Reckitt Q1 Trading Update 2022

Friday, 29th April 2022

Welcome

Richard Joyce

Head of Investor Relations, Reckitt

Good morning, everyone and welcome to Reckitt's Q1 Trading Update. We will follow the usual protocol by starting with some prepared remarks and then we will follow with some Q&A. Without any further ado I will hand over to our CEO Laxman Narasimhan.

Q1 Trading Update 2022

Laxman Narasimhan

Chief Executive Officer, Reckitt

Strong Momentum across all GBUs

Good morning to everyone dialled in. Welcome to our Q1 trading update. I will say a few prepared remarks and then Jeff and I will be happy to take your questions. This is a trading update only so I will keep the comments brief.

We have started the year with strong momentum across all of our GBUs, delivering 5.6% like-for-like growth in the quarter. Whilst we performed better than our ingoing expectations, the drivers of our performance were as expected. The performance of our brands less impacted by Covid grew high-single digits. Excluding the positive impact of the infant formula business in the US, these brands continued to grow at mid-single digits.

Health delivered a very strong performance led by our OTC business and our intimate wellness portfolio. Growth was price-led but with good underlying volumes. Our price mix was +5.3% and volume was +0.3%. Excluding the Lysol volume decline and the positive benefit from the US IFCN business, volumes for the Group grew by around 7%. Our market share performance on the whole continues to show strong momentum with 76% of our core category market units gaining or holding share.

Hygiene

I will quickly walk you through some of the highlights of each of our global business units. In Hygiene we declined 9% on a like-for-like basis due to our tough comparators where we saw 28% like-for-like growth in Q1 last year. The underlying performance was strong however with growth of around 4% if we exclude Lysol. Growth was broad-based across our brands driven by a combination of innovation such as our Finish Quantum product and penetration-building initiatives particularly in Harpic.

Lysol declined by around 30% in the quarter. This is fully in line with our expectations as we lap a 70% growth comparator in Q1 last year which was our peak quarter. Revenue in the quarter was 75% above pre-Covid levels as we continue to grow share in our core disinfectant spray business and broaden the shoulders of Lysol through our recently-launched laundry sanitiser business and entry into a number of newer markets.

Health

In Health we delivered a very strong performance of just over 20% like-for-like growth in the quarter. This was led by our OTC brands which grew by over 60%. I am very pleased to say that all of our core OTC brands grew market share in the quarter. This combined with the cold and flu season which lapped a weak comparator, plus some benefit from Omicron, meant Mucinex, Strepsils and Nurofen all delivered outstanding growth in the quarter. Our intimate wellness portfolio grew high-single digits. In India we have continued to drive increased distribution and we also saw good growth in China behind our latest polyurethane innovation. Dettol continues to sell significantly above pre-pandemic levels.

The result this quarter is well within our expectations and with improving market share trends, shifts in distribution and a strong H2 innovation pipeline we are on track to deliver low-single digit growth for the year as initially targeted. I am pleased to see some strong mid-teens growth in our VMS portfolio as we made further progress in China with both Move Free and our Neuriva cognitive health brand. Our brands are doing extremely well digitally as we see strong sell-out through e-commerce.

Nutrition

In Nutrition we had an outstanding quarter with broad-based growth across all geographies. Latin America and ASEAN both grew mid-single digits as our focus on improving execution and further growing our specialty and adult segments gained traction. In the US we delivered growth of over 30%. The team in the US has done an exceptional job in some very unfortunate circumstances. We will continue to work with our suppliers and customers to manufacture and provide as much product as possible until these temporary competitor supplier issues are resolved in the coming months. Our expectations are that market conditions will normalise in the coming months. Our performance in e-commerce was strong with double-digit growth in the quarter. E-commerce now represents 12% of Group net revenue.

