



Reckitt Q3 2024 Trading Update

Wednesday, 23rd October 2024

Introduction

Nick Ashworth

Head of Investor Relations, Reckitt

Welcome

Good morning, and welcome to Reckitt's Q3 Trading Update. Our CEO, Kris Licht, and our CFO, Shannon Eisenhardt, will take you through some prepared remarks followed by Q&A.

Disclaimer

Before we start, I would like to draw your attention to the usual disclaimer in respect to forward-looking statements contained on page two of our RNS published this morning.

I will now hand over to Kris.

Overview

Kris Licht

CEO, Reckitt

Key highlights

Thank you, Nick, and welcome to Reckitt. Good morning to everyone, and thank you for dialling into our Q3 2024 trading update.

At a time when Reckitt is going through exciting change as we sharpen our portfolio and simplify our organisation, I am pleased that our third quarter net revenue performance is consistent with our guidance at the half year in July, and we remain on track to deliver our full year targets. Shannon will take you through the details of our Q3 trading and our full year outlook shortly.

We are pleased to see sustained volume growth across many of our Powerbrands, including Dettol and Lysol, Durex, and our VMS and non-seasonal OTC brands. This volume growth is driving a more normalised growth algorithm between volume, price and mix, and is something that we expect to continue in Q4 and into 2025.

Our large innovation platforms continue to drive our growth. Lysol Laundry Sanitizer and Lysol Air Sanitizer have helped deliver high single-digit like-for-like growth in Lysol, both in the quarter and in the year-to-date. Our recently launched Durex Invisible, and other thin feel condoms, such as hyaluronic acid condoms in China are driving growth in our Intimate Wellness business. And our premium thermoforming products, which now account for 75% of our tablet net revenue, have driven growth in Finish this year.

And as you know, we have delivered these results despite a number of factors during the year, which have a bearing on our numbers. We lapped a very high seasonal OTC comparative in Q1. The industry had a slow end to the cold and flu season. We are coming to the end of the market share rebasing in US Nutrition, and of course, we were impacted by the tornado that hit our Mount Vernon Nutrition facility in July.

None of this is structural, and we have good visibility across all our business units for a strong Q4.

In particular, I feel very good about the momentum in our Health business, where we have seen continued improvement in competitiveness with strong market share gains over the last three months. These share gains are broad-based and include our OTC brands, our Durex portfolio globally and Dettol, where volume shares are improving following the specific actions we took earlier this year.

We are continuing to progress on our share buyback programme. Earlier this month, we completed the first tranche of our current £1 billion programme, which we announced in July, and have since started on the second tranche. As of last Friday, we bought back £321 million worth of shares since this current programme commenced on 26th July.

The actions we shared with you in July around our strategic agenda are progressing at pace. We have mobilised our organisation, and I am very pleased with the progress that we are seeing.

Our refreshed Global Executive Committee is now operational, and all senior leadership positions have been appointed.

Our new operating model and organisational structure has been developed and is on track to be deployed in January 2025.

And in Essential Home, a seasoned leadership team has been appointed and separation work is well underway. We remain on track to exit this business by the end of 2025.

And as our results today demonstrate, I am encouraged that our businesses are continuing to deliver while we undergo this change.

Before I pass over to Shannon, let me walk you through where we are today on the NEC litigation facing Mead Johnson. The litigation is continuing, and Mead Johnson is currently defending a joint state court trial alongside Abbott and the relevant hospital in Missouri. The company continues to vigorously defend these claims. We are appealing the adverse jury verdict in the Watson case from last March. There are currently no additional state court trials scheduled for Mead Johnson. The next scheduled milestone is in the federal MDL in March 2025.

These near-term events do not change our overall outlook. We remain confident in our position, and we are not seeing any wider impact on the equity of our Nutrition brands from this litigation.

I am pleased to see statements from so many key stakeholders on this matter, including the NEC Society, the American Association of Paediatricians and, more recently, the consensus statement from the Food and Drug Administration, the Centres for Disease Control and Prevention and the National Institute of Health, who earlier this month stated that there is no conclusive evidence that preterm formula causes NEC and that where the supply of human milk is insufficient, preterm infant formulas are a critically important option and standard of care for premature infants.

