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# EDITED TRANSCRIPT

RB.L - Q3 2015 Reckitt Benckiser Group PLC Trading Statement Call

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## OVERVIEW:

Co. provided 3Q15 trading update. YTD 2015 like-for-like net revenue growth was 6%. Expects full-year 2015 like-for-like revenue growth to be 5%.



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## CORPORATE PARTICIPANTS

**Richard Joyce** *Reckitt Benckiser Group plc - IR Director*

**Rakesh Kapoor** *Reckitt Benckiser Group plc - CEO*

**Adrian Hennah** *Reckitt Benckiser Group plc - CFO*

## CONFERENCE CALL PARTICIPANTS

**Iain Simpson** *Societe Generale - Analyst*

**Harold Thompson** *Deutsche Bank Research - Analyst*

**Martin Deboo** *Jefferies - Analyst*

**Erik Sjogren** *Morgan Stanley - Analyst*

**Guillaume Delmas** *Nomura - Analyst*

**Charles Pick** *Numis Securities - Analyst*

**Richard Withagen** *Kepler Cheuvreux - Analyst*

## PRESENTATION

### Operator

Good day and welcome to the RB Q3 trading update. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Richard Joyce. Please go ahead, sir.

### Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Good morning. Thank you for joining our Q3 trading update call. What we're going to do is we'll follow our normal procedure of some very brief prepared remarks and then we'll go straight into Q&A. So, with that, I'll hand over to our CEO, Rakesh Kapoor.

### Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Thank you, Richard, and good morning and welcome to RB's Q3 trading update conference call. I will take you through a summary of today's announcement and then Adrian Hennah, our CFO, and I will be pleased to take your questions. Remember this is a trading update only rather than a full set of results.

I have three key messages for you today.

Firstly, I would say that the underlying macro trends have not changed significantly since we last spoke. We continue to see uncertainty and volatility in certain markets and competitive conditions remain intense. Given this backdrop, I'm very pleased that we have delivered another quarter of growth and outperformance.

Secondly, our strategic focus on health and hygiene is working. We delivered strong like-for-like growth of plus 8% in Q3 and plus 7% on a YTD basis on these categories. While the third quarter was helped by a weak comparator, we did well.

Thirdly, our strong performance in Q3 means we are increasing our full-year like-for-like revenue targets from plus 4% to 5% to a like-for-like growth of plus 5%.



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I now want to share some observations from the trading update.

In ENA we had another quarter of high-quality growth across all of our markets.

In North America we have seen strong performances from Lysol and Air Wick. Our new foot care brand Amope is performing well behind our Express Pedi. And to this we are adding our latest innovation with the sell-in of our Velvet Smooth Electronic Nail Care System.

Throughout the rest of ENA we are outperforming a market across a range of categories; from Nurofen, Scholl and Strepsils in health to Dettol and Finish in hygiene to Air Wick and Vanish in home. This has led to one of the best results we have seen in these markets for a number of years.

And in Russia growth benefited from pricing but also behind our improved go-to-market model in consumer health. Having said this, the current market and currency issues in Russia continue to make the future difficult to predict.

In developing markets we continue to see a mixed picture, with positive conditions in India and the Middle East and Turkey whereas other markets, like Southeast Asia and LatAm, remain challenging. I'm pleased that our developing markets' businesses have managed in these uncertain conditions to deliver a quarter of double-digit growth.

Three of our large markets I would specifically mention are India, where consumer sentiment continues to improve, which, combined with our investment in go-to-market expansion and innovations in brands like Dettol and Harpic, have delivered strong growth.

In China we continue to outperform our markets with a strong focus and excellence in digital marketing and eCommerce.

Brazil, however, remains challenging in difficult markets and intense competition.

Moving from our area results to our categories, our performance in consumer health in the third quarter was both broad based and excellent. Nurofen, Strepsils, Gaviscon, Durex and Scholl have produced a quarter of strong growth behind our healthcare professional programs and innovations.