2022 Full Year

As we look towards the rest of the year and following the strong start we now expect like-for-like net revenue growth towards the upper-end of our guidance of 1-4%. This is driven by stronger than expected performances in our OTC business and Nutrition which will likely normalise in the coming months. Our disinfectants are performing in line with expectations and the rest of the business is on track to grow mid-single digits as originally targeted.

While this is a trading update the significantly worsening inflationary environment we have seen over the last couple of months since we announced our initial targets warrant an update. We told you on 17th February that we expect COGS inflation to be in the region of low-teens. Since then, due to the war in Ukraine there have been further increases in a number of key commodities we use in our manufacturing process, such as oil derivatives, surfactants, soap noodles, tin plate and dairy. We are now facing inflation of close to high-teens which is around £1 billion of COGS inflation versus last year.

We enter the year as a stronger business. We have a strong portfolio of brands that have been invested in. This has enabled us to take pricing responsibly whilst growing volume. We have taken pricing in the quarter and will take further pricing actions as required. We will benefit from favourable product mix this year. Our productivity initiatives are delivering ahead of plan and we will see a reduction in finite life transformation costs.

The benefits from favourable mix, productivity initiatives ahead of plan and pricing give us the confidence to expect adjusted operating margins in line with both the prior year and current market expectations while continuing to invest in the long-term growth of our brands. The inflationary environment may well change as we further progress through the year as well as our mitigation measures. We will keep you updated accordingly.

Russia/Ukraine

Finally in respect of Russia and Ukraine you will have seen our announcement that we have been begun a process aimed at transferring ownership of our Russian business which may include a transfer to a third party or to our local employees or both. This action builds on the previously announced decision to freeze capital investments, advertising, sponsorships and promotions in Russia. We will update you on progress as soon as we have more information to share. For now, our guidance includes Russia.

Summary

To summarise, we have strong momentum across all our global business units and geographies, delivering +5.6% like-for-like growth in the quarter. We continue to grow market share with 76% of our core CMUs gaining or holding share. Our brands less impacted by Covid grew at high-single digits. Excluding the positive impact of US IFCN these brands continue to grow at mid-single digits. Health delivered a very strong performance led by OTC business and our intimate wellness portfolio. Our disinfection brands including Dettol and Lysol performed in line with our expectations and we have significantly broadened the shoulders of these brands over the last two years. Nutrition performed exceptionally well, especially in the US, but I feel heartened by the broad-based performance of the business across geographies.

Our strong start to the year gives us confidence that we will deliver LFL net revenue growth towards the upper-end of our guidance and maintain our adjusted operating margins for the year. This quarter further illustrated the progress we are making on our transformation journey, the return on our investments and the strength of our underlying business. We remain well on track to deliver our medium-term targets of returning the business to mid-single digit LFL net revenue growth and mid-20%s margins. With that Jeff and I will be happy to take your questions.

Q&A

Iain Simpson (Barclays): A couple of questions from me if I could. Firstly can you talk a little bit about the innovation phasing of this year? You have talked quite a lot about how this year was the year that you really expected a big step-up in the pipeline. Have we seen some of that in the first quarter? Should we expect the phasing of innovation launches to continue to build as the year progresses? Secondly your comments around US infant formula and how you expect the competitor supply situation to resolve itself in the coming months, would I be correct therefore in assuming that your guidance is basically based on the assumption that there is a normalisation and a return to the pre-disruption situation in US infant formula in the next few months and that you do not really have anything in your guidance for continued strength in your US infant formula business in the second half? Thank you very much.

Laxman Narasimhan: Thank you Iain. On innovation we expect further innovation over the course of this year. I think we will see some new products being launched in the second quarter but there is a lot of innovation that is actually scheduled for the back-half of this year. It is building as we go through the year. We have given examples, for example on Dettol as well as on some of our intimate wellness portfolio as two examples of new innovation that we will see. It is very similar in Hygiene as well.

