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European Consumer CEO Call - Reckitt

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Celine Pannuti: Good morning. Good afternoon. Thank you for joining me today. I'm Celine Pannuti, and I have the Consumer Staples Equity Research and Beverages at JPMorgan in Europe. As part of our CEO Fireside Chat Series, I'm delighted today to be with Laxman Narasimhan, CEO of Reckitt. Laxman, thank you for being with us.

Laxman Narasimhan: Thank you for flying up to London to do this. I really appreciate it.

Celine Pannuti: Yes, my pleasure. Laxman, you recently posted a good start to the year. You've confirmed some targets. And we will certainly talk about the business performance. But I wanted to take this opportunity, chat with you, to talk about the turnaround since two years, well, it's a bit more than two years ago, you presented the strategy.

So maybe, to start with, as I said, it seems that the year started well. You confirmed your ambition to be at mid-single-digit growth. Now, if I look at the past two years, a lot has changed and it's still a quite moving environment. What do you think are the key drivers or, really, the investments you've made that embolden you to be confident that you can grow at mid-single digits?

Laxman Narasimhan: Sure. I'm just going to take a bit of time to lay out what we've gone through over the last two and a half years, things that we announced in February, we've been working on for the last two and a half, almost coming on three, years. The first is where we started.

We have a deep heritage in the portfolio brands we have, which consumers love and they rely on in what we define as the purpose of why we exist, to protect, heal and nurture. So we had great brands, big history, 200 years of company, and the brand has a lot of heritage.

There's a sort of inbred DNA as a consequence of competency in Hygiene and Health business as well as the Nutritional ones acquired in the last several years. And so if you take a look at where this company was started, and what came through was we had focused on four of the big problems the world faces, hygiene as the foundation of health, how do we enable consumers to self-care, but healthcare systems are under pressure? How do we deliver intimate wellness at a time when we have to eradicate sexually-transmitted diseases? And, fourth, how do we provide nutrition not just to infants but also, equally, seniors, while also responding to the challenge as well as the opportunities of sustainability as well as capitalising on the opportunities provided digitally. That was the framing of the company's purpose as well as the questions that we were solving.

And what it led us to do was to say, what are the categories we were in, and we concluded through that that we were in great categories, structurally strong. We have market-leading positions. The brand has a great heritage. We have thought leadership in many of these categories. The brands are strong and they actually have the ability to stretch beyond very well.

And so we thought that, look, positioning the company where we were enabled us to say, we could with the portfolio we have, protect, heal and nurture. And the other thing I realised starting out was Reckitt has a very unique culture. It's very entrepreneurial, very owner-driven, moves at great speed. And so that was a great strength. So that was the way we started.

I went through a very detailed diagnostic, that I don't intend cover here but if you go back to the presentation of 2020, we had some clear challenges that we needed to address. And so with that starting position, and with this, what do we do? What we did then was we said, we're going to have to rejuvenate this company in order to position this company for real growth. Because it's possible given where we are.

So, we invested in competitiveness in some areas first. There were some places where we were off competition, losing shares to lesser competitors. The second thing we invested in was we invested in some growth in areas like R&D, supply chain, quality, digital, in our productivity programme as well as the acceleration of growth in some of our new businesses.

If you take a look at R&D, we've invested in these science platforms most of £100 million, and we're beginning to start to see the results there. We put money into digital, investments in our continuous relationship partnering capabilities, marketing capabilities, ecommerce, all brands, all categories, all channels, all countries. And we really thought of it that way rather than saying it's like the nature of it because we're expanding everywhere, and there'll be growth in Peru, a growth in India, a growth in China, obviously, where we're pretty big in ecommerce.

So, we were making investments pretty much across the board on that. We invested to recapture our edge in commercial execution. Reckitt was the company that was very strong commercially, but we had lost our edge. And so we put capabilities back in. We reconstituted our Sales Excellence team, our Marketing Excellence team, and we put people… We thought how we were covering our accounts. And that's where this group has been basically raising the bar.

And, proactively, two years ago, we also made investments in revenue growth management. Of course, that's helping us now, particularly as you think about the environment that we're in. So those are sort of the underlying capabilities up to things that we're reporting. I'm happy to give you some evidence of how that's really working.

Additionally, we put money into growth lines, into distribution points, into expanding our brands, really thinking about brand space and where our brands could play, and also entering some new growth platforms, be it our appropriate business solutions business, be that share of export business to many markets which we are not even in. So those were the growth lines. So we invested in growth, growth enablers and growth lines.

And just to give you a sense of some of the KPIs that we're beginning to see in this also, first one, we said the best thing is growth, is what we should get to. If you look at just Q1 and what we talked about, 70% of the portfolio is already there and growing at pace. And the rest of the portfolio, which is, seeing these COVID pluses and minuses play out, clearly are in there too, and they were actually offsetting each other in the first quarter of this year.

If you look at some of the metrics, on market share, for example, in the first quarter we said that in our core category market units 76% were holding or gaining share. Yes, we've got a boost by IFCN our infant formula business in the US, but if you look at the underlying momentum, it's clearly there.

