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RB.L - Q3 2014 Reckitt Benckiser Group PLC Interim Management Statement Call

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OVERVIEW:

Co. reported YTD total constant exchange net revenue growth, excluding RBP, of 4%; and like-for-like net revenue growth, excluding RBP, of 4%. 3Q14 total constant exchange net revenue growth, excluding RBP, was 2%; and like-for-like net revenue growth, excluding RBP, was 3%. Expects full year total constant currency net revenue growth, excluding RBP, to be 4-5%.

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PRESENTATION

Operator

Good day, and welcome to the Q3 2014 IMS RB conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Rakesh Kapoor. Please go ahead, sir.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Good morning, and welcome to RB's third quarter results conference call. Adrian Hennah, our CFO, and I will take you through a summary of today's announcement, and then we'll be pleased to take your questions.

Remember, this is a trading update only and our announcement is, therefore, an interim management statement, rather than a full set of results.

I would like to quickly give you an overall picture of how I see our business and the key messages I want you to take away from this call. Firstly, let me give you some context around the current environment, as we see.

Group has not yet returned to developed market, and emerging markets, in aggregate, are weaker. India market growth is well below the rate seen in recent years.

In Brazil, the post-World Cup bounce back in consumer staples has not materialized, and the consumer and trade environment is weaker than just 12 months ago.

Thailand and Malaysia have experienced significant downturns, and the Middle East market show a mixed picture.

Somewhat surprisingly, Russia continues to exhibit market growth in our categories.

And finally, Europe and North America are relatively flat.

Due to this backdrop, I think our performance so far this year has been robust. Our people have worked even harder to execute a strong pipeline of innovation, and position our brands to bounce back strongly as markets start to recover.

I'm particularly pleased that the [original] improvements we have made in RUMEA have delivered strong results. We are continuing with our long-term brand-building efforts. Such is our commitment on [Banada Search] India program, translated in English, A Cleaner and [Healthier] India program, in partnership with key stakeholders.

Secondly, I've always said that where RB focuses, it wins. To further sharpen our focus on health, hygiene, and home, we are dealing with our non-core businesses appropriately.

In this context, we have made excellent progress in the separation of RB pharmaceuticals business, and I'm very pleased to tell you that we expect the demerger to complete before the end of the year. We are confident that, with this move, both businesses will be able to realize their full potential as standalone entities.

We have now disposed of our footwear business, with the transaction completing in August.

Thirdly, the integration of the consumer operation in Russia, which we acquired with SSL, is now well advanced, leaving the hospital business as a standalone entity. We're examining a number of options for realizing the best value for this hospital business.

Finally, as I said at the half year, our brands are strong, as is our culture. And our earnings model remains intact, despite top-line dynamics, as we have been taking multiple steps across the levers of the P&L to maintain earnings momentum.

Now, I will hand over to Adrian.

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Thank you, Rakesh, and good morning. I'm not going to talk through the IMS financials. We'll be pleased to address any particular points you have on the IMS in the question-and-answer session. We did, however, think it might be helpful to give a little more color on four detailed aspects of the numbers: the net impact of M&A; the impact of changes and exchange rates; the price and volume composition of growth; and where we are exactly with RBP.

The net impact on growth of M&A has become a bit more complicated, given the activities we have been doing over the last nine months. The impact on revenue growth in quarter 3 was a small net reduction. In the year-to-date numbers, the net impact was a small increase. For this reason, you see total constant exchange rate growth, excluding RBP, in quarter 3 at 2%, lower than the 3% like-for-like growth, and the year-to-date's total growth at 4%, the same as the like-for-like growth.

We expect the next impact of M&A in the full year to be about flat. This net M&A effect comprises, firstly, the K-Y acquisition. This transaction is completing in stages, as competition law issues are cleared in various countries. The great majority is now complete.

Secondly, the BMS collaboration was completed in May 2013; hence, its results were excluded from the like-for-like calculation until May of this year, the anniversary of the collaboration agreement.

Thirdly, the footwear disposal. This transaction completed in quarter 3. All past footwear revenue, which was GBP76 million in 2013, is excluded from the like-for-like calculation.

Fourthly, the Medcom hospital business in Russia. As Rakesh has mentioned, the integration of the Medcom consumer business with the existing RB consumer business is progressing well. This leaves the small hospital business as a standalone entity.

We took the decision, during the quarter, to start a formal process to realize the best value for shareholders. Accordingly, all past and future numbers are excluded from the like-for-like calculation.

The Medcom hospital business has an annualized revenue of about GBP65 million.

Turning to the impact of currency exchange rate changes, as expected, headwinds continued to have a significant negative translation impact on reported numbers: a reduction of 10% on a year-to-date basis, and a reduction of 9% in quarter 3.

