



# **Half Year Results 2023**

Wednesday, 26<sup>th</sup> July 2023

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**Richard Joyce:** Good morning, everyone. Welcome to Reckitt's half year 2023 results presentation. Before we start, I'd just like to draw your attention to the usual disclaimer in respect of forward-looking statements. Presenting our results today, we've got Nicandro Durante, our CEO, Kris Licht, our CEO designate, and Jeff Carr, our CFO. Following the presentation will be the normal Q&A session, and so without further ado, I'll ask Nicandro up to kick things off.

## **Introduction**

Nicandro Durante

*CEO, Reckitt*

Good morning, everyone, and thank you for joining us either in person here at Deutsche Bank or online. I'll kick off today's presentation with some key messages. Jeff will then take you through the financial review and our outlook, and then Kris will provide you with a business update as well as his initial thoughts on the business. We'll finish with the usual Q&A session.

### **Strong H1**

We have delivered a strong half one performance. The investments we have made in R&D and our innovation pipeline of the last few years are delivering. These, combined with our focus on improving our in-market execution and the relentless work by so many of our people on our productivity programme have enabled us to deliver this strong first half. We delivered growth towards the upper end of mid-single digit growth despite some tough comps for our U.S. Nutrition business and Lysol in Q1. We delivered gross margin expansion and we delivered a market leading operating margin.

### **Strong pipeline**

Secondly, when I talked to you in March, I said that we had a strong pipeline of innovations launching this year and that we are going to step up our brand equity investment to ensure they land well in the market. Well, we have done exactly that. Kris will walk through some of our large innovations shortly, as well as providing you with an insight into a particularly exciting Lysol innovation that we're rolling out in half two in the US. The early success of our innovations launches this year combined with very strong half one delivery, gives us confidence in our full year targets, which we have revised up slightly in respect of our outlook on margin.

And I'm delighted to welcome Kris Licht as our next CEO. I have worked with Kris over the last 11 months and he's an authentic leader, a strong operator, and the right person to lead Reckitt through the next stage of our journey from transformation to outperformance. I'll now hand over to Jeff who will take you through the financials and our outlook for the year.

## Financials

Jeff Carr

*CFO, Reckitt*

Thank you Nicandro and welcome ladies and gentlemen.

### Group summary

As you can see at actual exchange rates, net revenue grew by 8.1% in the half to £7.4 billion. Like-for-like net revenue growth was 4.1% in the quarter and 6.0% for the half. Now the impact of price and mix was 8.4% in the quarter and 10.4% for the first half. This was resulting from carryover pricing in the second half of last year, innovation-led price increases and the increase in our Nutrition business pricing deferred from last year as well as mix improvements.

We saw sequential volume improvement in our Hygiene business with a strong performance from Lysol, which returned to revenue growth in the quarter. Overall, volume was down 4.3% in the quarter with flat volumes in Health, and Nutrition volumes down impacted by the market issues in the previous year.

Adjusted operating profit was strong in the half at £1.8 billion and margins at 23.8% was a good performance, helped by our ongoing productivity programme. In absolute terms, adjusted operating profit was in line with last year at actual rates and slightly down at constant rates, but margins you'll see are down 180 basis points, but that is against an unusually high margin last year, which included some significant one-off items. In line with the confidence of our outlook, we've increased our interim dividend by 5% and that's consistent with our aim to deliver sustainable dividend growth.

### Group margins

Moving onto the key drivers of performance, gross margins were up 130 basis points to 59.4%. It's pleasing to see gross margins improve following obviously a difficult 2022. As I mentioned, gross margin benefited from carry-over pricing, mixed benefits and the productivity programme which continue to offset the continued inflationary pressures that we see in our cost of goods. As discussed earlier in the year, we've increased our brand equity investments up 60 basis points, or in absolute terms, just over £100 million to support our innovation programme, quite a significant increase.