On your question on the US infant formula, we do expect that the supply situation will normalise in the next couple of months. The US infant formula business has grown at mid-single digits for several years and we feel good about the overall performance of this business. We expect it to continue to perform so as it normalises.

Guillaume Delmas (UBS): Morning, thank you Richard. Morning Laxman and Jeff. Two questions for me please. The first one is on your inflation guidance. You have increased it this morning from low-teens to high-teens. I was wondering what is today the proportion of your key commodities that are now fully hedged for 2022. In other words, is there a significant risk of you having to further revise up your inflation outlook in three months from now or with all the hedges in place high-teens is conservative enough? Then my second question is on portfolio management. In the highly hypothetical scenario whereby you would be selling a relatively large asset what would be the most likely use of the proceeds? Would you be looking in priority at returning the cash to shareholders via a share buyback or a special dividend? Would you be looking at making some acquisitions and if so which areas/geographies/categories would be of greatest interest to Reckitt? Thank you.

Jeff Carr (Chief Financial Officer, Reckitt): Guillaume, for the year 2022 we have in total about two-thirds of our cost of goods hedged one way or the other. Either through our fixed contracts or through hedging or inventory on-hand. As we say in our outlook, there is some sensitivity to future commodity price changes, but we are in a reasonably good position in terms of the hedging that we have in place.

Laxman Narasimhan: On your second hypothetical question, as you know, we do not comment on speculation or on hypothetical situations. We are very shareholder-value focused as a management team and as a Board. I intend very much to ensure that we maximise shareholder returns. We have laid out our capital allocation thoughts on several previous calls and if you would like we can readdress them but, as you can probably see, our intention is to be incredibly shareholder-value focused and that is how we will be going forward.

On your question on M&A, as you know, we sold our infant formula business last year in July. We also sold our Scholl brand and reunited it with the owners of the Scholl brand globally. You also know that towards the end of the year we announced a transaction to sell our E45 business which we closed in this quarter. We also sold our Dermicool brand which is a talc brand in India, for obvious reasons there. Those are the ones that we have done. We have bought Biofreeze last year and we integrated the business. It continues to perform well. We clearly have a pipeline of things that we will look at but it is too premature for us to speculate on M&A. As I said, we continue to remain completely focused on shareholder returns.

Celine Pannuti (JP Morgan): Good morning Laxman, Jeff and Richard. My first question is on pricing versus mix. You did have quite a strong performance but I would presume it was more mix-driven. Can you talk about how much pricing you have seen so far in the first quarter and whether we should rightly expect to see that stepping up towards the rest of the year? My second question is on the puts and takes since February on the cost inflation side. You have guided from low-teens to high-teens. Can you talk as well about the benefits that you are getting in terms of better mix from the IFCN business as well as OTC performing a bit better I believe? You also mentioned supply so Jeff maybe if you can go into those building blocks. As a result of what is the tailwind in H1 would there be a difference in terms of performance and margins H1 versus H2? Thank you.

Jeff Carr: Shall I address the cost inflation first? Since February we have seen about £250 million extra cost in relation to inflation obviously as a consequence of the war in Ukraine. We are addressing that through various aspects. You did not mention productivity but our productivity programme has really stepped up in 2022. Since we gave guidance we think that we will beat our expectations in terms of productivity and possibly even getting close to last year's number in terms of the absolute delivery of that programme. If you recall last year we were at something like £700 million in terms of productivity and these are real pounds saved, not just cost of volumes. They are measured and they are checked so we are very pleased with the productivity programme. Mix is going to give us some favourability in the year, not least because of OTC and the fact that we have a stronger-than-average cold and flu season. As you know, that is generally a stronger, higher-margin performance.

On the transformation cost there is no real change from the update that we gave in February. There will be a few but relative to £1 billion of cost inflation which we are now faced with it is really just a few tens of millions which on a normal inflation year could be important but it is pretty much dwarfed by the inflationary environment that we said. The £1 billion, just so you know where I get that from, that is basically the high-teens based on our total cost base gets you to close to £1 billion. I think holding margins flat faced with £1 billion of cost inflation is a really credible performance.