If the exchange rates prevailing at September 30, were to persist for the remainder of the year, we would expect a full-year negative translation impact on reported revenue of between minus 8% and minus 9%.

If the exchange rates prevailing at September 30, were to persist through until December 31, next year, 2015, we would expect the translation impact on 2015 reported revenue to be broadly neutral over 2014.

Turning to the price and volume composition of growth, we mentioned at half 1 that the contribution of volume on the one side, and price and mix on the other side, was broadly equal. This continued to be the case in quarter 3.

We also continued to see a limited ability to take price across the developed markets in ENA. Conversely, price has continued to play a significant role in the emerging markets in RUMEA and LAPAC, where in many countries we have, of course, seen weakening currencies and higher domestic inflation.

Now turning to RBP. The underlying volume growth in buprenorphine prescriptions in the United States continues to be strong. As expected, RBP's share of total buprenorphine prescriptions declined slightly, to around 60%. This was the result of increased pricing pressures from generic and branded tablets; and removal from formulary of part of United Healthcare from July 1.

Strong market growth, some share loss, and some price pressure led to the 9% reduction in constant currency RBP revenue in quarter 3. We expect trends seen in the third quarter, and their impact on our results, to be broadly similar in the fourth quarter.

A fourth generic buprenorphine/naloxone tablet was approved in September. In addition, a branded film competitor may launch a competing product in quarter 4. We firmly believe that this product breaches our IP protection and we have initiated the corresponding legal process.

There continues to be very clear patient and physician preference for Suboxone Film. However, we have always said that increased price competition in the US marketplace will drive some further share loss among more price-sensitive payors. We continue to expect this dynamic to play out in 2015.

RBP held an end-of-Phase II meeting with the FDA on September 30, on our Suboxone depot pipeline product, and we are awaiting formal feedback from the meeting. We are working hard on preparing the Phase III program.

Turning to the strategic review of RBP, as Rakesh has already mentioned, the operational and financial separation of RBP, the assembly of a Board, and other activities associated with the demerger are progressing well. We, therefore, expect to be in a position to demerge the business prior to the year end.

We are planning to make further information available soon, including a prospectus and a detailed timetable, including management presentations and an investor roadshow.

And with that, I will hand back to Rakesh to wrap up.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Thank you, Adrian. Let me talk about the outlook for the year, as we see it. I'm pleased to tell you that we are reiterating our full-year targets.

On net revenue, we continue to expect growth of 4% to 5% on a total basis at constant currency, excluding RBP. I do expect this to be at the lower end of this range now, due to the tougher market conditions and the deliberate actions we've taken around our portfolio.

On adjusted operating profit, excluding RBP, we reiterate our expectation of continuing operating margin expansion in the second half.

In times of tougher top-line growth, I'm pleased that our Company proactively pressed the right levers [through P&L] to maintain earnings momentum. The combination of our focus on higher-margin categories; on project fuel; on synergies from more efficient media buying and planning; and fixed-cost containment gives me confidence we can achieve this nice margin expansion I talked about at half year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Celine Pannuti, JPMorgan.

Celine Pannuti - *JPMorgan - Analyst*

My first question is just to rebound on your outlook for the year. Do you expect the market to remain as we see, in the same trend that we see in the third quarter, into the year end?

And could you tell us what has been the positive impact on RUMEA from this trade loading? And what should we expect to be the -- or what was the underlying performance of RUMEA in the third quarter?

My second question is on the health division. We've seen a slight slowdown, and you mentioned some Mucinex weaker sell-in. Could you maybe talk a bit about the market growth rate? What's the difference between emerging market and developed market for that division, and whether a mid single-digit in this environment is the right number we should be looking at? Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Hi, Celine. Well, how do we see the market in the fourth quarter? Broadly similar to what we've been seeing as of now, so I do not expect any significant change in market conditions over the fourth quarter.

You asked me another question about RUMEA; what has been the impact of trade selling in Turkey? I would say it's not material, really, to RUMEA.

What is material in RUMEA is the fact that the RUMEA area has done well. We have called out a number of times the operational challenges we had faced, and what we were doing about those challenges. And I think we are pleased to say that those challenges are being met very strongly. So I think that's where we should think about RUMEA.

And another question from you was Mucinex, and the impact of sell-in in Mucinex. I would say again, we wanted to call it out because we believe that underlying Mucinex business in quarter 3 performed strongly. But we did not see that reflected in revenue because of what I would think were cautious trade buying patterns based on last year's experience of the trade, where at this point in time in the year they had actually prepared for a much bigger 'flu season than it turned out, which was a carry-over from previous year's 'flu season, and so on and so fourth.