If you look at our executional consumers and customers, very strong too. The brand equity scores we've got across our portfolio, whether they be in disinfection, or maybe Durex, or be it in Harpic or some of the OTC brands, have strengthened significantly in the last two years, particularly with consumers.

With customers, again, that's gone up too. If you look at customers and how they rate us with the Advantage scores, we have seen a 20 percentage point improvement in the customer relationship scores in terms of how they view us as being top quartile. And we've got multiple awards from customers, which we referred to in the past.

if you look at just availability, it's an area we focus on a lot. Because, actually, what had happened over the last many years is we've been losing distribution points. And so availability was strengthened. In the last few years, the last couple of years, we've increased our distribution points by about 110 basis points. some markets, even more than that. 110 basis points overall.

On innovation, there's been a real step up in innovation. Now, some of this comes at different times. So all the specialists asked about how do we see the effect of these? But they're all in different timeframes. Hygiene is already in a fairly good place on innovation. But we gather more, bigger, is what they want. You're going to see more of it come out this year as well as next year.

But if you look at health, and we were losing share in Durex, in the condom business, we didn't have a thin PU condom, we've come to the market with a PU condom in record time. But we gained market share leadership in China, and now we're expanding a PU condom in other parts of the world.

If you look at Finish, our brand Finish, great product. This has been a great product, we have technology. We didn't have enough capital in terms of capacity. So we've invested capacity, and that's now seeing the benefit of innovation growth. Same thing with Gaviscon, we've added a few more lines, basically, to just grow it.

So when we think of innovation, it's not just a new product and the idea, but it's about how we ensure it works all the way through, all the way to the market, and actually shows up. And I think the quality levels of our conversations with our partners, with suppliers, has gone much higher. We launched Lysol 24 in France in eight months, and it was a new product that was developed.

So we're seeing examples of how the commercial side of the business, the innovation side of the business, the brand equity and the consumer and the customer relations all come together. And what that's done is it's driven the growth of the business. We see that in shares that we've got and the fact that it is line with our goal of returning this business to sustainable mid-single digit growth. So that's on the growth question.

And I know you probably have a question on margins, so I'll hold on, but that's the overall. So we started with a company with big investment capabilities, and we've seen growth there.

Celine Pannuti: Thank you, Laxman. And thank you so much for that. Yes, my next question is on margin. And so you are targeting to go back to mid-'20s margin by mid-'20s. But even at the current level of margin, you're among the top if I look at global Consumer Staples companies. And I think last year there was a bit of a controversy post-COVID that you reinvested some of the windfalls and not give it back to the bottom line.

So my question is, nonetheless, today, are you investing enough? You mentioned a lot of investment you've made. And is the risk of permitting quite a nice step-up of margin in the next couple of years to maybe jeopardise that sustainable growth that you are now building up?

Laxman Narasimhan: I think it's a great question. I think if I think about what are the fundamentals of this business, the fundamentals of this business are earnings model. And how do we think about our earnings model with regard to the gross margins we have, the innovation that drives gross margins, the gross margins then give us the engine room to invest in driving growth, from which we get operating margin leverage. We get operating margins there. And I think this is funded by productivity that we then use to reinvest in the growth of the business.

Now, that's our earnings model. And the earnings model we have is representative of the advantaged categories we have, the strong brand positions we occupy, the fact we're very good at procurement. We have been. We lost our edge. We've come back in. But if you look at the way we really work, all that is the foundations of the gross margins that we have.

Now, we've invested in the commercial execution that helps us get the growth and helps us get the operating leverage to come in. But one of the big areas that we've really unlocked, actually, as part of Recovery 2020 was the productivity programme. I remember when we first came out with the productivity programme, there were questions. How is it a company so lean could deliver this kind of productivity?

And so we said it was 1.3 billion. We knew it was higher, but you know no one would believe us at that point in time. And then we started delivering against that and passing that. We moved that number to 1.6 billion, and then we added a year and said that's going to be 2 billion. And what it is, because we have a plan on productivity, because this is an organisation that has culturally a design of saying, how do I drive efficiencies to create the engine room to drive growth?

Previously, in history, it was done very decentralised, in the market. We've actually elevated that across the company. Sharing ideas across the company has given us the ability to move our metabolic rate of productivity from a number of about £250 million a year to about £0.5 billion a year, and we see even more headroom. That is the foundation for us to continue to invest in the business. And as we get the investment and we get the leverage, we see growth take place.

Now, your question on investments, very return focused. And we know that the shareholder value creation is the top of our approach. And so we will do everything we can to make sure that that's obviously delivered, and the leverage is what gives us the operating margin. That's a much smaller amount.

Celine Pannuti: Thank you. So when you spoke about the drivers, you talk about innovation, execution, obviously, fuelled by those investment efficiencies. But I also wanted to go back on new places and new spaces because we see another side of it I think you said Dettol was up 90% on mid-'19 levels, and roughly 60% of that is the core, but the rest is because you went into new places and new spaces.

