



## RECKITT BENCKISER (RB.L)

### Q3 2020 RESULTS CONFERENCE CALL - TRANSCRIPT

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#### **John Dawson, SVP IR**

Thank you, Operator, and good morning everyone. Welcome to RB's third quarter Trading Update. With me here today are Laxman, our CEO and Jeff, our CFO.

As a reminder, this call will be recorded and available for replay later on today. As usual, we'll go through our normal prepared remarks and then go straight to Q&A.

So with that, let me pass you over to Laxman and Jeff for their opening comments. Laxman.

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#### **Laxman Narasimham, CEO**

Hello, good morning, and welcome to our third quarter trading update conference call.

It was exactly a year ago when we met at our Q3 call in 2019. Who could have foreseen the magnitude of developments in the last 12 months.

A year ago I outlined some of the challenges we had to address as a business and likened RB to a good house in a great neighbourhood. Four months later we announced our plans to make RB a great house again, and in the eight months that followed, we've seen our markets and growth opportunities redefined by a pandemic that will have lasting implications for us all.

We've achieved a great deal in that time, and it's testament to the people inside and around RB that we've come so far. We also appreciate the incredible efforts of those on the frontline who keep us all safe and protected. Thank you to them, with our thoughts and deep appreciation for their dedication as we prepare for our first full winter with COVID-19.

I hope you've all had a chance to review our third quarter statement. We have three messages for you this morning:

- First, our plan to rejuvenate sustainable growth at RB is gaining momentum, thanks to the exceptional efforts of the RB team, and the improved execution we have been building in the business. In meeting the significant challenges of COVID-19, we have shown that we are a stronger and more agile business than we were at the start of the year. In fact, we are well on the way towards completing the first phase of our strategic plan - to 'stabilise and perform'. We are now seeing the positive impact that the investments we are making are having on the business – investments in capabilities and also capacity and flexibility to drive top line growth. We are building a better and stronger RB – and I'll share some examples in a minute.
- Second, our near-term outlook is positive, although there are a number of headwinds to overcome. We are on track to deliver low double-digit growth for the year as a whole. Our other guidance is unchanged, and we'll provide our first guidance for 2021 with our full year results in February - where we expect our full year results to be strong.

- Finally, our markets are being redefined by this pandemic and this is giving us both additional firepower to invest in the business and bigger markets in which to capture new growth opportunities. While there is still a great deal to do, not least to improve the performance of infant nutrition, the strong progress to-date gives us further confidence that the plan we have in place will achieve our mid-single digit revenue growth target a year earlier than expected, and with greater certainty.

Let me take you through our progress to rejuvenate sustainable growth, then Jeff will discuss our Q3 performance and outlook, and then I'll share some more thoughts on our medium-term plans. We'll then take your questions.

First, our strategic progress to date.

In February of this year, we set out our strategy for rejuvenating sustainable growth at RB. Our objective was, and remains, to rebuild a strong earnings model and outperform with mid-single digit organic revenue growth, mid-20s margins and 7-9 percent earnings per share growth, by the mid-2020s. We outlined in detail how we would achieve this through a temporary margin reduction and enhanced multi-year productivity programme. Taken together, this allows us to invest over £2bn in principally growth-led initiatives.

So how are we doing that? First, we are generating the savings needed to reinvest in capabilities

Our enhanced £1.3bn productivity programme, a key part of financing the reinvestment into sustainable growth, continues to make good progress. Cumulative savings have now reached £300m and we are looking at ways to further enhance our productivity.

Second, good progress in strengthening the core capabilities essential for sustainable growth.

As set out in February, we are making significant investments to build a better business. Key areas of investment in the first phase of the plan focus on our supply chain and key growth enablers such as R&D, product development, eCommerce, marketing and sales excellence. We have made further progress in these areas in the third quarter.