They end their statement by emphasising that while there is a preference for human milk, all infants should be fed as soon as it is medically feasible, through whatever appropriate nutritious food source is available.

With that, let me hand over to Shannon to provide you with further detail on our year-to-date and Q3 trading performance, as well as our full year outlook.

Financial Review

Shannon Eisenhardt

CFO, Reckitt

Financial highlights

Thank you, Kris, and good morning.

As Kris mentioned, our third quarter net revenue performance is consistent with our guidance at the half year in July. For the quarter, we delivered 0.5% like-for-like net revenue decline, driven by our Nutrition business, which declined by 17.4% as a result of the Mount Vernon tornado. Our combined Health and Hygiene businesses grew 2.6% in the quarter with a balanced contribution for price, mix and volume.

Our Hygiene business grew 3.7% on a like-for-like net revenue basis year-to-date and 2.1% in Q3. Year-to-date volume growth was 0.9% with continuing volume growth in Q3 at 0.7%. This was led by Lysol.

Lysol has been a standout performer this year with high single-digit growth on a year-to-date basis. All key Lysol segments are in growth, and it is great to see strong contributions from our innovation platforms in both laundry and air sanitizers.

Hygiene's performance is not just about Lysol, though. Growth is broad-based, with our core Powerbrands, Finish, Vanish and Harpic, all contributing to growth this year.

Finish did have a tougher comp in Q3 as we lapped the US launch of Finish Ultimate Plus All In One, and we continue to see a more promotional environment in Europe and the US. But none of this changes our focus – to remain disciplined in showing up competitively for our consumers.

Turning to Health, which delivered 1.9% like-for-like net revenue growth on a year-to-date basis and up 3.2% growth in the quarter.

Volume growth has turned positive with year-to-date growth of 0.2% and growth in the quarter of 1.2%. This was driven by Durex, Dettol, VMS and Gaviscon. As expected, our seasonal OTC brands, including Mucinex and Strepsils, saw volume declines as they lapped tough comparatives.

Consistent with our guidance, we delivered modest sequential net revenue improvement in the quarter. I am pleased to see total OTC return to growth and continued broad-based growth in Durex. This includes China, which saw strong growth, helped by the continued success of our innovation platforms, such as our hyaluronic acid condoms.

As Kris mentioned, we are seeing broad-based momentum in our Health business, and we are pleased to see strong market share gains over the last three months.

In Nutrition, we delivered like-for-like net revenue decline of 11.6% on a year-to-date basis and were down 17.4% in the quarter. Most of the net revenue decline in 2024 was a result of

the supply constraints we faced in the quarter due to the impact of the Mount Vernon tornado and our market share is rebasing from unsustainable highs.

The impact from the tornado was around £100 million in the quarter, lower than our original expectations.

Our quality and safety teams acted swiftly to minimise the impact to US consumers, and our supply team did an excellent job accelerating shipments of product from our factory in Singapore.

I am pleased to say there has been no major supply disruption of infant formula in the United States. We have been out of stock on certain SKUs, which has impacted our market share in some of our more specialised formulations.

The equity of our brands in the US remains strong with Enfamil and Nutramigen continuing to be the number one recommended brands by paediatricians.

Our Developing Markets business delivered a stable performance in the quarter with like-for-like growth in the low single digits.

Moving to our outlook for 2024. We are on track to deliver our full-year Group net revenue growth target of between 1% to 3%. We expect acceleration in the fourth quarter across all our businesses, reflecting the underlying strength of our brands and categories as well as the easier comparatives we have highlighted. We continue to expect Health and Hygiene to deliver combined growth at the lower end of the mid-single-digit range, and we slightly improved our Nutrition outlook to a high single-digit decline, given the lower than expected impact of the Mount Vernon tornado.

We also remain on track to deliver adjusted operating profit growth ahead of net revenue growth for the full year. Within this, we still expect the recognition of insurance proceeds in relation to Mount Vernon will occur within 2024.

At our full year results in March, we will also report with our new reporting segments, and provide historical pro-forma financial information for comparison purposes.

Kris, back to you.

Conclusion

Kris Licht
CEO, Reckitt

Wrap-up

Thanks, Shannon.