On pricing and mix first of all I think that what you see coming through by each of the GBUs is just under 4% price mix on Hygiene and that is mostly price to be honest with limited mix on that. We do think that will increase as we go through the year and we will continue to look to save further pricing actions in the second half of the year. On Health we are at 5.1%. Again it is mostly a price movement and the one thing I would point out is on Health most of the OTC pricing has gone through quite late in the year, post the flu season so there will be a slight increase in that as we go through the balance of the year as well. On Nutrition you see quite a high price mix at 11.5%. I must say that a significant part of that is mix in relation to the mix of WIC versus fully-funded revenues. Therefore the pricing is probably more around 7-8% and mix around 4% on that breakdown in terms of Nutrition. All in all we think we are being responsible on pricing and we do see some potential for pricing in the second half of the year.

Finally on margins we are not giving specific guidance on margin. I do think margins will be slightly lower in the first half, which is what we guided to in February. I still think margins will be slightly lower in the first half due to the fact that certain aspects of pricing will not kick in until during the first half of the year. For example, European pricing generally kicked in, in March/April by the time the new agreements were all put in place. Margins will be slightly lower in the first half I think and a bit higher in the second half.

Pinar Ergun (Morgan Stanley): Good morning, thank you. When we look through the short-term noise the top line performance seems to be very strong with volumes up 7% excluding the US IFCN boost and the Lysol declines. Why are you not raising the 2022 top line guidance? Then the second question is you highlight some supply chain challenges in the press release. Can you please elaborate on those? Thank you.

Laxman Narasimhan: Thank you Pinar. I think that at this point in time at the start of the year we feel good about the guidance and what we have provided. We will of course come back to it over the course of the rest of the year in our conversations with you.

On your second question on supply chain, as you could well imagine, there are dislocations still underway, be it in logistics, be it in availability of certain raw materials or be it in the pricing of some of these raw materials. I think that what the Supply Chain team has done admirably is rise to the occasion because they are dealing with both cost increases, availability challenges, logistics and all of the above, as well as in some markets you continue to see labour as a challenge, particularly for example in North America. Given all of that I think that we continue to work incredibly hard. The Supply Chain has been strengthened over the course of the last few years but the external environment is highly volatile and we just want to be cognisant of that as we respond to it.

Bruno Monteyne (Bernstein): Hi, good morning, just a bit of a follow-up on the Abbott recall benefit you have in the US. Given these weak mechanics in the US the extra trade you get is it better for your margins, worse for your margins or actually overall neutral? I am a bit confused with those rebate claims. Also, what size would the impact be on your organic growth for like-for-like in the first quarter? Could you quantify it? My second question is around the measures that you quote for percentage of CMUs gaining or holding share. Would you be able to give us the data without the holding share? If you look at gaining share do you have a rough estimate of what percentage of CMUs you are gaining without holding? Thank you.

Jeff Carr: I did not get the second part of your WIC CMUs question. No, the second part being on the Abbott question. First of all, yes, the extra sales we get is basically full revenue because clearly our WIC sales in the WIC markets we operate in are running at normal levels. What is happening is obviously we are supplying WIC sales in non-Reckitt WIC markets, i.e. in Abbott markets and we get fully compensated for that. Therefore, the incremental sales that we have at +30% in the US or whatever is at full revenue. Our overall proportion of WENR versus WIC has gone up which is why we see a significant price mix improvement in Nutrition.

On the organic growth rates, as we have mentioned before, like-for-like we have been running at mid-single digits in North America. We have been improving in LATAM and ASEAN. I think it is fair to say that excluding Abbott we expected to be in the mid-single digit range for 2022.

Bruno Monteyne: Just to finish on the WIC point, given that you have this benefit rebate is it fair to say that the incremental WIC-related sales is actually margin-enhancing for you? Would that be correct?