So when I think about this, how much further there is to go, and I'm thinking about when you enter into a new place and a new geography, leveraging your portfolio in that new geography , I think emerging markets is still quite small in Reckitt compared to the rest of the space. So, yes, how should we think about…? Of course, we think about new places, new spaces, and Dettol is an easy one, but if I think about the rest of the portfolio.

Laxman Narasimhan: Sure. When I talk about new places and new spaces, it isn't just about the disinfection brands. It's actually about a whole set of brands that we have. The Dettol story clearly is one of mass penetration upside that we still have. We grew penetration enormously during the pandemic, and, of course, we've expanded it to the shoulders of the brand, personal care, as well as in laundry sanitiser in some markets that we have Dettol in.

But what is interesting is if you look at our footprint in some of the emerging markets, we're not as big as we could be. If I look at Africa/Middle East, we reset fully. If I look at ASEAN, we've real opportunities there, we reset there too in terms of how we go to market. We've actually brought the Hygiene and Health businesses together to give us scale at the local market. And we've done that in India, we've done that in ASEAN, we've done it in Africa/Middle East, so we've done that all the way through. And we see the penetration opportunities there to be quite large. So Dettol penetration's part of the expansion.

If you look at Lysol, Lysol's obviously been very large for us. We've gone to spaces like professional, but also to export markets that we have for that. And, honestly, we still have more work to do on the growth, so there's still work to be done. As Lysol normalises and as you see consumers get more concerned about health overall, as it gets more endemic, you see a play there, obviously, a cough cold which you have in there.

But if you look at Harpic, and you look at the brand, and the expansion potential we have, as we've got a playbook that works really well, France is getting approved, India, a big player in Harpic, and penetration grew even further. You look at emerging markets, Africa, Mexico, with Harpic. China, Thailand we just introduced last year. So the ability for us to expand in these areas, spaces and expanding our brand there is really what gives us the belief in the new places and new spaces.

Furthermore, on-the-go is an area of opportunity for us, if I looked particularly at disinfection, and it's one we haven't fully cracked the code yet. We're still working on it. But there's a real play.

Celine Pannuti: If I look at, and once, I think, at the beginning, in February 2020, you said that the company first needs to perform before it can transform. So now I don't know whether we can say it's performing, but you are on track for mid single digit. You have sharpened the portfolio with the sale of the IMF business in China, Scholl, the acquisition of Biofreeze. So, my question is, what is the transform journey looking like from here for Reckitt, and, specifically, whether there are categories we should think about in terms of the strategic focus?

Laxman Narasimhan: Well, as we said before to you, we've an excellent the portfolio of brands. I'm actually pleased about the portfolio, pleased about the categories we have. And I think all of what we've done over the last three years has put them on a path for real growth. That's the real focus. And I think we are seeing the results.

Now, I'll also say we have acting managers on our portfolio. And we're a company that is about forward momentum. It's not a company that can stand still. It's a company that does move. And so we've churned through 9% of the portfolio, you mentioned that at the beginning, as well.

From a capital allocation perspective, if that's your question, but, yes, I think we've mentioned before how we think about capital allocation. The first thing is people invest in the business, and if I want to tell you that we still have capital opportunities in organic growth in many of our categories we haven't fully tapped into, that's a very big deal for us. And we have to ensure we get it right.

If I look at Finish as an example, Gaviscon as an example, we're still not where we need to be yet. We still have more to do on those fronts. So we will invest in the business.

The second thing we said is our dividend policy is actually very important to us, and we've explained what our dividend policy is in light of our capital allocation policy. I won't go into that, but it's very important to us. We want to have a healthy balance sheet, no question.

But we do look at value accretive M&A by small, medium and large, we do. When we bought Biofreeze, we said, you know what, this is one we can really do something with if it's ready to our portfolio. Yes, it's a billion-plus pounds, but it was… But against that, really one country, registration in 96 countries, the ability for us to take the Nurofen technology against it, and really create value. So I won't leave it out.

Queen V, we bought if for almost nothing. It was a million pounds. And so the ability for us to take that globally, we just launched that now, the ability for us to take some of those things and actually make a big play in it is key.

So where would the focus be in terms of some of those? I think we look at health, and we look at health, and we look obviously at all the various deals that are out there. And if we see something like Biofreeze, we will go for it, no question. Obviously, we need to be sure it's value-accretive and that our shareholders are pleased with the deal we did. So that's definitely an important element of what we would do for deals like Biofreeze.

On Hygiene, it's more of an organic growth story, but we are open to inorganic opportunities as well in Hygiene. We haven't excluded anything. It's all there. But we still have capital within the core of the business to scale it up, particularly in emerging markets, online and the like. So we're clearly doing that. But, again, if you come across things in the Hygiene space, we will of course move.

So I think that as we look therefore at our capital allocation, very driven by shareholder value and what we can create. Organic growth, dividends, balance sheet, and then, of course, deals, where we look at small, medium, large, but they'd have to value-creating, and we have go for them when we do.