Other costs appear high, up 19.2% as you can see at constant exchange rates versus last year. However, the prior year first half costs at 20.8% of net revenue were unusually low in part due to the one-offs I mentioned earlier, such as the profit on sale of land, which was almost £60 million in the first half of last year. Second half costs will be broadly in line with the prior year, which means for the full year we expect total fixed costs to be around just under 10% ahead of 2022.

### Hygiene

Now moving on to our business units and let me start with Hygiene. Net revenue grew very nicely up again into the mid-single digit growth area at 5.5% in the second quarter. While

the growth was broad-based, it was particularly pleasing to see Lysol return to growth, up high single digits in the second quarter.

As we stated earlier in the year, we saw Hygiene volume trends improve quarter on quarter from a double-digit decline in Q1 to minus 7.3% in the second quarter. Adjusted operating profit margin at 19.1% was down 250 basis points versus 2022.

Now remember, Hygiene is the business unit which was most impacted by the extraordinary COGS inflation in 2022 and additionally this year, we've significantly stepped up our BEI investments in the Hygiene division to support the innovation programme. We expect Hygiene margins to improve in the second half of the year in a more benign COGS inflationary environment.

### **Health**

So moving on to Health, we had net revenues of £3.1 billion in the first half and like-for-like net revenue growth was 8.8% in the half and 4.9% in the second quarter. The growth was led by a strong performance across both our OTC business and Intimate Wellness portfolios with an improving performance in China in the second quarter.

Now, Dettol was mixed across many markets with growth in South Asia and parts of Africa, but this was more than offset by a difficult market in ASEAN where we saw declines and we faced some category weakness and some in-market challenges. This contributed to the lower volumes in our developing markets, but we expect the performance specifically for Dettol in the second half to improve. Adjusted operating profit margin was 28.7%, an increase of 40 basis points helped by the positive mix from a strong OTC performance in the first half.

### **Nutrition**

Now, let's look at Nutrition. We delivered revenue of £1.3 billion in the first half. Like-for-like revenue growth was 5.3% in the half and we had a small decline of 0.9% in the second quarter as we're now fully lapping the prior year market disruptions.

I'm very pleased that we have continued to maintain high market shares in the US and Canada. Enfamil remains the number one recommended trusted infant formula brand in North America. Of course, we do expect a tougher competitive environment in the U.S. and Canada in the second half and we will be lapping much higher market share comps during the peak of the supply shortages from last year.

However, Reckitt has moved into clear market leadership in the U.S. and Canada and we're confident of maintaining that leadership through the second half of the year. In developing markets, we saw a continued strong performance in LATAM, again offset by mixed results in ASEAN.

Adjusted operating profit margin was 23.1% in the half helped by a positive mix from additional WIC benefits in Q1, higher market shares and pricing that was put in place at the start of the year. The decline of 590 basis points in the half was again due to the lapping of the profit on sale of Asian land, which I mentioned earlier.

We expect margins in the second half to reflect the absence of the WIC benefits. That programme was completed at the end of February, with the second half to see higher trade and marketing investments as we face a tougher competitive environment.

**Earnings per share**

Now, looking at earnings per share, it was down slightly in the half from 178.6 pence per share to 173 pence. As previously mentioned, adjusted operating profit was unusually high last year, so despite a good performance in the first half, AOP contributed to a 4.8 pence fall in EPS.

Net financing costs were lower than expected due to foreign exchange gains on financing instruments of around £30 million in the first half. However, this was more than offset by a higher effective tax rate of 24.7% in the half. Foreign exchange translation benefited EPS by 4.9 pence partly due to U.S. dollar and Euro strength in the first half of the year.

**Free cash flow generation**

We generated £758 million of free cash flow in the first half, a year-on-year increase of around 4%. Now, you'll see we had a rather disappointing working capital outflow of £451 million in the first half and while we've made good progress in reducing inventory, we saw a larger than expected decline in payables, a result of both the inventory reduction programme and lower volumes.

However, we expect a working capital inflow in the second half of the year and we still expect to have a strong free cash flow of above £2 billion for the full year. Working capital remains a key focus for us throughout the group and throughout the organisation.