In closing and to summarise our Q3 trading update:

- Our Q3 delivery is consistent with our guidance at the half year;
- We are seeing continued good volume growth across many of our Health and Hygiene brands and geographies;
- Our successful innovation platforms are a key driver of this growth;
- Our competitiveness is improving, particularly in our Health business;

- We are on track to deliver a strong Q4 and our full year guidance;
- We continue to execute on our share buyback programme, which is well underway; and
- We are progressing at pace on our strategic agenda as we sharpen our portfolio and simplify our organisation.

Thank you. With that, we are happy to take your questions.

Q&A

Rashad Kawan (Morgan Stanley): A couple for me, please. First, on the market share commentary. Can you dig into that a bit more? In Hygiene, clearly, we are seeing still competitive backdrop there. What are you seeing in terms of share gains there and how has the backdrop evolved over the quarter? And in Health, I know, Kris, you said it was broad-based in terms of share gains. Anywhere in particular, you are seeing pronounced share gains there?

And then second question, I know it is a trading update. But how should we think about gross margins versus BEI spend in the second half? Does the less than expected impact from the tornado translate to better gross margin expectations in the half? Or maybe asked another way, do you expect positive gross margins in the second half? And are you planning a further increase in BEI spend in the second half of the year? Any innovations in particular you are excited about?

Kris Licht: Good morning. Thank you for the question. I think we will split this between Shannon and myself. So let me start with market shares.

I would say to you that we have seen improvement both across Health and Hygiene. Health has seen a very sharp improvement. I indicated at the half that I expected us to see this kind of sequential improvement for a number of different reasons, a number of different category market combinations where we expected to see us flip to share gain. This just happened a bit faster and a bit more significantly than we expected.

So Health is now trending well above our target of 60% in the latest readings. And really the job now is to just sustain this level of performance, which I think we will do. In Hygiene, it is a bit more competitive. We saw sequential improvement. Hygiene is still not quite at that level of 60%, but it is getting close. And we are very focused, and our teams are very focused on ensuring that we compete hard in the marketplace to get above our target.

I continue to expect that we will progress on this and it has been good to see the clear improvement so far. So I would probably leave it at that on market shares.

Shannon, gross margins and BEI?

Shannon Eisenhardt: Sure. From a gross margin standpoint, which I would say we are not providing guidance at this point in time, I don't expect to see a significant difference as I think through gross margin rates in the back half of the year.

From a BEI standpoint, we have been pretty consistent in discussing the importance of supporting our brands, the importance of investing in our equities to ensure that we have sustainable top line growth over time. And so we will continue to be investing in BEI. And over the longer term, we expect those investment levels to continue to increase.

Iain Simpson (Barclays): Just a couple of questions from me, if I could. Firstly, when we think about the overall growth rate of Health and Hygiene, it is running at, I guess, 2.5% at the moment, maybe a little bit stronger if you ex out Essential Home assets. So I was just wondering how we should think about the bridge from the 2.5% /3% the core Reckitt is currently growing at, to the mid-single digit that you have aspirations for medium term. You seem reasonably happy with your market share, perhaps a little bit less so in Hygiene. But how much of that acceleration to get that core business to mid-single-digit is end markets doing better? And how much is better execution at your end? So that would be my first question.

And then my second question, I wondered if we could talk a little bit about the Essential Home carve out and disposal. So you are talking in terms of an exit by the end of 2025. Is that exit in terms of having agreed a sale, or is that exit in terms of a deal completed? So might we see an exit being announced first half 2025 with completion in second half? And also with the separation, the carve out, how do you think about and manage the operational risks as you carve out that business to ensure that operational performance continues to run robustly as you go through that strategic change?

Kris Licht: Thanks, Iain. Let me try to take these in turn. So in terms of the growth rate, I would say, we knew and we guided to a slower growth year this year simply because we know we are coming off of the period of inflation-led growth and into a year where we are looking for a balanced algorithm and where I think it is fair to say that the consumer is still recovering. And so these lower than, say, average growth rates for the year, I do not think it is indicative of anything other than the moment that we are in. And I think we are going to be climbing out of that. As it pertains to our business, as you know, our growth this year was always back-half weighted and even in the second half, back-half weighted. So we are planning for a big Q4, and that is reasonable to think that we are going to deliver.