In this quarter we launched our new Scholl Velvet Smooth Electronic Nail Care System in a number of markets with encouraging early sell-in results.

Looking forward, you may have seen that the FDA has granted approval of generic versions of our remaining extended-release Mucinex range of D, DM and SE Max. This has been expected for some time and we expect Mucinex to respond by continuing to innovate behind its core range of products like, for example, our recently launched liquid gels range.

In hygiene our performance in developing markets was strong, with growth coming from both innovation, like our new Dettol liquid Squeezy Hand Wash range in India and penetration-building initiatives, particularly behind Dettol and Harpic.

Finish had a strong quarter in both developed and emerging markets and we saw a strong best season in Brazil.

And in home I'm pleased that our recent innovations like our Air Wick Wax Melts have driven encouraging early results and we continue to work hard on driving category and brand growth in Vanish.

So, in summary, Q3 was a strong quarter, which has delivered us plus 6% like-for-like growth on a YTD basis. Given this good momentum, but in challenging markets, we are poised for another year of strong growth and outperformance.

With that, Adrian and I will be pleased to take your questions. Can we have the first one, please?



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## QUESTIONS AND ANSWERS

**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

Thank you, Rakesh. (Operator Instructions). Iain Simpson from SocGen.

**Iain Simpson** - *Societe Generale - Analyst*

A couple from me, if I may. Firstly, the performance in home care really very impressive indeed, especially given the comp you had there. Could you talk a little bit how each of your power brands are doing in home care and what's driving that acceleration and how we should think about the sustainability of that?

And secondly, just in the statement I noticed that the guidance now talks of another year of growth and margin expansion. I take it we're to assume that it's another year of nice margin expansion and that we shouldn't assume that's any change of language on margin at all. Thank you very much.

**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Let me just deal with the first one. The first general comment I would have is a quarter is just a quarter. I don't think we should read very much into one quarter's results either way; whether it goes one way or the other.

We've delivered a strong quarter. There is no question about that. But I don't think we are reading too much into this, beyond saying a quarter has gone past, nine months have gone past and that's good because that tells us we're on track with what we wanted to do and we are making progress.

Now in home specifically, you know we've been quite open about the various brands we have in home and how we are tackling those challenges.

Vanish has been all about bringing the category back into growth with penetration-building activities versus unnecessarily fighting all the time for market share, which is a lose-lose battle sometimes. And that's what we are focused on. We're launching innovations like Vanish Gold and that has created a good momentum for growth in Vanish.

On Air Wick, again we've been talking about innovations and we've been very open to say that our innovations in the past have been probably less impactful than we would have liked them to be. But the good thing about Air Wick is you always have another chance because the rate of innovation is high and, therefore, if one year you haven't done as well you get another bite of the cherry.

And that is what has happened. I think the recent innovations that we've launched under the Life Scents range have done better than we have, actually, in the previous years. And under that range we've launched a number of other products; the Wax Melts being one more example.

Now, if we continue to do the hard work we are doing and the innovations do keep working, I think we will do fine. And that is where we are on home care.

I don't think you should read too much into this being a normal quarter or an abnormal quarter one way or the other. I think we should just take it for what it is. We have worked hard, we have innovated well and some of that innovation is showing some early results. And we will continue to be like this. We will continue to be like this.

Then there was another question, I think, on our guidance margins. Adrian, do you want to clarify?

**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

Well, first of all, Iain, this is very much a trading update, so we're focused on revenue. We're not talking about profit, really, at all. And certainly we're not setting out to change our margin guidance, whether for 2015 or for the medium term.



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I guess the one slight bit of color we can give you is, of course, as a Company, we are very focused on fixed cost. So when we've got a slight uptick in our revenue guidance you can expect that to drop through reasonably well to profit. But we are not saying anything about guidance in margin in this statement at all.