Improving our supply chain performance has been an immediate area of focus, with customer service previously at unacceptable levels. Quick and effective action that we began in September of last year to improve performance has enabled us to increase capacity for our most important disinfection SKUs by over 100% year-on-year; this has been achieved through internal process improvements, qualification of new co-packers and the addition of new raw material suppliers in record time. As a result, we are now well positioned to meet future demand for Dettol, Lysol and related products. While we have more to do to improve on shelf availability and eliminate out-of-stocks, we have received significant recognition from our customers for our response during the early heights of the pandemic, and our internal measures show that product fill rates continue to improve.

We have continued to invest heavily in key growth enablers, including new people and ways of working. For instance, in September, Dr Angela Naef joined us to lead our R&D activities and drive our innovation agenda. In addition, we have now established four centres of excellence focused around eCommerce, marketing, sales and medical sales. We have built out our teams with internal and external talent, in order to cultivate best practice, and we have already started to share learning globally with the development of commercial playbooks. Benefits are already being seen in improved sales execution and consistent approaches to market development.

Our eCommerce progress to-date reflects the investments we have been making to build on and enhance the strong capabilities we already have in this area. This has been complemented by the early wins from integrating our digital marketing and eCommerce development with our Marketing Excellence and eRB capability centres.

Third, our revenue performance reflects fundamental improvements in how we drive growth.

As set out in February, we frame our revenue growth opportunities around four drivers: increasing penetration, increasing market share, and entering into new places and into new spaces.

First, penetration: in the first nine months we have made good progress; for example, in the US our hygiene products are now used in over 50% of households compared to less than 45% a year ago; in India, we have seen a continued

increase in the penetration of Harpic following behaviour change campaigns, with over 20m more households using the brand compared to last year.

Let's turn to market share: overall, our positive market share performance was broad-based, particularly within Hygiene and Health and not only from Dettol and Lysol. 75% of our revenue from the Hygiene business was in category market units where we held or gained share. 80% of our revenue from the Health business was of category market units where we held or gained share. We have gained share in all the key markets for the Dettol and Lysol portfolio. For example, in the UK, our Gaviscon market share was up over 400bps vs. last year, and in the US, Finish continues to take share – up over 70bps - against strong competition; within ITC as another example, Gaviscon has held share; in sexual wellbeing, Durex has gained share in both China and India, key emerging markets for the business.

Next in terms of new places: Meeting the global demand for Dettol and Lysol has been a priority for the business. Since the start of the year, we've taken Dettol and Lysol into 19 new countries, and expanded the reach of different products – for example, taking Dettol's hand sanitiser and wipes into 20 and 13 new markets respectively. At the same time, our global business solutions team continues to sign partnerships, most notably with Amtrak and Airbnb in this quarter as well as Cricket Australia and MLB in the US.

Finally, new spaces: Air Wick Essential Mist broke new ground in the aromatherapy category, growing 50% in the US over the last 12 months; alongside 'Enfamil NeuroPro', 'Mucinex Fast Max All-in-One' and 'Lysol Laundry Sanitizer', our 'Air Wick Essential Mist' range was one of four RB products recognised as Top 25 Breakthrough Innovations in this year's US BASES awards, in part reflecting their strong in market performances. Positive as these four brands essentially cut across our portfolio.

Before I turn the call over to Jeff, I would like to share a few thoughts on our Nutrition business. In February we talked about the changing external dynamics in the infant nutrition part of the business, particularly the heightened competition in China, including changes in the regulatory environment and market share increases by local competition. We also highlighted our planned internal supply chain upgrade in Latin America, the impact on our sizable Hong Kong business from social unrest and reduced travel due to COVID-19, and our intent to invest in our e-Commerce capabilities and the competitiveness of the business.

Since then, COVID has had a further impact on the overall infant nutrition business, as evident by reduced birth rate both this year and next, and a slowing rate of premiumisation.