So I would not give too much attention to that, too. Because in the grand scheme of things, what we want to call out is the underlying performance of Mucinex actually was good, but maybe not reflected so much in revenue.

And I think your final question was around DM versus EM growth. I think the developed market growth rates have been flat and emerging market growth rates have been weaker through the year.

And if you think about -- let me answer the question in another way. Although you do see changes between RUMEA and LAPAC over the year, but when you aggregate the whole, you do broadly see the same sort of trends in emerging market growth rates that we've had.

Now, by nature, emerging markets tends to be volatile. You have some changes from one market to the other that can happen rather swiftly in some cases. And I think in aggregate our emerging markets have grown at about 6%, and that has not changed over the year, although you see changes within one area versus the other.

Celine Pannuti - *JPMorgan - Analyst*

Thank you.

Operator

Iain Simpson, Societe Generale.

Iain Simpson - *Societe Generale - Analyst*

Just a couple of questions from me, if I may? Firstly, within ENA, you talk about how Europe did better than North America. And I was just wondering, is that underlying market driven, or is that your performance within the markets? I know you've called out Mucinex, but any color you can give on that would be incredibly helpful.

And then just secondly, more generally within healthcare in terms of MegaRed rollout. Clearly done a huge amount of work on that recently, how much rollout is there left to go into? Or have you already executed most of the white space fills? That would be extremely helpful.

And then just lastly, if I may, on the Medcom hospital business, given the small size of it, I'm assuming it's exclusion from like for like is non-material. If you could just confirm that.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Let me take a couple of questions, and then maybe Adrian can jump in for a few of these.

The fact of the matter is that Europe has performed strongly this year versus the trends of the last many years. And I think I would attribute that to a combination of markets being -- moving from worse to bad, and I think our performance being better. I think we have made operational improvements in Europe, and some of our health categories have performed particularly well in Europe. We've called that out in the past.

I think we remain pleased with how we are performing in Europe, although North America has certainly seen a tougher year this year. And I would see this as a combination of a very strong first six months of last year, but maybe even first nine months of last year, because of a fantastic flu season. But also, the US market is generally seen to be, by us at least, a bit softer than it was 12 months ago.

So I think in aggregate I would say Europe, North America has done well, but there are changes within Europe and North America between this year and last year.

In terms of healthcare, MegaRed rollout, we did call out at the beginning of the year that we were going in 20-plus markets at the same time. But I also made one point quite clear at that time, that building brands is not an immediate process. Building brands is a long-term process which requires patience; it requires effort; it requires an approach through which we can actually build them with the right level of education, with the right level of innovation, with the right level of penetration by the activities.

When you think about building brands in consumer health this is even more -- this whole concept is even more accentuated. This is an even longer-term process. Because in this particular case, in MegaRed, particularly in Europe, we are building a category; we are not just building a brand. Heart health as a category, as a benefit, does not truly exist.

So we are aware, fully aware of what we are dealing with here and we are patient about this. So MegaRed, I think we are where we should have been, but I don't think we should get ahead in terms of thinking that this is going to be an explosive part of our European healthcare business.

In terms of Medcom, I think there was another question, maybe Adrian, you want to talk about that.

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Yes, sure. Iain. First of all, absolutely, the exclusion of Medcom hospital is not material. But just to give you a little bit more color in case you're interested about how it came about, we acquired the Medcom business in Russia as part of the SSL acquisition in 2010, or at least we acquired a majority stake in the Medcom business in Russia. We didn't get full control until towards the end of 2012.

What was the Medcom, or what is the Medcom business? It is primarily a consumer pharmacy-oriented business with an excellent go-to-market channel in Russia, predominantly initially serving Contex condoms. And we have been, now that we have had full control over the last year or so, integrating the Medcom consumer business into the existing RB consumer channel, which is a hugely valuable development for us.

And that integration is going very well, and as a result has liberated the small Medcom hospital supplies business, which we also acquired with it, and which had shared the same distribution channel. It's nearly as a standalone business.

Now, we are not in the business of hospital supplies or medical supplies in general and, therefore, obviously, we are seeking to realize the best value from this for shareholders in the most appropriate way. And as it is now standalone, as the integration of the consumer business has developed well, we're flagging that fact and we've started a formal process to, as I said, realize the best value for shareholders that we can from it.

That's what it is. I repeat, it's immaterial, GBP65 million, or so, revenue, and that's really all there is to it, Iain.

Iain Simpson - *Societe Generale - Analyst*

Thanks very much.

Operator

Erik Sjogren, Morgan Stanley.

Erik Sjogren - *Morgan Stanley - Analyst*

Just two quick questions from me. Firstly, you sound very confident about the margin for the second half of the year. Is there any more color you can give us on what you see as the margin drivers, particularly these additional cost savings that you talked about at the half year?