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**Iain Simpson** - *Societe Generale - Analyst*

Thanks.

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**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

Harold Thompson, Deutsche.

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**Harold Thompson** - *Deutsche Bank Research - Analyst*

Three questions, if I may. The first one is on the health performance 14%. I think if you read your statement back in July on your H1 results and this one, it's pretty clear that it's very broad-based growth across the portfolio.

What do you think explains that? Is it everything clicking together; regulation, innovation, your sales force and initiatives all humming? Or is there a bit more to it, i.e., just the extra focus being put on health giving a disproportionate result? So a bit of color on that.

The second one, I think, improved performance in detergents. Probably language I would never have expected from Reckitt, I guess. And you mentioned changed management. What has changed for that less good part of RB to do well, at least this time round? Is there anything odd in that performance?

And the third one is just to temper, I guess, the excitement. FX. How much will that remove of your earnings in FY15? Thank you.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Let me start with the first one on health. Yes, the growth has been broad based or we are doing well across the portfolio.

Well, the first thing is that I've always said that where you focus your energy, your passion, your investment in resources, you have a great chance of winning. So I think the outcome on health is very much about what we said we want to be in. We want to create a bubble house in healthcare in time and we are focusing the organization's resources, energy and passion in this area.

The second aspect is, of course, we are innovating hard. We're innovating hard with innovations that we've described to you, both at half 1 early in the February discussion and also then in July. And some of those innovations are performing well. So I think the innovation performance always helps, basically, our market.

Thirdly, we are actually investing in our healthcare professional programs and go to market.

So it would be very easy for me to point out to one aspect of what is working. I think there are several aspects of what we are trying to achieve in consumer health and they are all coming together to create a good, strong momentum.

Having said that, I would also be very, very openly candid about one aspect. These markets in aggregate are growing around mid-single digits. When you have sometimes a not-so-good season, it's probably less than that. And when you have a strong season you could grow at 6% or maybe even a bit better.



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This kind of growth that we are seeing in healthcare is, therefore, if I may say so, just out of the outperformance zone that we have targeted for ourselves. And, therefore, in due course we will see how that all pans out.

But we are very focused on consumer health. We want to outperform our markets. We continue to do well. But really the 13%, 14% growth that we are seeing is, if I may say so, is beyond the range of outperformance.

We are happy about it. We are very happy about everything is working.

So that's how I would say. Broad based across several drivers of growth; not just one aspect. Innovation, go to market, healthcare, professional management, the entire energy and focus and our investments that go with it.

Secondly, I think you talked about laundry detergents. I don't think we will play this music every quarter. In laundry detergents we are not leaders in. We are fast followers. I have never pretended to be somebody who wants to change the world in laundry detergents and I'll leave it to my peers to do that. We are trying to be fast followers. And you know what? We think that one quarter's result is not also a good guide to this.

What we have done in laundry is we have created a more focused organization. I think I described to you that we have created something of a smaller setup within our Company to deal with these more difficult categories like laundry, detergents, fabric softeners, etc. And we have now a focused management team looking after this.

That does not give them the right to outperform. But if they can actually stop leaking as much as we did before I think that would represent progress. And I think on an aggregated basis in the year to date I think you can see that they have done less badly than they have done before, which is, I think, already good progress.

Then there's a tricky question on FX, which I'm going to ask Adrian to handle.

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### **Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

So translational ForEx headwinds. They were, indeed, quite heavy in the quarter at 7%. In fact, within that the dollar and the euro just about offset but most of the other currencies relevant to us were quite weak: ruble, real and Australian dollar, in particular, for us.

If you apply the September 30 rates for the rest of the year, we would expect full-year headwinds to be around 5%, i.e., about the same as the year-to-date headwind.

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### **Harold Thompson** - *Deutsche Bank Research - Analyst*

Excellent. Thank you very much. Can I just -- a tiny follow up. On your -- are you saying anything on volume price in terms of your growth? Is there anything unusual in that? Or, I guess, it's still very much weighted to volume mix.