We are confident in that, both because we have really good momentum in our business, as you hear with the market shares, that is going well. And importantly, we have a more benign lap in Q4 too. If you look at the shape of last year, actually, we had a very big Q3 last year, especially in Hygiene. And Q4, it was more muted, and Health actually had quite a weak Q4 last year.

So those are some of the reasons why I think you will see the acceleration this year. As we exit this year, I think we will be well positioned to deliver good growth next year. We are not going to guide next year right now. But I think we are going to be well-positioned for growth and especially for the core Reckitt business, which, as you know, has historically grown faster and continues to grow faster than the non-core segments.

So I do not think we are depending on a massive acceleration in our markets. But I think we need to see a bit of a rebound as the consumer recovers. And then we will always aim to execute at higher levels and I would never declare victory on that. There is always more work

to do. But I think we are within striking distance of delivering in the range that we set out for the core Reckitt business.

In terms of the exit, what do we mean by that? Look, I do not want to get overly precise because it is just a little premature, but when we say that we will accomplish an exit, we definitely mean that we will have signed a deal. We are not necessarily saying that that will close. How fast the deal closes, it depends a lot on, as you know, on a buyer and the process and any specifics that need to be worked through in the process of closing.

So I will probably not comment on anything specific there. But I think the key point on Essential Home is we are moving at pace. And nothing that I am seeing is getting in the way of us moving at pace. I am really pleased with how our Essential Home leadership team has grabbed this opportunity. They are really driving it hard. They are very passionate and they are moving the separation work forward in a very good way.

In terms of your third question, sorry, that was about operational risk, I believe. Correct? And the carve-out?

Iain Simpson: Yes, that is correct. Just how do you make sure that your Essential Home leadership team deliver the numbers month-in, month-out while the carve-out is going on?

Kris Licht: Yes. Like I said, they are incredibly passionate and excited about this opportunity. We put some of our most senior operators that have worked on these brands and in these geographies for a long time. We put those people in place to run the business, and they see a lot of opportunity. Part of the idea here is to create a situation where the Essential Home portfolio receives even more time and attention and focus and potentially investment from a new owner. And I think there is plenty of opportunity to do so, and that is what the team is seeing.

Just to give you a flavour of why I am feeling good about this, they have actually beat some of the deadlines that we have set internally for their work. And that is the kind of pace that they are demonstrating.

And I think they are doing the work with quality. I do not think they are rushing. And so I am encouraged by that. There is a fair amount of work left to do to accomplish the carve-out. We are still in the middle of working on what the systems environment will be and lots of work on other aspects that you would expect from a carve-out like this. But it is progressing really well.

We are not seeing any signs that anyone has taken their eye off the ball in terms of delivery. We have delivered the quarter as we expected. I am fully expecting us to deliver within our guidance for the year. I am not seeing any signs that anyone is taking their eye off the ball. If anything, I am perhaps seeing some people be even more engaged in the businesses that they are going to be running in the future, which I think is a very productive dynamic.

Iain Simpson: Looking forward to that big Q4.

Guillaume Delmas (UBS): Two questions for me, please. First, going back to your like-for-like guidance for the year of 1% to 3%. Because it does imply quite a wide range of outcomes for Q4. I mean, basically from low single digits to low double digits. So maybe can you walk us through the main areas of uncertainties heading into November? And also, is the acceleration you are anticipating in Q4 largely down to all the favourable one-offs? I mean I

am thinking Cough & Cold, Middle East, maybe some inventory rebuild in Nutrition. Or do you also bake in some improving trends on an underlying basis? I am curious to hear what is driving this improvement in underlying trends. Is it better execution? Is it new product launches? So any colour on that would be helpful.

And then my second question, it is on the commodity cost environment. I think at the time of your first half results, Shannon, you talked about a more benign input cost environment. Just wondering if you expect a similar backdrop for the second half of the year? And then probably early days, but would you anticipate a far less favourable environment for next year with a probable return to a more meaningful commodity cost headwind?

Shannon Eisenhardt: Okay. Let me try and take those in order. So I will start with the full year guidance, which we did reiterate of 1% to 3%. Frankly, we did not really have conversations on trying to narrow that range. I think we were pretty clear, and hopefully, I can continue to be clear.

The range is 1% to 3%. We are quite comfortable with where consensus sits today. We did refine the guidance on Nutrition to try and be helpful around what we are seeing as we come out of and recover from the Mount Vernon tornado. But I am pretty comfortable with where that guidance sits and did not really feel a need to close that any further.