And then secondly, you flagged that, in RUMEA, you're surprised by the strength of Russia. Have you already seen a slowdown just now, or is it more that you're generally surprised? Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Okay, Erik, I cannot repeat myself more actually, because I've said this all through, that RB has a special skill in -- which comes through not just in good times, but also in tough times. And I think we were pretty proactive about looking at all the drivers in the P&L and thinking about how we could actually keep our earnings model intact and keep margin momentum high.

I think when you think about all the drivers, there are lots of drivers. You've got optimizing pricing and trade spend; making sure you are hugely focused on project fuel, which is the cost containment program that we have product costs. You think about how we can optimize our fixed costs, because even if we believe we run a tight ship there's always an opportunity to find more.

And then, I think we flagged in the early part of the year, maybe even last year, that we have started a media planning and buying program to really find leverage, but also become a smarter media buyer and planner, and I think that's what have done.

So when you think about it in combination, it gives me the confidence to think that the second half margins would be another nice margin half.

On your second question on Russia, yes, I think if you think about the macro of Russia, you see all the headlines, you think, well, the GDP growth rate is basically flat to declining; and you see all the challenges of not just the economic challenge of Russia with oil prices, but also the political issue that we are seeing there.

In that context, if Russia was to exhibit a downturn, you would not be surprised. What is a surprise is that we are not seeing it at this point in time, but we are just calling it because Russia did well in the quarter and we did not see any significant slowdown in our categories, so we thought we should talk about that.

Erik Sjogren - *Morgan Stanley - Analyst*

Okay, thank you very much.

Operator

(Operator Instructions). Harold Thompson, Deutsche Bank.

Harold Thompson - *Deutsche Bank - Analyst*

Two questions from me: one on dividend, and other one on M&A. How should we think of the dividend for full-year 2014, given that RB will have been largely a RB and RBP together for the vast majority of the year? Is there anything you could say on that?

As a second question on dividend, how should we think of the RB dividend policy for next year, and beyond?

From an M&A perspective, although you call out that M&A will basically have no impact on revenues this year, you have actually done quite a lot of things in the last 12 to 18 months: Schiff, in China you bought something; the BMS business, in Mexico, Brazil; and of course K-Y Jelly more recently. There's quite a lot activity. How is it all going across the board? Are there any major initiatives you can call out beyond maybe the MegaRed re-launch and just how these businesses are bedding into the Group? Thank you.

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Sure, Harold, let me take the dividend one. As regard the 2014 dividend, now this is obviously a decision for shareholders, but we expect, as management of the Board, that RB will pay the full dividend for the full year. The demerger we expect to happen shortly, before the end of the year, so RB will regard the payment of the dividend as an RB issue for 2014, in accordance with its current policy.

So there should be no surprises on 2014; I hope there's no surprises beyond that. But beyond that, we can't comment now here on the RBP dividend policy. That is going to be a matter for the RBP Board, and they will make their policy clear as part of the prospectus, which you should expect soon.

In terms of RB's policy after 2014, we do not expect a change. It is our policy, as you know, to pay out 50% of adjusted earnings, but to allow for one-off things, like the movement in the exchange rate we're seeing now, so, therefore, it's slightly above 50%. We would expect no change in that policy of 50%, with allowing for temporary changes. That, I think, is really all we can say about the dividend now.

In terms of M&A, the specific guidance we were giving, I'm sure you appreciate this, Harold, was for the difference in like for like and total numbers in the full year, when we were saying it will be broadly neutral.

So part of the -- yes, for the broader question, how acquisitions are going, the answer's fine. The -- I don't think it's appropriate now to go through every single one of the ones we've had in the last few years. But as a generality, you've heard us say over the repeating quarters that the integrations of all, uniformly, the ones that I've seen in my two years here, have been progressing very well, and continue to. I'm not sure what more I can say about that.

Harold Thompson - *Deutsche Bank - Analyst*

That's okay. And thank you very much for the very clear dividend answer.

Operator

Jeremy Fialko, Redburn.

Jeremy Fialko - *Redburn Partners - Analyst*

Just one question for me, which is on Brazil. That seemed to be the one market which got notably tougher in the quarter; perhaps you could talk a little bit more about that, both from a macro standpoint, and also what you're seeing in terms of the competitive environment, which is something that you also reference in the statement. Thanks.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Yes, okay. I think there was a huge event taking place in Brazil. And when the event was taking place, some of us knew that there would be some categories which would benefit very strongly before the event, like beer, like alcohol, like maybe soft drinks, and some would suffer somewhat as the trade would divert attention from some categories and put it in in others; and we've seen that again and again across the world when such events do take place.