Jeff Carr: Yes, that is. That absolutely is correct, yes. Our margins on Nutrition are running positive in the year relative to where we expected them to be.

On your question of category, offsetting that like all of our business we have seen incredible inflation including dairy and tin which affects the IFCN business. However net-net organically yes we see a net benefit in terms of margin because of that.

Laxman Narasimhan: We have been very responsible on pricing in this business as well during this situation. On the question of category market units, the vast majority of them are gaining and so the number on hold, which by the way is a +/- 20 basis points, is actually very small. It is all largely gaining.

Jeff Carr: Yes, it is all largely mathematics though. As it is +/- 20 basis points there is not a lot to fall in that count. It is usually a pretty small proportion, single-digit percent, which is. I do not know the exact percentage this quarter but it is usually pretty small.

Fulvio Cazzol (Berenberg): Good morning and thank you for taking my questions. I have got two of them please. In terms of your latest margin guidance for this year and the fact that you have maintained your mid-20s EBIT margin by 2025, very simplistically it implies an average of 70 basis points of annual EBIT margin improvements from next year. I was wondering how you feel about this target because you have obviously reiterated it but is it a realistic target in the absence of a downturn in commodity prices? Then my second question is in relation to the China lockdowns. Could you maybe just give some comments on the risk that you see to Durex and VMS in Q2 from the recent lockdowns there please? Thank you.

Jeff Carr: Let me start on the margin. Yes, we do feel confident in the mid-20s by 2025 and, as you say and rightly so, that implies something in the region of a 70 basis points annual development. Now, if you look at where that comes from just the leverage we can get from the growth that we will be delivering in terms of mid-single digit growth gives us a significant chunk of that. Margin will come through just from that leverage. As you know, we have got many other opportunities in terms of mix and in terms of our revenue management processes that we are running through. I am very excited about the opportunity to optimise how we manage our mix on shelf, how we manage our trade activities and such forth to also generate our margin improvements. Our productivity programme continues to run. Yes, it is difficult obviously at this point to project what is going to happen with commodities over the next two or three years. The economists all have their views but generally we feel comfortable in the target of mid-20s by 2025.

Laxman Narasimhan: If I could add to this with a little bit more detail on a couple of areas. One is our productivity programme and Jeff mentioned we have been very good about the progress we are making. It is significantly ahead of plan. We feel there is even further upside to what we can do there and I think our teams are working very hard. The muscle has been built inside the organisation and what we are seeing both bottom-up as well as top-down are ideas that can help us further enhance productivity. I know we have given a target of £2 billion over we added a year and £2 billion but the reality is if we just look at where we are this year we are going to significantly perform better than the numbers that we had set out of £1.6 billion. We are going to be significantly ahead of that. I feel good about how that is going to play itself out going forward.

Jeff talked about the volume and the leverage. That we get the growth. Furthermore on revenue management we are 18 months through a process of strengthening our capabilities on revenue management. We have been very good about the investments we have made over the last 18 months in that capability and in a lot of ways it has helped us as we entered this period of very difficult operating conditions. In my view we are less than half of our way in terms of the level of sophistication that I think we can get to over time and the investments we are making in capabilities, in what we do in digital analytics, the work we are doing in execution, particularly the area of revenue management both in our offline channels and online channels continues to give us the confidence that we can in fact deal with some of the commodity pressures but also deal with some of the productivity opportunities we have. That gives us confidence, as Jeff said, to continue to grow margins in the medium-term in order to get to our medium-term goals. We feel good about the medium-term guidance and that is the reason we have actually reiterated it.

On the China lockdown, clearly there are parts of China that are going through lockdowns including the Shanghai area, Shenzhen and a few others. We have not yet seen an impact in terms of supply. Particularly, as you know, we manufacture in China for China many of the commodities there. We fully expect that if this continues over a period of time that there might be some challenges there but we feel very good about the resilience of the team, what we have built, the inventory we have in the system and we believe that we can navigate that well.