**Net debt**

Now moving on to net debt. We've continued to see a reduction in leverage and as you can see, net debt to adjusted EBITDA has reduced in the half from 2.1 times to 2.0 times at the end of the half.

**Capital allocation priorities**

Our capital allocation policy has not changed. We amended our dividend policy at the end of last year and consistent with this, we have increased our 2023 interim dividend by 5%. For the full year, we expect to have strong free cashflow as I mentioned, and for our key ratio of net debt to adjusted EBITDA, we expect to be below two times by the end of the year. In line with our capital allocation policy, we're committed to returning excess cash to shareholders.

**Outlook for the year**

Now finally, let me cover the outlook for the year. Our revenue outlook remains unchanged at 3% to 5% like-for-like net revenue growth for the year. We've had a good first half and expect continued momentum in the second half; but equally, we are aware that we face tough comps in OTC, especially in the fourth quarter and an increased competitive environment in US Nutrition, while lapping the higher share gains that we had last year.

On adjusted operating margins, we now target margins slightly above 2022 levels when excluding the U.S. Nutrition impact of 80 basis points. Whilst this is a slight tweak up in our guidance, I don't expect consensus to move on the back of it given that the market is already at 23.4% expectations for the full year.

We've made a few other small adjustments to our other more technical elements of our guidance. We've nudged our finance expense expectations down, but our effective tax rate

has gone up slightly. Now, I'll hand over to Kris to provide you with a business update and his initial views on Reckitt. Thank you.

## **Business Update & Initial Thoughts**

Kris Licht

*CEO Designate, Reckitt*

Thank you, Jeff. Good morning, everyone. It is truly an honour to be given the opportunity to lead this great company. Today, I will take you through a business update on our three GBUs. I will then provide you with some initial thoughts on Reckitt and our future. I will come back later in the year with a more comprehensive view of how I believe this company can deliver outstanding value for shareholders in the coming years.

### **Hygiene business update**

So starting with the business update. In Hygiene, I'm very pleased to see the broad-based growth across our Hygiene portfolio, particularly in Q2 now that Lysol is past the Omicron lull in Q1. We had a very strong Q2 last year for Hygiene with the business growing at 8.9%, excluding Lysol and therefore to see Air Wick, Finish, Vanish and Harpic all growing mid-single digit or better this quarter is a rounded and well-balanced performance. Growth was innovation-led helping us to drive further premiumization in Finish and to deliver a strong performance in the slightly more discretionary category of Air Care. Finally, I'm very pleased to say that Lysol returned to growth in the quarter and it was strong, high, single-digit growth.

### **Innovations**

Moving to our innovations, on Finish, we launched our new Ultimate Plus All-in-One product across many countries in Europe during H1. It is our best-ever performing, auto dish detergent using our patented "cyclesync" technology. This has helped drive further premiumization in the category.

In 2020, less than 15% of our auto dish products were in thermoforming technology. We are now at over 50% and this will continue to increase rapidly as we drive more superior solutions for consumers.

We've launched a couple of important innovations in Air Wick this year. One of them is Air Wick Vibrant, our most luxurious fragrance experience with twice the essential oils. These launches have helped us drive mid-single digit growth in Air Wick in both the first half and Q2.

And in Vanish, we've launched our latest Oxi Action Formula effective at 20 degrees Celsius, helping to drive Vanish to high single digit growth in the half. We've supported these launches among others, well with significant BEI and I'm pleased to say that our latest revenue forecasts for these launches this year are all in excess of our original launch plans.

### **Lysol**

Now, turning to Lysol. We are now growing from the 50% higher base that we created during the pandemic. Our Lysol brand spans a number of subsegments within the disinfection category. And in Q2, we saw good growth across each of our segments in the US, our core

Lysol disinfectant spray, our disinfectant wipes, our laundry sanitizer, and the other smaller segments in our portfolio. Our laundry sanitizer business in particular has an exceptional runway for growth as category penetration is still very low. And I'm very excited to announce that after a number of years in development and through close cooperation with the US Environmental Protection Agency, we are now launching our new Lysol Air Sanitizer, the first and only antimicrobial product to effectively kill both viruses and bacteria in the air.