From an accelerating Q4, it is a great question. And as Kris already mentioned, we are expecting a big Q4. I think there is a few things to remember here. The first is this is very consistent with what we have been discussing and trying to guide to since the beginning of the year. Second is, as we mentioned in the script today, we are seeing good momentum and strong momentum across our Health and our Hygiene businesses. And so we have talked about the progress we are making on shares, particularly our Health shares.

We are certainly seeing that the innovations that we have launched continue to work across both Health and Hygiene. We have mentioned the Lysol innovations that just continue to keep helping support our growth across Hygiene, and we are seeing continued success with Health innovations as well.

We continue to see strength in China. And so when we look at how our business is performing, I do think it is worth calling that out because it is a bit different than what we might be hearing from other industries and other players within the sector.

And then lastly, I would say, if you just go back and look at the numbers from a Q4 standpoint, we do have easier comps in Q4 when you look back at what our Q4 last year looks like versus what we are planning this year. And so we are comfortable with the shape of the year and the shape of the back half and believe that we will deliver that top line growth in Q4.

And then your last piece, I believe, was around commodities. So if you think of second half impact in the current year of commodities versus first half, given how we manage our commodity buys, I do not expect to see a significant difference in what that impact looks like across halves this year. As we head into next year, not really ready to start guiding around gross margin for next year. So we will certainly come with that specificity when we share full year results in March. And so I think that is about what I have for you on the commodity front.

Jeremy Fialko (HSBC): A couple of questions from me. So first one on Nutrition. Could you just go into a bit more detail on where your US market shares are and whether you would say that we are at a little bit of a kind of trough now, and this is like the level at which you would have hoped to incrementally recover?

And then secondly, nobody else has got this one in yet, but just on the cold and flu trends, a bit of an indication on what you are seeing so far. And also particularly interested in terms of the retailer stocking patterns and whether there has been anything a little bit different from usual that you have seen from that perspective?

Kris Licht: Okay. Thanks for the questions. Let me start with Nutrition shares. One thing that we have been talking about lately is it has been difficult to track exactly what the underlying performance of the Nutrition business is doing. I thought I would just share one set of facts with you, which is that if you look two years back in time and you compare our market shares pre the supply crises in North America and the time when Abbott was out of the market and you compare it to today, we are a bigger business and we have a higher share of the marketplace than we did back then.

And that is actually true in all our geographies. These supply challenges had consequences for a range of markets and for the global supply chain to some extent for us. And it is interesting to see that actually, if you go back pre-crisis, today we have a higher market share in all of our Nutrition markets than we did at that time. So with that as the backdrop, what I can tell you is right now, our shares are facing some pressure because as a result of the tornado, we were not able to supply all the SKUs that we normally would be able to supply and especially some of our specialty SKUs are seeing some pressure and some out-of-stocks.

Fortunately, and thanks to a lot of hard work by our teams and a lot of good collaboration with the authorities, we were able to avoid any kind of significant outage of supply, and so the market was not disrupted. But we are seeing some short-term pressure on our market share. So if you are looking at weekly readings, you will see some of that coming through.

We are fully expecting to recover that in the foreseeable future. So maybe call it the next six to nine months, we will see some recovery in that as we are able to fully meet demand and fully resupply. So that is going to be something that we are working hard to do, and it is not going to be immediate. I actually still expect us to hold on to the market share gains that we have had as a consequence of the crisis.

I still expect us to come out roughly at the level we were at pre the tornado. But there is going to be some movement in the shares, and there is some slight negative pressure at the moment as a result of that, which I think is what you would expect.

In terms of the OTC season, I would say that it is too early really to call it. We had a bit of a small COVID bump in, actually, the pre-season. And then the latest readings, we seem to be a little bit off, maybe, the average. But again, it is very difficult to call sitting here in October. We just do not know. So at the moment, we are planning for a average season, and I think that is a good planning assumption, and we are ready for that. We are also ready for spikes. We try to build inventories to be able to meet demand should there be a spike.

And really one of the big questions, as you know, is does the season peak in the early half or the latter half of the season? And we do not know that yet, right? But as we go through, we

will share with you what we are seeing. And at this moment, I think we are planning for an average season, and that is what is baked into our financials.