Therefore, there was this expectation that after the World Cup you would see a re-correction of some of these back into the kind of categories that our industry deals with in, I would say, H&PC, if you want, or more expansive version of that. And we haven't seen that.

And we haven't seen that and it's probably down to a number of factors. One is we all read the very significant political uncertainty that exists in Brazil, which also is creating a significant level of economic uncertainty. I think on top of that you're seeing what is happening to the underlying economic forces in Brazil, which is about commodity prices and the overall economic connection that Brazil has with the rest of the world, if you want.

So I think when you think about all that, and when you think about the consumer environment and the trade environment connected to that, I think I personally see Brazil to be in a tougher position now than it was 12 months ago. And when markets do get tougher, one immediate consequence is that the whole environment, from a competitive point of view, automatically gets tougher.

So I think these are connected events. It's not unconnected. And we did call it out because perhaps some of us were hoping that Latin America, particularly Brazil, will bounce back in the third quarter. But we haven't seen that; quite the opposite actually, we've seen more weakness. And I don't know whether I can say today that this is about to correct anytime soon.

Jeremy Fialko - *Redburn Partners - Analyst*

Fine, that's all very clear. Thanks a lot.

Operator

Rosie Edwards, Goldman Sachs.

Rosie Edwards - *Goldman Sachs - Analyst*

Just one question from me, just on the Amope rollout, which you mention in the release this morning has started in the US and Brazil. I just wonder if you can give us a little bit more color on that, assuming we haven't seen any major impact in sell-in. But also, any details you can give on SKUs, innovations that you're planning to launch in those markets would be very helpful. Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Right, Rosie, I think it's very fair to say it's very early to say anything about Amope launch in either US or Brazil, except to say that we are excited about that launch.

What have we launched in US and Brazil? We have launched, to start with, our Scholl Pedi Perfect product, which has done extraordinarily well in many parts of the world. And together with that, we have launched a small range of creams and refills, which make the foot care regime as one holistic experience.

But again, I would caution, this is very early. And perhaps over the next several quarters we will start to see what -- how we make progress, but I would not think that you could see immediate results, like I did call out for MegaRed, too.

I don't think we should expect very significant news flow in new brand launches, particularly when they are in healthcare, although we remain very excited about the opportunity for us.

Rosie Edwards - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). Chas Manso, Societe Generale.

Chas Manso - *Societe Generale - Analyst*

Even at the lower end of your like-for-like guidance of 4% to 5% it does seem as if you require a pickup in the last quarter, so could you take us through any reasons to be more cheerful about Q4 as compared to Q3? The underlying performance in Mucinex, do you expect that to come through more visibly next quarter? Disinfectant demand, following Ebola, is that beginning to come through? So essentially, those kinds of things. That's the first question.

The second question; obviously, good to see growth coming back into the air care category. Just a bit more color on that; how sustainable you think that is. In the release, you talk about focusing on new offerings suited to heavy users, perhaps you could give a bit more color on that.

Thirdly, you've done quite a lot of portfolio cleanup, and I was just wondering whether there was much more on that to do.

And finally, on the margins, yes, you're still confident about good margin improvement, but at the same time you mentioned slower growth rate is the cost of doing business. So I was just wondering, net-net, whether maybe the margin headwinds are creeping up against the margin tailwinds. Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Okay, let me just see if I can remember and answer all these questions. So we are YTD 4% on both like for like and on total. So -- and we said that our total revenue growth target was 4% to 5% and we now expect, given the tougher market comps, the market conditions, as well as the portfolio decisions we've taken, to now achieve at the lower end of the 4% to 5%.

So YTD we are 4%; we are saying full year to be at the lower end of 4% to 5%. And I'm not sure how else to explain that for what you should think about for the fourth quarter.

Okay, in terms of -- and I would not go too much into Ebola versus Mucinex; these are all nice interesting things but -- or not nice actually in some cases, sorry, but they do not actually have any relevance to our Q4 and full year.

In terms of air care, how sustainable, first of all, we have always acknowledged that we did have challenges in air care and our opportunity is to actually get innovation that drives the brand and drives the performance.

When you think about air care, and I'm now getting into detail which probably for earnings call is a bit too much, but let me just say it anyway, that air care, there are some heavy users who buy multiple formats, who buy aerosols and candles and wicks and electricals and the whole lot. They buy sometimes six-plus formats in a year. And if you get a good, strong innovation which is relevant for these air car buyers, you can actually make significant progress. That's really what we are trying to achieve. And some of the innovations that we've launched are targeting this heavy user profile.

How sustainable is it? Well, we play in a very competitive market, in a very difficult market, and our hope is that we will consistently produce good innovation that helps us compete effectively.