### **Health business update**

Our Health business has had a strong first half delivering 8.8% like-for-like net revenue growth and high twenties adjusted operating margins. Our OTC and Intimate Wellness portfolios in particular have performed very well. During the first half, we've made good progress in both broadening the shoulders of our brands and introducing several exciting innovations.

Our Dettol portfolio has delivered mixed results. Several of our largest markets delivered growth and market share gains underpinned by distribution improvements and innovation. However, this growth was more than offset by declines in some Asian markets due to category weakness and specific in-market challenges. We have, however, taken action. We continue to innovate; we remain agile in a very dynamic market.

With these actions, we feel confident that the performance of Dettol and therefore our total developing markets, will improve in the second half.

### **Strength in OTC and Intimate Wellness**

Our OTC and Intimate Wellness portfolios had a very strong first half growing by around 20% and high single digits, respectively. Our OTC platform represents over 40% of our Health GBU and is driven by our market-leading power brands, Mucinex, Nurofen, Strepsils and Gaviscon. Growth in the half came from a number of drivers including category growth, broadening the shoulders of our brands, innovation and some retailer shelf refilling due to the fact that we struggled to keep up with demand in Q4 of last year and the desire of retailers to hold sufficient inventory levels as they look forward to the upcoming flu season.

It is too early to judge the upcoming season. We are well positioned with respect to supply and customer inventory levels are in a good place. From a second half net revenue perspective, I would just caution that for OTC, we're facing some very high comparatives from a long, strong season throughout 2022 with a peak in Q4 of 2022.

Our Intimate Wellness portfolio is almost a £1 billion franchise today and it has also delivered a very strong half year performance across both Europe and developing markets. And in Q2, we saw a particularly strong performance in China as it emerged from covid-related lockdowns.

### **Broadening the shoulders of our brands**

We've made some good progress in broadening the shoulders of our brands in the first half. I've set out three examples here to give you a flavour of our progress in this area.

The US market was lacking a serious medicated solution for sore throats. The combination of Mucinex's trusted brand promise with the science from our global Strepsils platform enabled us to successfully launch Mucinex InstaSoothe lozenges 18 months ago. We are now further strengthening this platform with our new Mucinex InstaSoothe Sore Throat and Pain Relief

spray. This powerful and easy-to-use spray numbs pain so you can get back to your day. Since launch, we've achieved a mid-single digit share of the sore throat category in the US and we will continue to focus on becoming a leading player in this segment given the superiority of our products.

In Germany, we entered the very large but competitive market of adult pain relief and we're making some good progress, gaining 160 bps of market share since we launched. In France, we've introduced our Biofreeze roll-ons, sprays and gels. It's early days, but our growth potential is strong and the launch has gone well.

### **Innovation led**

This year we launched Biofreeze Overnight Relief patches in the US, a menthol-based, topical analgesic designed to stay on through the night and optimised for comfort and flexibility. You've seen over the last couple of slides that we are very active in our growth plans for Biofreeze. We've had a great first half with Biofreeze and I believe it will be a highly value-accretive acquisition.

In Intimate Wellness, we launched Durex Invisible Ultra-thin condoms designed to maximise sensitivity. We've also launched a number of innovations across our Dettol portfolio, including two new variants of our Dettol Cool Bar soaps to strengthen our successful cool platform in India and the Middle East.

### **Nutrition business update**

Moving to Nutrition. Overall, we have had a strong first half growing 5.3%. In North America, the absolute leading market share that we've managed to maintain in the US has been excellent. We continue to improve our execution and grow Latin America, but we've seen some mixed performances in ASEAN.

With respect to ASEAN, we drove good growth in the Philippines and Thailand as a result of salesforce change we made last year, but we saw some weaker performances across Malaysia, Singapore, and Vietnam. We've taken a number of actions to improve performance on items that are in our control, including prioritising our supply activity, maintaining a strong marketing programme and some management changes.