On the demand side, just so you know, you obviously have offsetting demand pressures there. We have got on the one side Dettol's business benefitting from Omicron and some of the closedowns there and where you have not seen really any negative impact on Durex here.

John Ennis (Goldman Sachs): Hi, good morning everyone, a few quick ones from me. The first is coming back to US infant formula again. I wondered if you could help in quantifying the margin difference between your WIC and non-WIC sales. The second is on inventory levels across the portfolio but particularly in OTC following a very strong start to the year. Is there anything to be aware of in terms of phasing or would you describe inventory levels as relatively normal? If I can sneakily put in a third, can you just comment a little bit on brand investment levels and where you are expecting to be for the year? That would be very much appreciated. Thank you.

Jeff Carr: On WIC and WENR we do not really talk about the margin differential but obviously the WIC margins are significantly lower. I do not think that is a trade secret. There is a significant difference in margin but we do not get into anything specific on that.

Laxman Narasimhan: On inventory our position in the Health business is normal, including in OTC it is normal. Our inventory position with distributors/retailers across the world in the Health business there is nothing really concerning. It is just normal. If I look at the inventory position in Hygiene it is also pretty normal. I think the inventory position in infant formula, particularly in the US, is light for the entire chain. That is where we would be in terms of inventory.

On your question on brand investment levels we are managing the business for the long-term. We will continue to invest in our brands and we are comfortable with the brand investment levels we currently have which is roughly in line with last year.

David Hayes (Société Générale): Thanks guys, good morning also. Two from me, one on the productivity offset and one on the maths, if you can mark my maths homework. On the first one it feels like what you said, £20 million of extra headwinds which is going to be offset by the uplift in productivity activity, the question around that is how comfortable are you that you are doing the right things at the right time? Stepping up productivity when supply chains are disrupted, etc, is there not a risk that in the second half in particular you start to fail on both sides of that, if you like, because there is so much going on that you are trying to do too much? Related to that, medium-term it feels like this investment programme there is a drive top line opportunity. If feels like it is switching much more back to a net productivity gain, like a cost-saving programme. Would you push back on that and say that is not fair and there is not a shift in that sense?

Then the second question on my maths homework, 70% of sales non-Covid growing high-single digits would suggest that 30% Covid-related is kind of flattish in the quarter to get to 5.6% for the Group. Is that right but then if Lysol is down 30% what is offsetting that in terms of that 30% being almost flat? I am not quite sure what I am not quite adding up the numbers there. Thanks so much.

Laxman Narasimhan: Firstly on productivity we have built this muscle over the course of the last couple of years. If you look at the full-year and what we have talked about there, we have got 14,000 different projects and actually led into this productivity programme. It is built into the teams, it is built into the muscle of this company and you have people executing against that. This is not a shift from a growth investment programme to a cost management programme. I think that is an unfair characterisation and I would push back on that strongly.

In your question around the 30% and where we are, if you look at the brands in that 30% they include on the one hand brands like Dettol and Lysol but on the other hand they also include brands like Mucinex, Strepsils, Gaviscon and so on. Your maths there is correct in terms of being relatively flat. What you see is the offset you are getting from the decline in Lysol essentially being offset by the growth you have in Mucinex and others. That is why you see a flattish number.

Tom Sykes (Deutsche Bank): Morning everybody. On the phasing of the productivity and indeed when you see the highest level of COGS increases this year, at what point in the year would you as you stand at the moment do you see the worst of the pain? When do you see the highest level of productivity gains? Obviously you have got mix benefits in the first half which are calling the margin down and you are therefore by implication calling the margin up a little in the second half of the year. Then you have obviously continued to invest excluding the businesses where there is rebound and the mix benefits where you have expanded into white spaces are you happy that you are getting the level of profit growth from that revenue growth at the moment? Obviously with COGS increases there but is there scale benefits to come from some of that white space expansion and is that part of the improvement we should expect in margin? Thanks.