In terms of retailer stocking, everything seems to be running pretty well on track. We have not seen any major anomalies there. I think the only thing I would call out is we have seen a bit of destocking, actually not in OTC, but in VMS in the US drug channel, but it is unclear to me whether that is a permanent feature or whether that was just a moment in time. So we are watching that. But no real major movements as it relates to inventory levels at retail.

Celine Pannuti (JP Morgan): Maybe my first question, coming back on Hygiene. I understand that you mentioned the easy comparative and the momentum in the business to point to an acceleration in Q4. I have two questions on that. The first is that, can we know what Hygiene has done excluding what has been an Essential Home performance maybe at nine months or in the third quarter? And if you think about volume performance in that category has remained around 0.7%. Do you expect volume to accelerate in the fourth quarter and as we look into next year given the competitive backdrop that you are mentioning?

And then my second question is on Europe. I see that Europe as a region is down. Well, it is at 1.9%, down 1% in volume. Can you talk about why is it that we are not seeing a bit more of an improvement in that region or what is driving that?

Kris Licht: Yes. Thank you, Celine. Maybe I will take your second question first, and then I will hand back to Shannon. So just on trends that you see in Europe. If you disaggregate that, that is actually just a function of the softer OTC performance and the really tough lap that we talked about. Hygiene actually grew in volumes in Europe and the rest of Health is doing well too outside of the seasonal business. So it is really just a factor of that, but that sort of gets obfuscated a bit in when we aggregate the numbers that way.

But we are not concerned with being able to grow volume in Europe even though it is, as you say, a promotional and quite a competitive environment.

Maybe to you on the question on Essential Home.

Shannon Eisenhardt: Sure. So from a Hygiene and looking into Q4, talking about the comparatives and the momentum. So I would just reiterate a couple of points and then I will get to Essential Home. I do think it is important when you look at Hygiene to recognise, as we mentioned, the fact that Q3 last year was obviously a very strong quarter for Hygiene. We delivered 8.1% growth. That was behind some successful innovations that were launched.

It was also a bit impacted by a competitor supply issue. And so as you look at our current Q3 performance, we are very comfortable as we look at underlying Hygiene performance and then what we are forecasting into Q4.

Essential Home, I do not have specific numbers to share, Celine. What I would say is, as we shared at the half year and as we project forward and look at our current results, we are seeing that it is a slower growing business, Essential Home versus core Reckitt Hygiene, if you split that apart. Understand that folks want to get after the modelling of that and understand the desire to see history and to get more details around how we think of those businesses and segments performing going forward. And so we will certainly be sharing that with our full year results in early March.

I think the last question you had was around volume growth. I think it was specific to Hygiene and whether we expect volume growth to accelerate in Q4 and how we are thinking about volume growth into 2025. We do not really provide guidance on volume growth. It is obviously a tough one to call. What I would say is we are really pleased as you look back over our quarterly progress across 2023 and now 2024 and how we have gotten back to volume growth in Hygiene and the sequential and consistent improvements.

Obviously, our expectation as we head into 2025 is that we will continue to deliver volume growth, and that we'll have a much more balanced algorithm of growth for the business where price will be contributing and volume will be contributing going forward.

David Hayes (Jefferies): Two follow-ups and two questions, if I can. Just a quick follow-up. Just to clarify, the 60% number you mentioned on the market share, that is for the third quarter? I just want to check out the time frame that you are referring to.

And then the other follow-up on US Nutrition. You talked I think in the second quarter, particularly about our private label disruption as a competitor. Is that still continuing and impacting? Or was that something that drifted away in the third quarter, the market is a bit more normalised?

And then the two questions. Just in terms of the Health pricing actions that you took in ASEAN and India. You talked about that a little bit specifically on Dettol in the past. But is it just Dettol you are talking to there, or are you doing that across other areas? And what areas are you seeing that pricing actions are improving competitively taking place?

And then the very last one on strategic change. Is there anything you can provide at this point rather than March on the stranded cost risks from the Essential Home plans and/or tax leakage consideration? Anything more colour you can provide on that at this stage?

Kris Licht: All right. Thank you. Whether it is follow-up or questions, I think there were four of them.