### **North America market share leadership**

In the US, we've maintained an absolute non-WIC market share just below 50%. Enfamil remains the No 1 recommended infant formula by paediatricians and the No 1 trusted brand by consumers in the US and Nutramigen remains the No 1 allergy brand.

We also have a circa 40% share of hospital contracts, which we've managed to increase over the last 18 months. This is an excellent performance by our US team who did an outstanding job along with our Supply and R&D colleagues who all worked very hard to supply significantly more safe formula to mothers and babies during a national crisis.

As we look forward, we will be lapping peak market share from the height of the crisis last year. And in addition, we expect the competitive environment to become tougher now that full supply has been restored to the market.

### **Latin America improving execution**



In Latin America our team is also doing a great job. We've launched some exciting innovations including our most advanced formula yet. We've supported these launches with healthcare professional education programmes and this has enabled us to gain over 50 bps of market share across the whole of Latin America this year. In addition, the team have done a great job focusing on margin levers such as mix, channel management and promo optimisation.

### **Initial thoughts**

So that was the business update. The company has great momentum and whilst we face some tough comps in both OTC and US Nutrition, these are built into our full-year targets. And as Nicandro said earlier, the momentum we're seeing in the business gives us strong confidence in delivering these full-year targets.

So I'm now going to provide you with some of my initial thoughts and these are initial thoughts. I will come back and provide you with a more detailed update later this year.

#### *Right strategy*

As you may know, I started my journey at Reckitt as Chief Transformation Officer and Chief Customer Officer. I have then led our Health GBU for the past three years. Given my role in the transformation, the setting of the strategy and the progress we've made over the last four years, my first message for you today should not be a surprise. I firmly believe we have the right strategy. We operate in very attractive premiumising categories with a long runway for sustainable profitable growth. We have strong market leading brands and while I have no doubt that we can trim and add to this great portfolio of brands over time, our current portfolio is excellent.

Given the categories in which we operate and the strength of our brands, I see significant opportunities for sustainable growth from household penetration, premiumisation, selective geographic expansion, and further broadening the shoulders of our brands into adjacent categories, all whilst delivering consistently high, gross margins.

#### *Culture*

Secondly, we've spent a lot of time and focus on our culture. We have reinforced and embedded what made Reckitt truly great in the past, but we've also made changes needed to be fit for the future. Diversity and inclusion is a big area of focus for me and it is critical that this remains a focus as we develop the future leaders from within Reckitt.

#### *Opportunities*

Finally, whilst we have the right strategy, the business is well-invested in and we have come a long way in terms of our competitiveness and execution, I believe we still have significant opportunities for further optimisation, so let's talk about those a bit more.

### **Opportunities for further optimisation**

We've made significant investments over the last few years and we're seeing the returns of these investments, but I believe there's much more to do before we can say that we are operating at our full potential and delivering the sort of value creation that I joined Reckitt to deliver. Firstly, we have room for further strengthening on innovation and product superiority. We have a strong pipeline of innovation, some of which you've seen presented

today and there's much more to come. We continue to work on improving product superiority across our Hygiene power brands.

A good example of that is what we've been doing with thermoforming technology in our Finish automatic dishwashing tablets. We've made good progress over the past three years, but all Finish consumers deserve high quality, thermoform tablets and we are not there yet.

Secondly, we have room to further improve our in-market executional excellence. In March, I gave you an example of the improvements we made to our sales force in India. We have more to do in other markets as we optimise both the way we operate through our organisation structure and how we benefit more from digital and AI capabilities that we are embedding throughout our value chain.

Thirdly, on our cost base, we have made significant investments over the last three years in building muscle we had lost, but we also still have some dis-synergies left from RB 2.0. Consequently, our cost base has increased significantly. We will take action on this whilst remembering that driving sustainable top line growth is absolutely the first priority, and I know that through optimising our cost base, it will provide the fuel to drive both top line and earnings growth.