Jeff Carr: Okay, thanks a lot. On the phasing of productivity and the overall phasing of the margin I have said earlier that margins will be slightly higher in the second half relative to the first half and that is partly because of the phasing of pricing but it is also related to the phasing of productivity. Clearly we have had some benefits from leverage in Q1, not least in the IFCN which I mentioned earlier but when we look at the full pricing effect of that first round of pricing coming through they will not all be through in the first half of the year. I think the first half will be a little bit more challenged on margin than the second half.

I would like to say on productivity coming back to the general question of cost versus growth, I think the vast majority of our productivity programme really is not about cost cutting. It is about efficiency driving throughout the business. It is about better buying. It is about driving efficiency in our manufacturing facilities, our distribution and our logistics and supply chain.

To that way I really think when I look at the productivity programme I am looking at it benefitting the company by becoming a better company and more efficient operation, not cutting cost. We have actually invested significant cost in key areas like R&D and we are not backtracking on those areas. I look at our productivity programme and I call it best-in-class because it really is about driving efficiency in the organisation. Doing things better, getting more for less and I think that is a key element. If it was just purely cost-cutting, cutting back to the bone in key areas then it would not be the sort of programme which matches with the transformation project that we are undertaking. I think that is a real distinction of how I would look at the productivity programme.

Laxman Narasimhan: Part of our market share gains is also driven by just the enhancements we have made on execution of sales. If you look at the investments we have made in sales excellence, the investments we have made in our customer teams, you look at the feedback we are getting from customers, the scores we are getting in terms of our performance with customers, the fact that we are bringing growth ideas, the fact that our joint business plans are actually driving real results with customers, those are the sorts of areas we have invested in. That is just one area that I am pointing out in addition to what we have invested in terms of R&D and the pipeline of innovations that we see over the course of the next couple of years that actually come from that investment. We are entirely focused on growth. We realise that is the value overall that we have to drive but we also recognise that we are operating in a challenging condition and we have to do everything we can to be as efficient as we can be in order for us to continue to progress margins as we have said we will over the course of the next few years.

Jeff Carr: In terms of white spaces we went into quite some detail in February on the percentages on growth from Dettol and Lysol that is coming from new spaces and new places, which was quite high. You can see from that that overall the investment into the new locations as well as broadening the shoulders of our brands is driving a significant part of that growth. Of course not every single country that we enter into with new brands makes the return you expect. Some do better, some do slightly worse but I think in general we are pleased with the investments that we are making into new spaces.

Alicia Forry (Investec): Good morning Laxman and Jeff, two questions from me. First one is on developing markets volumes. They started to decline slightly, 60 bps in the quarter. I was wondering if you could dig into that a bit more. Was it price elasticity? Was it Lysol driving that? Then my second question is on market share gains, specifically in Nutrition and OTC, both areas where you say you have gained some significant market share across your portfolio. In Nutrition typically volumes are pretty sticky when companies gain share because parents are unwilling to switch. You do not seem to be necessarily giving us that message however. Then in OTC would you expect the share gains that you mentioned that are significant to be maintained absent any major external developments into the next flu season or would you expect to give back some of those share gains? Thank you very much.

Laxman Narasimhan: I think on your question on developing markets if I look overall at the consumer and how the consumer has reacted to some of the price increases, as I said earlier, we go through a logical process of productivity. First revenue management and then of course revenue management is about ensuring consumers have a range of different price points from which they can actually participate and buy our products. Then the last of course is price increase over time. In the developed markets what you see and it is particularly relevant in the US where those are still strong with consumers, in the developed markets we do not quite necessarily see the kind of elasticity one would have expected in the past so the consumer is taking the price increase as well. In some of the emerging markets and Latin America particularly being one, we have seen a decline in volume as we have taken pricing but it is a smaller proportion of our overall business. That is why you see the mix difference there as well for us. Again in those markets what we expect over time is that it will normalise. It is very important for us to ensure that the earliest markets are necessarily last. We do take pricing but again taken in an appropriate manner while looking at risk and price points. Then over time we expect the volume to normalise so I think that is the way I see the developing markets question. We are seeing some price elasticity there.