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### **Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

Well, on volume mix, Harold, in the year-to-date numbers we continue to have somewhat more volume than price, although in the quarter in itself there was a bit of a swing back towards price. But nothing material, no material trend changes in that.

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### **Harold Thompson** - *Deutsche Bank Research - Analyst*

Thank you.

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**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

Martin Deboo, Jefferies.

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**Martin Deboo** - *Jefferies - Analyst*

Just a quick question from me. It looks like a busy quarter for innovation, which I'm not suggesting is not a good thing. But I would just be interested to know if you think innovation pipeline fill was a feature of the quarter in terms of the volume performance.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

I think we have had a busy year for innovation. There is no question. And I think we've innovated across our categories and brands and it's been both in Europe, North America, as well as the developing markets.

I think I quite lucidly, I hope, described the create-scale-and-activate organization we've put in place. And it's not, therefore -- in the past you innovate and then you keep wondering how many markets it's going to go to at once and how will we actually scale it up and how will we actually make it perform even better than what it would normally get in to doing.

So I think there is a certain bit of not just this headline about how we are innovating and whether that innovation rate is different, which I think is we have certainly strengthened our innovation. But I think we have also strengthened through the power-of-one activation machine how we actually go to market with these innovations and how do we actually make sure that they are successful very quickly.

I don't personally want to read too much into a sell-in of innovation in this quarter versus any other quarter. That, I don't think, is something which would discriminate the results of this quarter versus before.

I think there is a separate element, which is, I think, the same quarter last year was, in general, a softer quarter. So if you ask me, it's not about the innovation sell-in in one quarter versus the prior quarter. I think you should say, well, hang on, Q3 of 2014 was soft and Q3 2015 is strong.

So there is probably an element of that. But there is also good performance in our business across brands and categories.

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**Martin Deboo** - *Jefferies - Analyst*

Okay. That's very useful. Thank you.

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**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

(Operator Instructions). Erik Sjogren, Morgan Stanley.

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**Erik Sjogren** - *Morgan Stanley - Analyst*

Two quick questions from me. Firstly on -- I just wanted to ask about Brazil. Is it more the environment in Brazil? Or is it the competitive pressure? So how is the portfolio outside of Vanish doing there?

And the second thing I wanted to ask about, Amope or Scholl, which obviously emerged a big growth driver in health in the last year or so. You've spoken a lot about the changes you've made, the changes to the brand, etc. How far along are you here in terms of geographic expansion of it in terms of the various applications around foot care that you've rolled out so far? Thanks.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

I think on Brazil I think we've been, again, very open about the fact that this is a twin combination of very tough market environment and competitive environment. This is a combination of both. And sometimes actually when the markets are tougher, competition is equally tougher. They go hand in hand. So it's not abnormal.

In Brazil, although we had -- we did have the benefit of a better pest season this quarter. So I would say the underlying trends in Brazil haven't changed in the third quarter versus the previous two quarters. But there has been -- pest has played a role in the third quarter. But I would not describe any material change in Brazil.

The markets are tough and intense, but also so is competition. And I think you guys know we are fighting on that across Vanish and a number of other categories. It's something we will continue to fight and make progress.

On Scholl I think we have -- Scholl has been -- when we started with SSL, this now seems like a long time ago, but in the first year or two it did take some time to figure out what to do with this brand while we opened.

This is a very complex brand to manage for a range of foot problems from verruca to fungal nail to corn and to cracked heels. I could go on. And how do you actually manage a brand which is a fantastic brand and bring something which is meaningfully sizeable and yet address all these markets?

And I think over the last few years we've actually somehow, I believe, cracked the secret source of this, the course of this, how to innovate and how do we actually expand this brand. And, if you ask me, we've only just started. That's how I feel.