So we -- I would not talk about 2015, and beyond, because I'm quite sure we will have another opportunity to talk about 2015 and beyond on air care. But so far, what we have launched in Q3 seems to be doing well.

But I think the home performance is not just about air care, although, of course, air care has done better. I think we have talked about Vanish for a number of quarters now, a number of years. I think what is pleasing is that we have sustained our strong growth on Vanish, our strong outperformance on Vanish.

So I think home is now a combination not just of air care doing better, but I think Vanish continuing to do better. I think that's the second part of home care as a thing you need to take into account.

Portfolio cleanup, maybe, Adrian, you want to answer this question?

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Sure. Sure, happy to. Well, first of all, you're quite right; we have been making progress, whether it's the footwear, whether it's this Medcom hospital business, whether it's RBP.

The bulk of what is left in the portfolio category, not 100%, is laundry and fabric softener, and there can be many solutions for what we deal with in the portfolio. We're going to deal with them differently. They're not part of our core business. We'll dispose of some. Others we may dispose of, or we may just seek, in the best interests of shareholders, to manage them very tightly. So no prescription for what we do in portfolio; we will do it the best thing to maximize shareholder value.

In terms of margins, you mentioned whether the top line is growing as fast. It's tougher to get margin improvement. That is true as an arithmetical, no question about that. But we have many levers to pull on margin. You've heard Rakesh, both in his prepared speech and in his Q&A, delineate some of them. I'm not going to repeat them again.

We remain very confident with our medium-term guidance; that it is possible, given our portfolio, given those levers, given the nature of RB, to deliver moderate margin growth over the medium term. There's nothing about what's going on at the moment that causes any doubt about that.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Can I give you a bit more [thing] on portfolio, which I think is probably helpful as a context? Just a couple of years ago, portfolio brands were just around under 10% of our core business, and now they are just under 4% of our core business. So we have actually taken quite a substantial step in dealing with that part.

But there's another interesting dimension to what we've done already. A lot of what we have dealt with were actually not just portfolio but were, essentially, non-branded businesses.

Go back, private label was non-branded, so was footwear. Yes, it was branded, but the product line was we were selling footwear, not -- we were not selling [Temgesic] brand in that sense. And then, of course, what we've just talked about, which is Medcom medical gloves business is also not a branded business.

So I think what remains is, essentially, now a branded business. And this is why we think we need to think to think about them a bit differently to -- not that they are core to our business, but they are brands. And I think we need to find a different and appropriate solution when we talk about branded businesses versus when we are talking about businesses that are not branded, that are not really the kind of business we know how to run.

And I think that's the context of portfolio; much, much smaller in the context of RB now than just two years ago. But also, what we have taken out is largely unbranded, really complex stuff, which we don't know really how to manage properly and it's probably better dealt with elsewhere, versus what we have today.

Operator

Charles Pick, Numis.

Charles Pick - *Numis Securities - Analyst*

I just had two questions. Can you provide some clarification on why the demerger has been able to proceed sooner than was originally planned? And is it premature to ask if you can give any guidance on how the debt will be assigned between the ongoing Reckitts and the RB pharma operations?

The second question was to do with Mucinex and the like for like there in Q3. Is it possible to disentangle that, please, and say what it was in the first half? Or at least give some pointer to what degree Mucinex was a restraining impact on the health operations in Q3?

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Yes, surely, why the demerger so quick, well, we're RB and we like to get on things, basically. And the preparations have gone well. Preparations financially, with all the accounts and those things you've got to do; the preparations operationally, making it standalone; the preparations in assembling what we believe is a very good Board, they've all gone well. And we want to get on with things, so why wait? It's as simple as that, really.

As regards how the debt will be assigned, no, we can't give you details now. You will see a prospectus, along with the other rest of the documentation, fairly shortly. And that will include the debt and, as in response to an earlier question, the dividend policy of RBP.

On your question of Mucinex like for like, no, we don't give product level data, I'm sorry. We do give sort of broad shape, which is what we've done, but we can't go any further that, I'm afraid.

Charles Pick - *Numis Securities - Analyst*

Right, okay. Thanks.

Operator

Celine Pannuti, JPMorgan.

Celine Pannuti - *JPMorgan - Analyst*

Thank you for allowing me a follow up. In fact, two quick ones. The first one, you kindly commented on pricing versus volume, and you also said that pricing was particularly achieved in emerging markets, so my question is did you raise pricing through the quarter in LAPAC? And is that what may have caused the slowdown with volume being hit? First question.

Second question on health; could you comment on what is the growth rate for that market?