Celine Pannuti: All right. So just to expand on that, how does Nutrition fit in this given that you have already sold a big part, which was China, two biggest markets in the world are China and the US. And then you mentioned that your balance sheet now is looking at a healthy level, I think close to two times net debt to EBITDA. So should you be a recipient of proceeds from an asset disposal, what would be the focus for redeployment? Would it be more M&A? Would it be more cash returned to shareholders? How would you look at that?

Laxman Narasimhan: First of all, I think there's an assumption in your question about proceeds, but we can't really comment on any speculation or the like. We're a Nutrition business that is performing very well. The US business has always been growing, in the mid-single digits and having margin that is consistent with the margins of the overall portfolio. So, we feel good about the US/North American business.

Our Latin American business and our ASEAN business, frankly, needed a turnaround. And right now, they're in the process of doing that. If you look at market shares and where we stand, all our markets in Latin America are in share growth. If you look at ASEAN, except for one market, which we have a problem we've identified, and we're now fixing, an executional issue we're running, but the rest of the markets we're in share gain. So, actually, we feel good about the progress we made, and we're taking pricing in there. So the business overall is actually performing and doing very well, so I feel very good about it.

Getting back to this question about what will we do with our capital, I think our capital allocation and what we've talked about is exactly the way we would play it. We don't see anything different other than invest in the business, ensuring that dividend policy is fulfilled, ensuring that we have a healthy balance sheet. And, of course, we will look at M&A as it comes. But if we have ideas like Biofreeze, we will buy them, for sure.

Celine Pannuti: I want to continue on the infant milk formula because you mentioned the US, and, clearly, we have seen a lot of headlines about this. So, first of all, can you tell us how is the situation on the ground? Are we close to normalisation in terms of being able to supply in the US, I think?

And then, if I look at precedent situation, which suggests that the share gains that you gain to that could be quite sticky. You are a bit more cautious about this. Could you tell us why that is? And would you expect any changes longer-term in this market given the current situation?

Laxman Narasimhan: I think, first of all, I think the genesis of this, we learnt in February that there was a challenge in one of our competitor's factories. We recognised, as was said publicly last week, that we knew the impact was going to be quite significant. But we had no idea how long the factory would be out. It's only later on we learnt about all the other things that the FDA decided to put out there.

And it's only then it became sequentially clearer as to what was going on. And so we're learning pretty much with everybody else around what has happened in the overall market in that sense.

We do still have a supply shortage in the US. Quality and safety are absolutely paramount. I've told my team there's nothing that is more important than that. So we will do everything we can to ensure that we produce as much as we can, but we will never compromise our safety policy.

The other thing is, and you should know this, is that, from a pricing standpoint, we were supposed to take a price increase. But we didn't. And so if you just think that the timing was not right, of course, for the higher cost, including the expediting cost and the tin and all that, it's not… But we haven't taken pricing in the US, and we won't till the situation normalises, at that point in time.

But what we have done is we've worked very closely with the Government, and we worked very closely with the FDA. What is it we're doing? Well, clearly, we have simplified our portfolio. We want to be sure that the WIC baby and the WIC model sells as much as we can, so larger sizes, longer runs, essentially get a small product cap.

The other thing we have done is we've actually worked very collaboratively with retailers, Walmart, Target and the like, to ensure the product gets pushed out much faster. So they have inventory in their chain, we have inventory in our chain. We've worked very closely with them to get as much of the inventory out as possible. That's why you probably see some of the sell through that you see. It's because some of the pipeline industry has essentially been taken out.

The next thing we did is, and this has come at a cost, we're not waiting for trucks to get full, we're shipping as soon as we can to get product to stores as quickly as possible, not to inconvenience of consumers. So we've put out something already. We said probably 30% more volume than what we had. Our market share has gone up from something like 37% to 54% of the overall market.

But it's all been done with very close coordination with the White House, with the FDA. And we're doing everything we can to ensure we help as much as possible. We've also told the FDA we have capacity in Singapore as well as in Mexico, that we can bring to markets in the US. And we are, essentially, very close to working with them on figuring out how we do that, because that again will help alleviate the problem.

Now as you know the competitor's back up and running, from what we hear over the weekend. So I'll say this is over the next six to eight weeks, be their supply situation to normalise, particularly around specialty. And there have been a bunch of import people who've brought in product, particularly around specialty.

One of the challenges you have in the US, though, is how you can get it to market and how do you build a brand, and how does the mother trust a brand, to actually accept a certain product. There's a big responsibility we have as one of the largest players now to ensure we get the right product mix there.

So that's the situation right now. So still holes. We're working very hard, frankly, around the clock, in order to ensure we can get as much out as possible. And I really compliment my team for what they're doing.

Your question about the medium-term, how do we expect shares to evolve, it has had a positive effect on the brand, there's no question, not just with consumers but also with healthcare professionals, hospitals, people who influence us. It has had a positive effect.