I feel we've made material progress over the last few years on Scholl; material. This is a very different looking brand in RB hands versus what it was before. And I have to say that I do believe we've only just started. So that's how I feel.

**Erik Sjogren** - *Morgan Stanley - Analyst*

Thank you very much.

**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

Guillaume Delmas, Nomura.

**Guillaume Delmas** - *Nomura - Analyst*

A couple of questions from me. The first one is on the consumer healthcare businesses you have acquired in recent years in emerging markets. So Paras in India, BMS, Guilong in China.

Just wondering if you could provide an update on these businesses, particularly whether these businesses are already strongly contributing to your like-for-like sales growth or whether you view these businesses as more the future growth drivers of the Company and for now, at least, their contribution remains quite modest, given their small size.

And then my second question in the hygiene division; 4% like for like but against relatively easy comps. I think you mentioned Dettol, Harpic, Finish and a good pest season in Brazil. So I was wondering what's holding back this division because we're used to almost high-single-digit like-for-like sales growth in hygiene in the past? Is it Veja in Brazil? Is it Cillit Bang in mature markets? Any comment that would be helpful. Thank you.





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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Let's start with the first one on how are these acquisitions performing? They're on track versus what we expected. Remember these are emerging markets. Emerging markets like India and China are growing well for us, let's say, in our core base, excluding M&A businesses. And the M&A is on track versus what we expect. There is no change.

On BMS, as you know, we have a collaboration agreement in Brazil, which we intend to convert into ownership. And with that we will also acquire, I believe, a plant in Mexico, which is the plant which services this. And I think this combination will prove to be a much more fruitful combination when we come into full ownership of these brands. And, again, but the BMS acquisition also is on track.

On hygiene your question is, why can't we grow faster than 4% and shouldn't we grow faster than 4%? I can say that generically for every brand that I have we are not happy with the growth we have on any of our brands. I think we can do better on every of these brands and hygiene is no different.

Really, now you're getting me on my worst behavior of being highly dissatisfied with what we do. And I think you are expressing the same sentiment and I am with you.

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**Guillaume Delmas** - *Nomura - Analyst*

Thank you.

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**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

Charles Pick, Numis.

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**Charles Pick** - *Numis Securities - Analyst*

Three questions, please. Your brand equity investment had been stepped up in the first half to 14.4% of sales. Has it continued to increase in the third quarter?

Second question, share buyback. You'd spent about GBP452 million in the first half. Is there a figure to the end of the Q3 period, please?

And on the sell-in innovation situation that Martin Deboo asked about, there is specific mention of the Electronic Nail Care System sell-in having benefited ENA and health. Is it possible to quantify those benefits, please?

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**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

The BEI, I'm not going to comment, Charles. This is a trading update and we're just simply not going get into lower parts of the P&L.

On the share buyback I can give you better than the end of the quarter. So yesterday it was GBP676 million we bought back and we're on target for the full GBP800 million during the year.

And in terms of the sell-in that we referred to of the nail product in the US and certain other European markets, no, we're not going to quantify it. It was, in our view, material enough to be called out qualitatively but we're not going to give you numbers, I'm afraid.

That wasn't a very helpful set of answers but that's what it is.



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**Charles Pick** - *Numis Securities - Analyst*

Okay, fine. Thanks very much. And just a final one. The developing markets, the FX debit, 0% Q1, minus 2% Q2, then minus 10% Q3. Has it now stabilized? Are you past the worst with the Q3?

**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

You're talking about exchange movements in --?

**Charles Pick** - *Numis Securities - Analyst*

Yes, the exchange translation for the developing markets area.

**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

Well, I think it's -- there clearly is enormous volatility in developing market foreign exchange rates. And I think what you're seeing in our numbers is a reflection of that. So we have no crystal ball, I'm afraid, to look forward as to what's going to happen and your view is at least as good as ours on that, I'm afraid.