On your question on market share traditionally 30% of the infant formula business is a switch business and it tends to be one where the baby has not responded to things well and that they switch. In this case particularly with supply shortages you might see a higher percentage of that switch. Normally a parent would not necessarily want to change their brands if the baby has responded to brands well but it is too early for us to comment on all of that particularly as we expect the supply situation in North America to normalise in the coming months.

In the case of OTC I think what you see there is you see the market share gains and it is not just in the cold business. It is actually pretty much across the board we have seen some of the market share gains. We feel good about that. Underpinning it is innovation and execution. We will see how things play out over the course of next year but I feel good about the way the team is executing the plan we have for OTC.

Iain Simpson (Barclays): Thanks very much for allowing me a follow-up, I appreciate it. I want to talk a little bit about US infant formula if that is okay and I appreciate your commentary that you expect things to normalise there in the next month or two as your competitor sorts out its supply chain. Could you talk a little bit about your own supply chain in terms of firstly how you have coped with that uplift and US infant formula up 30%? Given that the disruption took pace halfway through the quarter that presumably means that US infant formula is running at something like up 50% for you guys and that is what Nielsen seems to suggest. I am guessing you do not have enough spare capacity lying around to sustain up 50% indefinitely but could you comment on how much spare capacity you have and what sort of uplift you feel that you could meet in the hypothetical scenario that your competitor took a little bit longer to sort their supply chain out or for that matter if consumers were a bit stickier and did not want to switch back having experienced your brand? Anything you can give around that and also at what point if the consumer switch became sustained would you start to think about perhaps what steps you could take to increase your own capacity, bearing in mind the desire not to be left with stranded assets? Thank you very much.

Laxman Narasimhan: Thank you Iain. The primary focus of manufacturing and the supply chain in that infant formula business is quality. We want to be sure that what we are producing is something that we feel comfortable with, that we feel good about supplying into the market. The most important measure in anything that we think of is quality. It is possible to raise volume levels but it has to be done incredibly carefully. It is not like manufacturing something else where you can just add shifts and do things differently, etc. You have to be very cautious and careful about how you think about raising volumes in the business that you are operating in. Clearly there is an inventory in the system that you see in the scan data that has found its way into consumers' hands. I think that my focus with the team is that we view this as an important commitment to the US consumer and we have to do the right thing always in terms of how we operate this business.

We are not going to be driven by just mathematic equations around hey you could do this and you could do that. We have to do it the right way and the team completely understands that. They have the right level of investments in order to do it. We have capacity from the standpoint of raising it. It is all a question of how we do this the right way.

Richard Joyce: Laxman, did you want to wrap up with some final comments?

Laxman Narasimhan: Sure. As I mentioned at the beginning of the call, we have made a strong start to the year. We are well-placed to deliver at the upper-end of our revenue guidance and remain on track to deliver our medium-term targets. Clearly what you see here is the transformation coming together in the kind of result that you see and the expectations that we are setting.

Before we wrap up a quick word on our investor seminar series. The next session will be held on 6th May and will focus on ESG, a topic central to everything we do here at Reckitt. This will mark the anniversary of the publication of our 2030 Sustainability Targets and our Social Impact Report. The team will give you an update on the progress we are making and provide some insights to the journey that we are on. With that I would like to thank you all for joining this call and I look forward to speaking to you again soon.

Richard Joyce: Thanks everyone, have a good long weekend. Bye.

[END OF TRANSCRIPT]