You always see all the WIC contracts and how they work and all the time you fully expect WIC to normalise, particularly for our competitor. So we've just been cautious because I think it's appropriate to be so. And I think that what we have is our ability to have a large 90% of the mothers in our database, we know… So we have the ability to play digitally to build the brand and also ensure that we can tap into demand with those mothers and with those consumers, and we intend to do that. But for me to come back and tell you that therefore that's going to mean I'm going to get way more share than I have before now, I'd rather be cautious. Let the team play it the way they would. But there's no question it can strengthen the brand.

Long-term, I think it's a very difficult problem that requires multiple parties to essentially come together to resolve, Government, regulators, manufacturers. And so it's obviously, politically as well, quite sensitive. So rather than me making any comments on that, all I'd point to is it's a sensitive area, and I think that any change will come but come very slowly and come on time.

Celine Pannuti: Another area where Reckitt showed that it could step up in a very short period of time was with Lysol and Dettol, which we already discussed a bit. But if I look at your algorithm, you are looking at these brands growing 4% to 6% in the midterm. Now, COVID is receding, at least in some parts of the world, not in all of them. What do you think are the drivers of superior growth for these two brands?

Laxman Narasimhan: Well, let me just correct that for a minute, because I think when we talked about our Hygiene algorithms, we had originally started with 3% to 5%. And what's happened with the pandemic and the behaviour changes we see, and the stickiness we see with that, we think Hygiene is 4% to 5% of the business. And we are really seeing that. It's not that we're not.

If I look at Dettol, you do get the emerging market top spin, and the fact that you get penetration opportunities. And Dettol is really a 4%-to-6% brand rather than Lysol.

So those businesses themselves, I think, as I said before, the penetration opportunities are very largely Dettol, but you also have the shoulder-broadening of Dettol that we are finding really works very well, personal care. In many markets, it's a germ-based personal care product.

You look at Hong Kong, you look at some of these markets it's really that, in the case of Lysol, what we have seen is, in not just the growth in disinfection, but the fact that it's really proven overseas in terms of having really strong germ credentials, we're seeing growth in other spaces where germ credentials have become really important.

If you look at our laundry sanitisers, we're seeing very big growth in share. If you look at the Lysol cleaning business for toilets growing very strongly now that we've got supply back, because clearly that's one area that, frankly, we had a supply challenge because we were prioritising other products. So Lysol toilet-bowl cleaners is growing.

The pet business for Lysol, the pet-cleaning business for Lysol, is actually growing significantly too. So we've gone into all these adjacencies. And if you start looking at distribution channels, where many of these things are available, you'd be surprised we're not in many of these channels. And so the ability for us, from an execution standpoint, is start being in places where we can actually sell these things.

I haven't even talked about the professional business yet, and, furthermore, the on-the-go opportunity. There's still work to be done. Our presence in c-stores is quite small, as an example. So we start looking at this brand penetration expansion play, and, as you know, we've entered many countries. And in many of those countries, there's still penetration play, for Lysol. If you look at the Philippines, if you look at Mexico, there's still plays there for us in terms of penetration opportunities.

So given all the mix that we have, we feel comfortable with a long-term algorithm that we accept these businesses to be a 4%-to-5% Lysol and the 4%-to-6% for Dettol.

Celine Pannuti: And so the next part of my question is on the rest of Hygiene, which is, I think, a third of your business, and you said will grow 3% to 5%. I think that's one you see that it is, as you reported in the last quarter, but, clearly, you could say, well, Hygiene, it's a more mature market, mature category. So what are for you the drivers to be comfortably in that 3%-to-5% zone?

Laxman Narasimhan: Well, the question is, in these core businesses that we're in, core markets that we're in, we need to show we have capital deployed to ensure we get the right technology products available that is consumer preferred. And even if you have it, sometimes you don't have the capital in place. So we're making the appropriate capital investments to ensure that we're gaining share. Particularly, in some markets where we have battlegrounds, we're, frankly, allocating product at this point in time. So that's one area.

The second thing, though, is, if you look at a Hygiene algorithm overall, a third of it comes to the emerging markets, and a third comes to digital ecommerce, which actually underrepresents that business versus others. And so the ability for us to start playing that in a big way is actually part of what we're doing.

And so if you look at Airwick, the whole fragrance business and overall Botanica, what's happening online, and Airwick overall, is a big source of growth for us. And it's growing in single digits, actually. If you start looking at Harpic and the penetration opportunities, emerging markets that I touched on before, Vanish has been growing, again, as germ-kill becomes more relevant, but also with the cleaning and people going out, again, the brand has actually gone to play there.

So, that part of the business and the ability for us to start playing in advanced spaces or in toilets or in on-the-go or pets, these are things that we're clearly expanding with the core brands that we have. And so that's what gives us belief… Developed markets will be a third, developing markets a third, ecommerce a third. That overall gives us the belief that that will grow at the growth rate that you mentioned.