**Charles Pick** - *Numis Securities - Analyst*

Right, okay. Thanks.

**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

Iain Simpson, SocGen.

**Iain Simpson** - *Societe Generale - Analyst*

In terms of Southeast Asia, you've called that out as pretty much one of the few areas of disappointment. Are you able to give any more color on that at a country level and whether it's -- is it just macro driven?

And then, secondly, Durex. How far along is Durex in terms of being rolled out geographically? Are there countries that it can still go into? Thank you very much.

**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

On Southeast Asia I think the commentary also hasn't changed very much. We've called out weaknesses in markets such as Thailand and Indonesia. And those weaknesses, from a macro perspective, we continue to see.

Listen, markets like Indonesia should be structurally better than where we are just now. And I do expect, in due course, these markets will recover. So I'm not really anxious about where these markets are, except they are not the drivers of growth that we've seen them to be in the past. And, therefore, I don't think the commentary is very different.

In terms of Durex, we have rolled out Durex over the last couple of years in markets like Brazil and Latin America.



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It had a pretty wide footprint before so there was not this big white space opportunity. Much more about how to reignite the brand with meaningful innovation, both in its core condom business but also in the wider sexual wellbeing opportunity, which goes beyond condoms into pleasure gels and into sex toys, etc. And that's what we've been working very hard on.

So there is a very, I would say, small component of white space expansion in Durex; Brazil and a couple of other markets.

But, by and large, what we are doing on Durex, which is already very well, is driving the brand with increasing the relevance of the brand with those people who don't use today a sexual wellbeing product but also to expand its offer across the board.

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**Iain Simpson** - *Societe Generale - Analyst*

Thank you very much.

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**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

Richard Withagen, Kepler.

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**Richard Withagen** - *Kepler Cheuvreux - Analyst*

So I have two questions. First of all, back on the Air Wick innovations. You're saying they've done better than in previous years. So what have you done differently this time round?

And then the second question is on perhaps a word on the Airborne introduction that you mentioned earlier in the year in Europe.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Let me take the second one. It's too early. We've just launched it. At this time Airborne was launched to a far lesser number of markets than our initial MegaRed thing that we did two years ago, or a year ago. It sounds like a long time. So we've launched it principally in a few markets in Europe. It's just too early to say but sell-in is going all fine and maybe when we have some more we can talk about that.

On Air Wick innovation, what has done well? I was quite -- I described, actually, if you were there in the February call, what exactly Life Scents is all about. And Life Scents is, in my opinion, a true revolution in fragrancing because it delivers fragrance from a concoction of a few fragrances but, instead of being delivered as a concoction, the technology allows these fragrances to be delivered in a unique way.

So consumers who use the Life Scents believe that these fragrances constantly change from one to the other to the other. So there are three different fragrances all combined but they emanate differently and give a changing experience to consumers and, to my mind, one of the best fragrances we have.

But to have the best innovation and to make it more successful and consumers to love it is two different things. And I think what we have seen is that there has been generally good acceptance of this new innovation. So that has worked well.

On top of that, under this whole fragrance umbrella we've also launched a number of new products and the Wax Melts is one example of that. We've also launched a completely new different aerosol system that we also showed to you in the July results.

So there has been innovation from a product point of view from aerosols to new formats like Wax Melts under this whole new fragrance innovation, which is what we call Life Scents.



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There is better productivity of these innovations versus the past and I do believe that has contributed to the results of Air Wick.

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**Richard Withagen** - *Kepler Cheuvreux - Analyst*

Thank you.

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**Richard Joyce** - *Reckitt Benckiser Group plc - IR Director*

Okay, that's all the questions we have, so thank you very much for joining us.

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**Adrian Hennah** - *Reckitt Benckiser Group plc - CFO*

Thank you.

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**Rakesh Kapoor** - *Reckitt Benckiser Group plc - CEO*

Thank you.

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**Operator**

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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