Against this backdrop we have been executing our plan well. In mainland China, our in-market execution year-to-date, across offline and online channels, has improved as evident in our market share where we are holding share in mainland China. For example, online we've developed the impact of social commerce environments and live-streaming to engage more effectively with consumers. While continuing to improve our execution in offline channels.

Elsewhere, we feel good about the progress in the Americas while progress in ASEAN is mixed. Our business in Hong Kong remains a challenge. Our pipeline of innovations is strong and we continue to see opportunities in broader nutrition – for example in adult - and are working hard to address some of these other challenges.

Overall, across all fronts, we are pleased with the progress we have made building the underlying business and positioning it for the long-term. Overall, we are starting to see the early benefits of our investments in improved execution and growth. We will continue to invest in the fundamental capabilities that drive successful category penetration, market share gains and expansion into new places and new spaces. The current environment opens up new opportunities and we will target any additional margin investments to realise them.

Let me now hand you over to Jeff.

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## **Jeff Carr, CFO**

Thank you Laxman, now let me turn to the performance in the quarter.

Group revenues were £3.5bn in the quarter with LFL Net Revenue up 13.3%, mainly driven by strong volume growth.

Reported revenues grew by 6.9% reflecting a foreign exchange headwind of 6.4% mainly due to weak Latin American currencies and to some degree a weaker USD.

In the quarter we saw market share gains across many of our brands, including Finish, Lysol, Durex, Dettol and Gaviscon.

Additionally, ecommerce sales continue to grow rapidly, YTD we've seen growth of over 50%, across all geographies and each of our main ecommerce channels.

Looking briefly at each of our business segments, starting now with Hygiene, net revenue grew +19.5% on a like-for-like basis to £1,490m in the quarter.

All major Lysol markets delivered share gains, with most delivering revenue growth in excess of 60% and overall Lysol was up over 70%. Demand was particularly strong in North America where we continue to increase capacity and there is more work to be done to fully balance the demand, supply equation.

Air Wick and Finish continued to grow with double digit growth, but demand for Vanish has remained weak, reflecting the impact of 'stay at home' behaviour on the demand for stain removal. Other key brands performed well.

Turning to Health, revenue grew on a like for like basis +12.6% in the quarter to £1,217m.

In the quarter we continued to see a strong growth for Dettol, up over 50% in the quarter, with material share gains in all major markets and, with a number of markets, including the UK, seeing the brand more than double in revenue.

Durex delivered double digit growth in revenue, led by markets where the rate of pandemic infection has materially improved. In addition, we recently launched 'Durex 001' – our first Polyurethane condom – into the Chinese market.

Year to date our OTC portfolio has grown by 5%, however, revenues declined by 10% in the quarter, due to continued pantry unloading for Mucinex and weaker demand for Nurofen. While early in the season, we expect trading over the balance of the year to remain suppressed for our analgesics and cough cold remedies.

Our portfolio of personal care products grew overall, with a particularly good performance from Veet. Scholl also grew, showing an improving trend after a few weaker quarters.

Finally, Nutrition which grew +4.1% on a like for like basis in the quarter to £806m.

Infant and child nutrition revenue was unchanged year-on-year in the quarter, an improved performance compared to first half of the year. Growth in North America was strong in the quarter, boosted in part by an increase in trade inventories, which will largely unwind in the fourth quarter. In China sales were down because of the continued closure of the Hong Kong border, however, in mainland China sales were stable and in line with last year.

As we mention in our release, there is also evidence that birth rates will be lower in the coming quarters as a result of behaviour changes related to the pandemic. This is expected to have an impact on market growth in the near future.

There have been material share gains for some of our vitamins, minerals and supplements brands, which together represent approximately 15% of our Nutrition portfolio. This was led by another strong performance from Airborne which more than doubled revenue in the quarter.

Turning briefly to our outlook for the year.

Following strong revenue growth in the first nine months of the year, we are upgrading our full year like-for-like net revenue growth guidance to low double digits from our previous guidance of 'high single digit'. Other aspects of our

2020 guidance are unchanged, and as Laxman has said, we will provide guidance on 2021 at our full year results in February 2021.