Celine Pannuti: One area that we search upon now is Health. I think you mentioned it earlier in terms of capital deployment. Different part of the business, Intimate Wellness, VMS, OTC. And I think, on Biofreeze, there's been not a lot of changes to your Consumer Health. Now, if I look around, open the newspaper, I see that a lot of your competitors have done quite a few deals or tried to do deals in the broader VMS or Health and Wellness environment. Just want to understand where does Reckitt develop or fit within this environment when you've been not really active until now, in M&A.

Laxman Narasimhan: We've actually been very active inside. We have been scraping that business out. Well, I'll start with VMS. As you know, with VMS, our footprint is largely North America and China. And we have been actually streamlining that business.

Now, we obviously have Airborne, massive growth during the course of the pandemic. And, of course, it's lapped and came the other way 'round. But we've putting in place some of our core foundational platforms to ensure that's a business that we can scale. So there was a lot of clean-up going on in the business, including, by the way, putting it back into the Health go-to-market system, that now gives us the ability to access global platforms.

We've had some real successes. Neuriva is a brand that's more than 100 million, created organically by us. We didn't buy it. We created it organically. We've now expanded it to China. The Move Free brand in China is a very relevant brand. While the Move Free brand in the US is obviously doing quite well.

So we have actually begun, surprisingly, if you see what we've done internally, we have created a playbook for what to do with that business. Science matters, claims really matter, what we do with packaging, how we ensure it's available in the market, how we play digital in a big way, and ecommerce in a big way, and then how we scale that business across various geographies, is, in fact, the play that we've had.

And we had some clean-up to do, and the team's done a great job of cleaning it up, but it doesn't mean that we didn't look at many of these deals. Rather, we looked at many of them, and we, frankly, chose not to do them because we just didn't feel that we were ready, or we didn't see the science or the claims that were there, or it didn't fit in with the demand spaces that we were in.

You and I had a conversation a year and a half ago about how we think about this. Consumers think of this as protect, heal and nurture. And if you look at our Gavinatura brand, or you look at our Digestive Advantage brand, which is actually a VMS brand, but it's linked more closely with digestive health, in which we have Gaviscon too, which, by the way, is a natural product, coming out of a natural ingredient. How we think about these spaces and how we therefore link the regimen of a consumer with the Protect, Heal and Nurture is where we are.

So the linkage to what we do with the spaces that we're in becomes actually quite key. If you look at Pain and what we have in Nurofen, now you look at Move Free, which obviously is basically in the mobility space, so how we think about topicals, how we think about Move Free, how we think about Nurofen, that helps us play in Pain in a big way.

But there's a thread between these rather than something that's quite random, so we've been thinking about it in that way. Until we've got everything aligned, until your consumer work, your demand space work, we have a brands position, how we would think about this and the growth therein, we were not ready to move. Now we have it, obviously. If we see value-creating things that we could do, we would be very open to considering. But, again, it's a question about, do we see something that we can create value?

Celine Pannuti: Perfect. You mentioned especially VMS, but the question of the OTC category, because OTC ultimately is still your bigger business within this Health environment, if I take away Dettol, do you see your business…? It has gone through a lot of bumps and ups now because of COVID, but what do you think, do you see your business now back into gaining share? And one of your competitors in the UK is talking a lot about RX-to-OTC switch. It's not something that Reckitt has done. Is it something that you are interested in?

Laxman Narasimhan: First of all, let me talk about our business versus what other businesses are saying over there, our business. If you look at our share gains and where we stand, we're actually gaining significant share. Our business is in a much better place than I think it was.

Part of it is the brands are very strong, but we came at it from a perspective about these brands, as much as the brands are linked to a molecule, but the brands are linked to a consumer need or a consumer preference. So we came at it from that perspective, with science behind it, and said, if we combine these two, how should we think about the spaces we're in and, really, what it affords us, what it gives us, opportunity?

So Mucinex is four different spaces, Gaviscon was being repositioned. Mucinex itself, by the way, has innovation coming in, like InstaSoothe, which is our first penetration into Sore Throats. We've taken the Strepsils brands, and, well, we have, Cepacol, but under Mucinex in the US now, essentially playing a broader space in terms of cold and flu.

So, again, we're linking different things together with the consumable side. And what that's doing for us is it's giving us a broader space in which to play. That's a big deal for us. We're not looking just to have a molecule looking at the space.

Now, as a consequence of that, with that level of thinking, we're actually looking at a lot of in-licence use, molecules we can bring in under the brand. So we've a whole pipeline of these, and they tend to be regional or local. And what we do in the spaces where we're big, we'll bring them under the major brand, and it'll expand the opportunity.

If you look at Nuromol, which, you can argue, is a bit of a down-scheduling more, it's a Tylenol , let's put it as a down-scheduling, Nuromol in Brazil, Nuromol in the UK, this is where it's actually going to be over-the-counter, from-the-counter for us. And so that's an area of growth for us. And what we've done, we've seen in markets where we have it.