And also, there's been news today about one particular asset being up for sale; your name [isn't] listed among the potential buyer. I just wondered whether you can -- overall, last year you had this conference where you mentioned that M&A could be part of that growth, whether on the M&A front, how is the environment looking for the health businesses? Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Let me ask Adrian to take the first question on pricing and volume; I'll come back and answer the other couple of ones.

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Celine, not a lot to add to what we said already. Yes, we have seen pricing across emerging markets; yes, there has been pricing in the LAPAC numbers. Not sure what more I can add. Not going to quantify precisely, I'm afraid, that's not our policy.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

And I think you asked about health and we should think about growth in health versus the market. I think you should think about health having outperformed the market in the third quarter, quite comfortably.

But on the other side, I think when we did the double-digit [growth rate] on health we always said that that's not where the market is, and that's -- we just had a -- it's been phenomenal quarters of growth. 6% is not a bad growth rate in the context of the market, I want to tell you that; it's a good growth rate and comfortably outperforms the market. So that's how I think about health.

Of course, it's 6% versus the 10%, but 10% was not a normal growth rate. And I'm not saying that 6% is normal, or otherwise, because we don't give a target by sector or a target by category; it's just that our 6% growth rate comfortably outperformed our market.

Now, in terms of the last question, I really do not want to have any comment around M&A, because it's not what we want to do. I think you read the press, we read the press, and that is where it is.

Celine Pannuti - *JPMorgan - Analyst*

Thank you.

Operator

(Operator Instructions). Toby McCullagh, Citi.

Toby McCullagh - *Citi - Analyst*

Just a couple of questions on RBP, actually, and mindful that you've said that 4Q is likely to look fairly similar to 3Q, and after that I guess you'll be selling for RBP to communicate.

But just looking at the -- recently, generics' collective share of the market appears to have flattened off absolutely in the past six weeks, or so, and the launch of the third generic really only appears to be taking share from the other generics. Is there something you can explain in terms of the dynamics there? Is it pricing within the generics? Is it how the prescriptions are worded? Or is there something else that you can help with there?

And then just in terms of the pricing pressure, since I think your US volumes looked to be essentially flat with a market growth being undermined by the share loss, can you comment a little bit about how pricing pressure is effectively working in that market? Thanks very much.

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Very good. There's a limited amount, frankly, in addition to what we've been saying systematically that I think you can add, to be honest, Toby.

The -- we have consistently said that the arrival of generics will pressure price. It will lead to our market share loss in the more price sensitive parts of the market. We have been very consistent about that. We continue to believe that that's the case.

Yes, it's early days on the third generic entry, and you're probably aware there's actually a fourth generic been approved. We do expect that to have an impact on the pricing within the generics. We do expect that to have a knock on effect on the more price sensitive payers. And we've indicated in the past that we see that the more price sensitive payers as being roughly 25% of the total, roughly.

So we do expect that dynamic to play through. We're not expecting a dramatic effect in ever, frankly, but certainly not in quarter 4, hence, the guidance that we see quarter 4 has been pretty similar to quarter 3. But there is no change in the guidance we've consistently given around the impact of generics, through price, on price payers in the more price sensitive part of the market.

For the rest of the market, we've -- the advantages we have, the clinical advantage we have, the preference we have, which is very clear among the patients and is very clear among the clinicians, is reaffirmed every day we're out there, is reaffirmed continually in the market data. We expect that to be a very, very strong influence in the rest of the market.

That does not mean it is completely immune to some price pressure in the rest of the market. To your second question, we do expect there to be some price pressure. And these dynamics will play out in the fourth quarter, but also through 2015. Not sure we can add any more to that, I'm afraid, Toby.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

I think, Toby, there's something else to keep in mind. I think what we've said all along is that price sensitive payers and price sensitive patients are both susceptible to entry from cheaper versions of our products.

Now, industry analog suggests that there is a difference in price pressure, when you have one or two generics versus when you have three or four generics. The last two have just about made an entry.

So we -- I think the analogs would suggest that this whole price pressure should be somewhat different when you have more generic competition versus when you have one or two generic competitors. So that's the reason why we've been quite consistent in saying that when you have a full blown generic competition you should expect further erosion in our [firm] share, and you should expect further price pressure.

Operator

Guillaume Delmas, Nomura.

Guillaume Delmas - *Nomura - Analyst*

A couple of questions for me. First question for Adrian, it's on FX. You've guided for minus 8% to minus 9% translational impact for the year, which effectively implies around minus 6% for the second half, which is much less than the 10% you faced in H1.

Now, in H1, one of the reasons for your operating margin contraction in RUMEA, and to some extent in LAPAC, was negative transactional impact. So can we, therefore, assume that you will be facing a lesser of a headwind from FX in H2 on your operating margins, and actually you could be facing a small tailwind in 2015, based on current exchange rate and raw material prices?