Before I hand you back to Laxman, let me quickly discuss our new reporting segments and the restatement of historic financial results which are included in the appendix of today's statement.

Our new structure, announced in February, came into effect from 1 July. As a result, RB's segmental reporting will feature three Global Business Units; Hygiene, which is unchanged from our previous reporting, Health which includes sexual well-being, OTC, Dettol, Veet, Scholl and other strong regional brands and Nutrition which includes infant nutrition and our vitamins, mineral and supplement brands including Airborne and Move Free amongst others.

This segmentation better reflects our new structure and management responsibilities, our internal reporting, and will allow for more effective communication of the underlying performance of our business.

While revenue has largely been previously reported, the margin breakout by segment is new for Health and Nutrition, so let me spend a moment on these changes which are shown in more detail in Appendix B.

The margin of the new Health segment grew in H1 2020 by 150bpts to 28.6%, and as previously reported this was due to strong volume growth (like for like revenue was up 17.0%) and productivity, offset by early investments in capability and new growth initiatives.

The margin of Nutrition in H1 2020 was 17.5%, down 410bpts compared to the previous year. The decline in margin being attributable to the significant price investments made early in 2020, specifically in IFCN in China, and additional investments in capabilities for example in improved quality control processes. Also, there is a significant margin impact due to the reduction in the Hong Kong cross border volumes and the costs associated with the dryer overhaul in Mexico in the second quarter and COVID related costs in the first half.

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**Laxman Narasimham, CEO**

Thank you, Jeff.

As you know, RB operates in attractive, growing market segments, underpinned by the clear trends and tailwinds we highlighted in February 2020:

- First, the urbanisation and global warming, and their impact on their spread of infection, re-enforcing the necessity of improved hygiene;
- Second growing demand for self-care, given pressures on governmental spending globally;
- Third, there's a growing importance of sexual health and wellbeing;
- Fourth, a growing and ageing population with very specific nutrition needs;
- Finally, an ever-changing technology, which is transforming consumer knowledge and purchasing habits.

COVID-19 is accentuating a number of these trends, highlighted in our half year results, while introducing additional dynamics which are impacting our business today.

Most importantly, the pandemic has heightened the societal importance of hygiene, seen increasingly as the foundation for health. Demand for our category-leading disinfectant products has been exceptional in recent months with increased penetration, and new consumers demonstrating a preference for proven heritage brands, driving growth. As a result, we expect structurally higher levels of demand to persist longer term, as new consumer habits, regarding cleaning and sanitisation, become engrained.

Away from home, there is growing consumer demand for reassurance over hygiene in public and shared places, for example while using transport, in hotels, schools, colleges and offices. Providing trusted standards of hygiene represents a significant market opportunity and, with a portfolio of leading disinfectant brands, like Dettol and Lysol Sagrotan and Napisan, we are well placed.

With a world-class portfolio of hygiene, health and nutrition brands and a clear purpose - to protect, heal and nurture in the relentless pursuit of a cleaner and healthier world - we are uniquely placed to help tackle the challenges the world is facing. Our plan to invest over £2bn over three years is on track. We are also reinvesting our outperformance to capitalise on the strong demand for our products, particularly with Dettol and Lysol and through eCommerce and the professional channels.

In meeting the significant challenges of COVID-19, we have shown that we are becoming a stronger and more agile business. We are making strong progress in embedding a new culture and strengthening core capabilities. We are well on the way towards completing the first phase of our strategic plan, to 'stabilise and perform'. Our improved execution and the investments in capability and growth, will enable us to achieve our mid-single digit revenue growth target a year earlier than expected, and with greater certainty.

Thank you for your attention. I would like to thank once again our people, our customers, our suppliers and partners and thank all those on the frontline who are keeping us safe and confident of a successful future.

With that, I'll hand you back to John and to open the call up for questions.

Thank you.