Now, the number of switches in the world are actually quite small. It's not really that large. And it's not like we don't have a switch team that looks at these things. But for me to tell you that that's the anchor for our growth strategy, I don't want to do that because it is actually quite opportunistic.

It doesn't necessarily mean just because I'm linked to a pharma company that I'm going to be great at switch. What you need for switch is the ability to recognise the consumer's value creation, understand what this does from down-scheduling, and then how do you build a brand in order to grow it?

And I was involved in a switch in my previous, now about 18 years ago. It's really at the heart of how do you build a brand, how do you build a regimen, how do you get the consumer to agree with what you're doing, and then build it? That's where we have an amazing amount of strength. We're doing the best. That's our DNA. Execution, commercial opportunity, brand-building, that's our commercial strength.

In that context, if things appear that we can be party to, we will. But in licensing, we've a whole pipeline of things we work on. But it's about brand, anchoring the brand, getting this whole equation right, and then saying, now that I've got it right in these markets we're playing in, what can I tag into that to give you more adjacencies in the brands that are there?

Celine Pannuti: Just one last question to finish, on the portfolio review Intimate Wellness, I think, one of your fastest-growing opportunities, you mentioned earlier that the innovation, you went back to gaining share in Durex, but you also made some acquisitions, and there is an opportunity to expand the portfolio. What is the next step? And where are we in that journey? Because I remember a slide on the CMD, it was like from here to here. So what should we expect from this category?

Laxman Narasimhan: We spent 18 months talking to 50,000 consumers about Intimate Wellness, and it was extremely provocative in terms of what we learnt. And what we learnt is we're playing in a really small space. But our brands and our DNA give us the ability to play in much bigger spaces. So that's one thing you should recognise.

And I don't want to get into all the specifics that we learnt because that's proprietary , but here's the thing I'll tell you. If you start looking at Durex as a brand, it's big in five or six countries. Just think about it. Condom penetration in all sex acts is 5%, 5% of all sex acts. If you start looking at headroom and seeing what you can do with behaviour change is pretty massive.

It's a combination of consumer insight, science, the materials in this are just evolving enormously, and we've built the capability now to actually really understand that, coupled with go-to-market and distribution… Look at distribution. I came in three years ago. India had 75,000 points of distribution for Durex. We're probably at 150,000 by the end of this year. Our team has promised they'll try and get even higher. Let's see.

Our competitor has 600,000 points of distribution. So you start looking at availability, and you look at the distribution that we have in some markets where checkouts and what we do in availability in stores, availability in c-stores , we're not available in c-stores in the US or in many of the convenience channels.

Online is a very major play for us, and we really, really learnt how to do this right. Packages that we build, how we think about the ecommerce or the online consumer versus offline, how we build these prop sizes that are actually quite large is a big play for us.

Brand-building, you're going to see a much edgier approach to how we build brands. We did a partnership with Durex and Lil Nas X last year, and the Durex brand has been fundamentally restaged from how we think about what we do both in the regular metaverse offline space and how we build a brand. So that's just Durex and Male.

Then we opened up the entire area of Female Wellness. And what we learnt with that, with Queen V, and what we're doing with Queen V obviously gives us the ability to start thinking of other demographic groups that we want to get into, where we have real plays as well.

So the team is working really hard to take the proprietary knowledge we've got, the history and legacy we have, the distribution capabilities that we run, coupled with, by the way, all kinds of opportunities that exist, both inorganic and organic, for us, in order for us to really scale this business. And that's why we believe it's ideal for our business.

Celine Pannuti: Now let's move on to the last part of this chat. I wanted to talk maybe to more a closer, shorter question and one that, in fact, is not shorter, is more mid-term. Obviously, there is a lot of anxiety in the market about how the economy is going to wake up to rising interest rates as we combat inflation and how consumers are going to themselves maybe change their behaviour.

While in the short-term, I can imagine it may be difficult for you to answer, but as, I think, in the next 18 to 24 months, how do you look at your product pipeline? How do you try to navigate? And what is the framework you work with?

Laxman Narasimhan: So let me first start with the cost equation, then go to the revenue equation. On the cost equation, it's very tough out there. And I don't think that we've seen any let-ups since the last time we spoke. We talked about low double-digits going to high teens of cost. It's really playing itself out. So it's a pretty tough world out there. You see that in freight, you see that in shipping, you see that in materials, particularly oil-based, and you are seeing that.

In how that's going to play itself out, there are a lot of uncertainties, and I don't have any crystal ball, a lot of geopolitical events that are shaping it. So we're going to have to also be cautious, but it is clearly tough.

If I look at our portfolio, before coming to revenue, we went into this period well-invested. We have a productivity programme that's firing on all cylinders, and we have revenue growth now through the capability we've been building. And we're seeing mixed benefits, as we see Health come back, and the execution going better. When you put all that together, we feel much better. In some ways, we took almost a billion pounds of cost increase over the course of the last year. So it's not been easy.