David Hayes: It is four, yes.

Kris Licht: Let me try to get started. So what I am talking about is the last quarter, yes, the last three months of share readings, we obviously get share reporting more frequently, so we can see trends and more granularity. But yes, that is what I am talking about, and that is really the best indication of our momentum and what is changing in the business. And yes, those readings are above 60 for Health. Well above.

For US Nutrition and supply issues in the broader industry, it is hard for us to say because we do not run those supply chains that supply private label. It appears to us that that supply is recovering gradually in that part of the market. It does not really seem to be affecting our brands in a significant way at this stage. As you know, we are fairly premium in terms of the balance of our portfolio. But yes, it looks to be gradually recovering, the private label supply performance.

I apologise, I actually did not fully grasp your third question, but maybe I take the fourth one now, and then we can maybe just clarify the question. So on the strategic change, what Shannon and I have communicated at the half, and what we are very committed to, is that we are not going to have some surprise stranded cost effect from the actions that we are taking to reshape the portfolio. So we are going to address the stranded cost within the

envelope that we have set for ourselves for where we are getting fixed cost to, and that is a commitment.

So we have not seen anything to-date that causes us to feel we cannot do that. And we are pretty deep into the granular planning of this at this point and the costing of it. So I think we understand the details of what we are talking about here. And we are committed to offsetting stranded costs.

I think it is too early to talk about tax. I understand that it is an important variable and something that we need to share with you. It is just that we do not have full line of sight to tax either. We are working on it. And obviously, it is an area that we want to try to optimise and make as favourable as possible.

What was your third question again? Could we clarify that?

David Hayes: Yes, of course. So you talked again in the release about pricing actions in ASEAN and India specifically, to be more competitive in Health. In the past, you talked about particularly Dettol being priced more competitively in that region, but it was just to see whether that was more still a reference to Dettol or whether those actions are kind of happening on a more wider basis, and whether you can call out where there was price competitiveness that you need to address and you have addressed?

Kris Licht: Yes. Thanks for that question. It is something that we were talking about earlier in the year and last year. It is no longer an issue. Dettol is doing really well competitively, gaining share in its biggest markets, gaining volume share, which is a very good indication of price competitiveness. So I think we have addressed the issues that we had there largely.

That is not to say that we are not going to make further adjustments. It is a very dynamic and competitive marketplace. Part of what is tough with Dettol is we compete in a lot of different segments. And some of those segments are at lower price points like bar soap, and that is an incredibly fiercely competitive marketplace and we are doing well. But it requires a very dynamic approach. And soap noodles have fluctuated quite a lot over the past years, and that creates an interesting competitive dynamic. But I am pleased with where we are at, at this point. Dettol is one of those brands that is driving broad-based improvements in our Health market shares.

Victoria Petrova (Bank of America): I have two clarification questions. One is also on pricing. In Health, you had around 2% price contribution in the third quarter and obviously a bit above consensus and you also report mix there. How should we think about this parameter in the split of price and mix? Have you been pricing up in the quarter sequentially? Or has there been any mix effect? And the same question, but on the negative side, is around Nutrition, I think your pricing was around minus 3.5%. Is it because you did not have the specialised product, which is more premium available on the shelf? Or did you have to be more promotional to address the market share issues versus Abbott and overall?

And my very last question is on Mead Johnson. Last time you talked about potential sale of this asset. How do you think about it? How should we think about it? Is it possible only after there is more clarity on NEC litigation? Or is there a scenario where you might be exiting this asset earlier? If you can provide any colour on this issue would be extremely helpful.

Shannon Eisenhardt: Great. I will take the first two, and then I will let Kris take the third. So your first question was around Q3 contribution to growth price mix. So that was 2%, as you called out. I would say, as you try to pull apart pricing from mix, it was primarily price-driven. So there would be a small mix benefit that I think about too as being primarily price-driven.

If you pull that apart further, I would say we continue to have carryover pricing in Health, which we are lapping, which is contributing to that, while we are not taking the significant sort of broad-based pricing that we have been taking during those earlier years with high commodity impacts coming through. As always, within FMCG, there is targeted pricing action at the market level that we will take and be constantly ensuring that we have the right value equation for our consumers.