And then my second question, it's a bit a follow up on the competitive activities. I was wondering whether you've seen a broad base increase in competitor activities in Q3. You already mentioned Brazil. I think in the press release you also talk about Finish in facing tougher market conditions. Are we effectively seeing some deflationary pressures across all your categories, which will offset any potential benefit you could get from lower raw material prices?

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Guillaume, the first question, the -- you're quite right; looking at today's rates, we are seeing a slight abating in the headwinds from foreign exchange. You're right directionally, that what impacts translation is the same direction for our business as the transaction effect.

So directionally you're right. I will just caution, however, that because of the fact that we do internal hedging around transaction, because of the fact that we have inventory lags that play in, it's not immediate. The transaction will tend to lag and will be somewhat more diffuse than the translation effect. But directionally, I do agree with that, with your point.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Except, let me just -- although I'm sure Adrian has given as comprehensive an answer that you should expect. But I don't think [inter, say,] area-by-area margin expansion can easily be derived from the total picture we give you. You just have to look at what is happening to the Russian ruble, you just have to look at what are still the challenges around the real, and then you say, okay, what's really likely to happen.

So I think, in aggregate, the picture that Adrian has given you is absolutely correct. But I don't think you should draw conclusions on an area-by-area margin expansion based on what is happening in the second half versus the first half.

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

And nor by period, and certainly because of the lag, certainly not, absolutely not.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Yes. In terms of competitive activities, in aggregate, I do not think we see ourselves being significantly more competitive circumstances than we saw in the first six months of the year. In aggregate, we do not. We've just pointed out areas of competition where we still see an intensity which is significant and called it out. But in aggregate, I think we are in similar competitive environment.

And I don't think you should, therefore, draw a conclusion that there would be deflationary pressures now, or in the second part of the -- or last part of the year. I don't think that conclusion is valid, simply because I do not believe that the level and intensity of competition that we are seeing, in aggregate, is any different now than was at the start of the year.

What is different is that the market conditions, in aggregate, the market growth rates, in aggregate, are somewhat slower now than they were at the beginning of the year. But that's something that we've been talking about not just this quarter but before. We talked about that, that we expect market conditions to slow down further, and particularly in emerging markets, and I just actually wanted the granularity of where it is.

So I don't want you to draw any conclusions about deflationary pressures. I think this is where we stand.

Guillaume Delmas - *Nomura - Analyst*

Thank you very much.

Operator

Iain Simpson, Societe Generale.

Iain Simpson - *Societe Generale - Analyst*

Just a couple of quick follow ups. Firstly, when asked about portfolio tidying up and potential disposals you talked about how much small a portfolio brands is. Would it be fair to conclude from that, that anything not in portfolio brands you wouldn't see yourselves getting rid of under any circumstances for the foreseeable future?

Then secondly, you gave some answers on transaction FX and your hedging policies there. Clearly, oil's come off a long way. Would it be fair to assume that with a six-month lag we might see some gross margin help from that next year? Thank you very much.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Let me just take the more interesting question, and then leave (laughs) -- on portfolio, I think we have clearly outlined the strategy for RB. And RB's strategy is to focus on health, hygiene, and home. And there's an inherent connection between health, hygiene, and home. Hygiene is the foundation of good health, and a healthier home is a happier home. There's a connection, and that's our core of our business.

Then, we also spelt out, as a result of this strategy, some -- which were not core to this -- they were portfolio brands, there's RBP, and there is food.

What we've dealt with is actually, if you think about the thread of businesses we've dealt with, they are all essentially non-branded businesses. RBP is a non-branded business. The portfolio brands we've outlined are non-branded businesses.

Now we are left with our core business, and we are left with some branded businesses that are non-core, but they all have a role to play in RB at this point in time. But as any responsible leadership, as any responsible management, our job is to constantly look at what is the best way of maximizing our portfolio value, which is the right answer. And we will consistently look at that.

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Turning to the boring question, Iain, which I understood to be will oil and other commodity price weakness help gross margin, well, it will directionally help cost of goods, clearly, if it materializes, and we do, obviously, see a little bit of it materializing now. However, two things; one, its size is small, frankly, in our cost of sales.

And secondly, don't forget, gross margin's also impacted by price. And clearly, the effect of what is the environment and commodity prices is also going to affect indirectly, or somewhat directly, the price environment for our goods, too. So you need to be cautious in translating that too aggressively into margin.

Iain Simpson - *Societe Generale - Analyst*

Thank you very much. Thought it was worth a try. Thanks, again.

Operator

Charlie Mills, Credit Suisse.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

I think Charlie found his answer and left the call and, therefore, there are no more questions. We'll wrap here. Thank you very much for joining us today.