place. I know that when we started in February 2020, people were a bit surprised that we would find more productivity in what had defined as being a very lean company. What we have realised is with the inefficiencies, the investment selectively in capability has unleashed this kind of productivity where we see we are fully on track to getting a £1.6 billion number on productivity as we had said. The capability set that we have built in productivity gives us strong conviction that the run rate that we will see on an annual basis on productivity will be consistent with what we have seen. It is a step up, almost a doubling in the step up of run rate from what we saw pre-2019.

Part of the productivity that we are seeing is also – we have not fully captured it yet at all by the way – actually in revenue growth management. We see that some of the tools, processes, practices we have need significant enhancement and improvement. That is an area of investment as we look at what we are seeing, which actually comes in a very timely manner as we look at offsetting some of the price inflation or the cost inflation that we are seeing.

Therefore, productivity plays a very important part. Pricing does, but it is not just raw pricing. It is also looking at mix and a more sophisticated approach to revenue growth management, which we are scaling up across various markets, that gives us the confidence that we will be able to offset as inflation with pricing and with productivity. However, in all matters, we are very conscious of competitiveness and will be competitive on the shelf as well as with our consumers.

Jeff Carr: I think just to come back on Intimate Wellness, we have seen an average mid-single digit CAGR over the most recent few years. Obviously, we see that stepping up going forward, but if you look back of the last three or four years, we have averaged in a mid-single digit CAGR.

Laxman Narasimhan: I think our role in Intimate Wellness as a category leader is really in category creation. It is a business that we have perhaps the best portfolio of brands, we play in a small part of the business. We have the ability to scale the brands in the various spaces. You will see us talk more about how we are repositioning Durex, you will see us talk a bit more about how we are going to scale up Queen V. I think the capabilities and the abilities we have in that business are very strong, particularly linked to e-commerce. It is not just a market-share gain; it is actually category expansion that we believe is a big opportunity for us.

John Ennis: Understood, thank you very much.

Tom Sykes (Deutsche Bank): Morning, everybody. Coming back to the various reasons for perhaps the disappointment this morning seen severalfold, and so therefore maybe COVID covered up some of the transformation that still needed to take place at the company. Do you feel that you are getting the responsiveness from the business quickly enough when you are getting demand or competition changes in different geographies or categories, please?

Then just, sorry, another on the pricing and perhaps just building out what you just said. You seemed to be alluding to increase price competition in hygiene. I wondered whether you could maybe pick out what the level of competition in disinfection is relative to other areas of hygiene. When OTC comes back, do you think now it is going to come back at the same price points that you were at before, please?

Jeff Carr: Maybe let me start on the first part of the question in terms of responsiveness. I think one of the reasons we showed in the presentation the mix of the 70/30 is we were not breaking out 70% doing well, 30% doing poorly; we were breaking out the two areas most impacted by COVID and showing that if you take away the disinfection which is about 25% of the portfolio, and cold and flu which is about 5% of the portfolio, the rest of the portfolio on average is growing mid-single digits. That is a consequence of the investments that we have been making, and then that is showing the responsiveness that we have been experiencing because of those investments. The fact that disinfection is coming off its peaks is not a surprise to anyone. We never expected, once the infection rates in the initial pandemic period wore away, that disinfection rates, usage and frequency would stay at the peak levels. Nobody expected that, we did not anticipate that, and we are seeing it decline as we have said many times on this call. However, Dettol is still plus 40% or so from its 2019 levels, and Lysol is around 100% from the 2019 levels, but the current trends on disinfection are to be expected.

On cold and flu, clearly, we had no season last year; there was no cold and flu. We are anticipating a season in 2021-22 and that we will see not just in terms of an improvement in OTC like-for-likes, it will also see a significant improvement in terms of the group profitability because that has a big contribution to the mix. Just in terms of the overall responsiveness, I though I would cover that off.

Laxman Narasimhan: If I could add one thing to that, I think, Tom, it is fair to say that I think the responsiveness of our business to the changes in China on the infant formula business was disappointing. I think what part of it is the responsiveness there required us to have some of the structural shifts that we needed to make in the business that we did not quite have. I think that with us having essentially sold the business, that what is going to happen is the ability to build that structural capability in the business will be there in the future. However, that is an area clearly of disappointment, no question.

Tom Sykes: On the pricing aspects?

Laxman Narasimhan: On the pricing question, I think on the OTC side we are seeing, first of all on hygiene, it is more competitive. By the way, it is more competitive particularly for us in certain sub-categories, wipes being one example. However, I think as we look more broadly, it does depend a lot on the strength of the brand, the ability for the brand to carry a price premium. Lysol has literally strengthened significantly over the last couple of years, and we are building the shoulders of the brand in terms of new places that we are going into. On hygiene, no question more competitive, but the strength of the brand really matters in this case.

I think if I look at your question about OTC, we expect OTC to come back and do not see anything at all to give us any sense that the pricing is going to be lower than what we have traditionally had and the margins will be lower than what we have had.

Tom Sykes: Great, many thanks.

Chris Pitcher (Redburn): Thank you very much. I will keep it to one, given the call. On cash flow and the impact of the China business, can you give us an idea of what sort of benefit the IFCN China business is in terms of working capital and what percentage of sales you expect working capital to settle at on a pro forma basis?

I am assuming there is limited capex this year allocated to that business. In terms of the absolute guidance you have given for this year, is that a steady state figure for going into next year? Thanks.

Jeff Carr: Let me cover that off very briefly. You will notice the free cash flow for this half is down significantly versus last half. I am not going to specifically get to the question on China. First, I am going to give you an explanation of the free cash flow. We saw significant working capital inflow last year and are seeing a significant element of that flow out this year. I would expect the working capital at the end – and clearly this is COVID-related – the two years combined are still going to have very strong free cash flows. I would expect our working capital to stabilise a little better than the 2019 position, and in terms of China it is not particularly different in terms of profile – in terms of our working capital. It is not going to have a particular impact on the overall Group's percentages. I do not think it is going to have a significant impact. China's profile is pretty similar to the rest of the Group.

Chris Pitcher: Can you say on capex whether there is any capex to drop away with the divestments or is there very little at all allocated to that, if any?

Jeff Carr: There will be some capex which falls away. I think as a percentage of the Group, it is probably a little under the average in terms of the percentage of the Group. There will be some capex that drops away, but probably at less of a per cent, more like 2% of sales, as opposed to the Group average, which will drop away. So, there will be obviously some capex which comes out as a consequence of that. I think our investment in capex is, in that particular area, runs a little less than the Group average.

Chris Pitcher: Thanks.

Laxman Narasimhan: Thank you for that – appreciate it. Jeff and I are pleased to host you all and answer all the questions that you had, so thank you for joining us.

I just have four key messages. We have had a solid first half of the year despite a strong comparator and have had a slower Q2. We have had a strong two-year revenue stack of over 13% inclusive of IFCN China.

Second, we continue to make good progress in building a better house in a great neighbourhood. Third, we are addressing near-term cost pressures while actively managing our portfolio. Finally, we remain confident in meeting our medium-term targets of mid-single digit revenue growth and mid-20s margin by the mid-20s. Thank you all for joining us, and we appreciate all your questions.

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