Your question on Nutrition. So the negative 3.5% of price mix in Q3, that was primarily an implication of the fact that in the US as we were managing through tight supply and some supply shortages, we were prioritising our WIC contracts. And so you see an impact on that mix of product coming through, and that is the driver behind that negative price impact that you are seeing in Q3. So I think of that a point in time or a somewhat unique dynamic related to the tornado impact.

Kris Licht: On your third question about Mead Johnson, I cannot tell you much more than what I told you at the half year. And what I said at the half year still remains the case and what we see, which is this is fundamentally a very good business with excellent brands, high market shares with good cashflow. So this is fundamentally a good business. And I think lots of people in the world see that and can see the asset for what it is.

And at the same time, being in a complex multilayered litigation like the NEC litigation will cause anyone to say there is uncertainties and this is perhaps not the time. So we would not say that it is impossible that we will have news on Mead Johnson in terms of future ownership at some point while the litigation is still being resolved, but I would also not say that it is likely. And for this reason, we have not set ourselves a timetable for this non-core asset, and I think that remains prudent.

So we will not linger around. We are keen to execute our plan and keen to ensure that Mead Johnson gets set up with a really beneficial future ownership structure. But we have to do that when the time is right and the NEC litigation is still very much unfolding, and the time is not yet right.

Jeff Stent (BNP Paribas Exane): Just one question on accounting detail and the proceeds from the insurance claims. How will you be accounting for those? Will it go through revenue or just hit EBIT? And will it broadly cover the £100 million? How should we think about it?

Shannon Eisenhardt: Yes. So the proceeds from insurance, as I mentioned in the guidance, we continue to operate under an expectation that, that will all be received and be accounted for within the fiscal year. That will go through EBIT, so it will not hit revenue. And I am not going to share exact numbers, but I believe at the half year, and I would reiterate it now, we are very pleased with the comprehensive insurance coverage that we had for that facility and the process continues to move forward in a productive way.

Jeff Stent: And just to be clear, Shannon, will that be in your adjusted EBIT?

Shannon Eisenhardt: That will not be an adjusting item, no.

Jeff Stent: So it will be in underlying earnings then?

Shannon Eisenhardt: Yes.

Tom Sykes (Deutsche Bank): So just very quickly on margin, and you have given the FX impact to EPS and revenues. When you take into account the translation and transaction FX, do you expect reported operating margin to be up as well as your constant currency margin, please? And then you mentioned the discussion over systems for Essential Home and core Hygiene or core Reckitt. How integrated are the IT systems between the two different parts of the business and how fit for purpose do you see core Reckitt's IT infrastructure currently?

Shannon Eisenhardt: So on your question around FX and the impact on profit, I would say given the volatility there, and given the fact that the year has not landed, not really ready to provide any additional guidance in that space on how we see that parsing out. For your question on Essential Home...

Kris Licht: Yes, I can maybe tackle that one. I think you were also asking about core Reckitt's, is the IT infrastructure fit for purpose. Look, we actually have a lot of employees that know how to do IT system separation work. And we have been on a journey to invest significantly in our IT infrastructure over the past five years, really.

You may remember prior to that, we had a history of some underinvestment in this area. So we have actually been really investing quite aggressively to get our ERP infrastructure up to date and to be appropriate for our business. And we have also invested in a number of more sophisticated technology-enabled capabilities in our integrated business planning, in our financial processes, in our revenue management investments. So we are investing comprehensively in infrastructure and in IT capability.

I think we have made very good progress on that. I would also tell you that we have more work to do and more investments to make. So we are not done with that. But I do not think that IT will in any way inhibit core Reckitt from performing, nor do I expect setting up the right systems environment for Essential Home to be a limiting factor on the success of Essential Home or our ability to transact.

Surely, it is likely that we will have certain TSAs and other arrangements in place to support the transfer of the asset and ensure that the business runs seamlessly through a transaction, but this is normal course of business and just to be expected. So at this time, there is nothing about the IT work as it pertains to the carve-out that is suggesting that this would be an issue. This is just a fair amount of work to do, and we are getting on with that.

Nick Ashworth: Well, it looks like those were all the questions. So thank you very much for joining the call. If you have further questions throughout the day, the IR team is around and available. Please feel free to get in contact. Otherwise, we look forward to speaking to you all soon.

[END OF TRANSCRIPT]