If I look ahead on the revenue side, we have to responsibly take pricing where we need to. We've taken pricing. In the case of Health, it was 4.4% of the pricing in Q1. We've taken some pricing in Hygiene, although with the Western European contracts, it's still playing itself through. Nutrition. We got a big benefit from a mix perspective because of some of the rebates that we got paid for. We haven't taken price on that yet in the US. We have taken price in elsewhere. We haven't taken in the US, which we will have to later this year.

But we will take pricing as appropriate because there's no way around it. We just have to do it. We're working very closely with retailers on this. We want to make sure that we have a pack price architecture to be able to give consumers choice as they go to the demand for the best price points. The revenue growth management capability helps us to do that.

But I think there's no major crystal ball to say that's the playbook we have. I think one of the things you do see when times get tough is that the products we make, and what we do, as you were able to communicate the differentiation versus other options… Private labels have got price increases too that are happening, so they are facing the same set of challenges that we are. So I think we're very watchful of that gap versus private label, but we're working closely to ensure the revenue side, that we stay covered.

We haven't a lot of downtrading right now or elasticity effects so far. The question is, of course, over time, what happens. And if we do, we'll obviously respond to that appropriately with pack price innovations and what we would do with promotions. But we are focused on this quite closely.

Celine Pannuti: Maybe just to continue on that revenue side, pricing, we've seen the momentum in pricing in the industry has been quite good across the board. Nonetheless, there's been a bit of a question as to Walmart and Target where these had disappointing results, whether the retailer may be tougher in their negotiations. So how do you envision that, seeing that the cost still is going up? Do you think that the next round of pricing may become a bit tougher?

Laxman Narasimhan: I think that collaborating with the retailers and really thinking on the revenue growth management side, how we do this, is a big deal. We, maybe unlike others, we have some low-hanging fruit of the things that we haven't done around some of the things we're still inefficient in. And it's taken us obviously a lot of allowed capabilities to fully appreciate or understand that.

And I think that gives us a little bit more low-hanging fruit in terms of things we've still got to go do. Well, we're in close collaboration with the retailers, there's no question about it, with the conversations we're having.

Celine Pannuti: Maybe, as we draw to a close, I would like to maybe wrap it up. We've talked a lot. But what I would like to understand is the corporate resilience of Reckitt, going forward, i.e., you've gone through quite a volatile time with COVID, now we are emerging at a steady, close to mid-single digit rates. What do you think needs to still happen internally, maybe fixed within the organisation, to give you that visibility that, including space, obviously bearing any major macro issues, it's sustainable?

Laxman Narasimhan: Over the last two and a half years, we have created a more competitive, resilient Reckitt. Look at what we've been through, and we've had to respond to it. We've had the COVID situation, we've had cost increases. We have a situation right now in North America. And in every single case, Reckitt has risen and met the demands of what's been going on outside.

And I think at the core of it is the culture of this company, which is an ownership company focused on creating, focused on delivering, and delivery capabilities here are just really amazing, the speed at which they move. And then you've got, obviously, at the heart of it, care that we've broadened obviously with Dettol.

So the culture is the first bedrock of resilience. And I've been really proud of the team, and, frankly, what they're capable of doing under moments of duress. The second thing I feel good about is the investments we've made in the unlocked capabilities, because it's also the second line of defence, the foundation of the other, the capabilities and what we're going to supply and what we've done with customers, and the collaboration. Every time we get big issues, you probably wouldn't have that level of conversation with customers that we're doing now. It's really very close. And so I think that that capabilities that we've invested in, no question, has been a big, big source of resilience.

The categories you're in and the need for those categories in the world we're in, with an endemic COVID, with the situation we're running where people are really concerned about health overall, has continued to be so. Maybe not as concerned about the COVID per se, but moving the activity in that to say, if I get a cold or if I get COVID and a cold, what happens? It actually provides a bit of a foundational underpinning to the business that we're in.

So the cultural bedrock, the capabilities bedrock, the consumer demand bedrock really become foundational to where this company is actually resilient. And the one thing we haven't touched on here, and, hopefully, people have a chance to watch us at the ESG investor interaction we did. We've made real progress there.

So, again, if you look at that as well as the availability for us to draw some more moats around the company, what it tells you is a company that's in very strong categories with leading brands, it has a great earnings model, it has a culture of Own, Care, Create, Deliver that is deeply embedded inside the company. And you couple that with a market opportunity we face, the growth in digital we have, progress we made in sustainability, and just the headroom we have in many of these categories, that's what gives you the belief in the resilience of this company.

Of course, it's led by people in our factories, in our R&D centres, in our sales team, leadership teams of the businesses, they've all been really battle-tested. You couldn't be more battle-tested, I think, than we have been. So I think that's what gives you the comfort to say the company's on the right track and it's resilient for whatever comes.

Celine Pannuti: Excellent. Laxman, thank you so much for your time, your insight. It was a pleasure to have you, and you're always welcome here. Thank you, everybody, for joining us today. And have a great day.

Laxman Narasimhan: Thanks, Celine. Thank you so much for doing this.

Celine Pannuti: You're welcome. Bye-bye.