Finally, as Jeff said, we expect leverage to be below two times by the end of the year. We have already improved our dividend policy, which is now firmly centred around sustainable growth, but we have further opportunity to improve our returns to shareholders given the strength of our balance sheet. The board and I have yet to conclude on the most optimal type of further returns, but share buybacks is certainly an option that we will be reviewing very closely.

As I said to you earlier, I will come back and speak to you in further detail about our opportunities for optimisation later this year. I will now hand back to Nicandro to wrap up.

## **Summary**

Nicandro Durante

*CEO, Reckitt*

Thank you very much, Kris, before we move to Q&A, I'd like to summarise the key messages we want to leave with you today.

- First, we have had a strong half one.
- Second, our innovations are landing well. Kris has talked at length about many of our innovations in the first half and we have more to come in the second half.
- Third, this strong half one delivery gives us confidence in our full-year targets, which includes a small upgrade to our margin guidance.
- And finally, we welcome Kris Licht as our next CEO to lead Reckitt through the next stage of our journey from transformation to outperformance.

And with that myself, Kris and Jeff, will be happy to take any questions you may have. Thank you very much.

## Q&A

**Jeff Carr:** So, we'll start with taking some questions from the room and then if you still have time, we'll take some questions from people online.

**Tom Sykes (Deutsche Bank):** Thanks very much. Tom Sykes from Deutsche Bank. Just referring back to your comments on capital allocation, and that may have been sort of implicit or fairly explicit about potential for a share buyback, but when you look at it, you obviously got potential for consumer health consolidation longer term. You may or may not be exiting at the pandemic at the growth rate that you hoped you were going to be exiting at, but you obviously got opportunities for M&A as well and then you are referencing you're returning cash of some kind. Now, can you do all of those and why not just allocate a bit more to M&A to increase the growth rate of the group?

**Jeff Carr:** Look, we've set out a very clear capital allocation policy and we've said surplus cash will be returned to shareholders. That's been our policy for some time. We've kind of defined that, although there's no magic number, as below two times net debt to EBITDA. That's where we're heading.

Having said that, yes, we are constantly looking for good quality assets to acquire, such as Biofreeze. If we see other assets, good quality assets at good value that can create shareholder value, then we'll be able to participate in that. The two aren't mutually exclusive necessarily, but as it stands at the moment where we have surplus cash, i.e., where the balance sheet is below the leverage target that we've given, we will return cash to shareholders. Again, the two aren't mutually exclusive. The great news is, we have strong free cash flows, we have a strong balance sheet, so we have optionality.

**Tom Sykes:** Okay, thank you. Then in the statement, you referenced the medium-term targets and still mid-twenties by mid-twenties, do you at all think there needs to be a different balance between margin accretion and top line? And is there any implication for investment at all?

**Jeff Carr:** Let me take that one as well in terms of the mid-term targets. We gave those targets in 2020 because I think it was important to let shareholders know that the margin investment that we were making in 2020 and '21 would result in us returning to the sort of superior margins that Reckitt is known for. Well, I think we're well on track to deliver those mid-term targets. They don't come from increasing gross margins. We'll get to the mid-twenties simply by optimising and getting leverage on our fixed costs and there's room to do that. There's room to do that and to increase our BEI spend, you're seeing that we're doing this year.

And I think it's very important that we're continuing to invest in our brand equity investments in order to drive the top line. So that balance is always something we look at. Quite frankly, without the strong top line growth, the leverage won't be there. So we have to do both. And top line growth is critically important. Quality volume, top line growth is critically important to the future. So that's where our focus is, that's where our emphasis is and a consequence of that will be the mid-twenties margins.

**Tom Sykes:** Thank you.

**James Edwardes Jones:** So two questions. First, Kris, you said that innovation, there's much more to come. Can you give some of indication of the financial implications of that innovation? In the old days, Reckitt was always be a high price point, high gross margin. Is that still the case?

Secondly, I'm not sure who this is for, but Unilever on their call yesterday, were talking about the possibility of a US recession. Is that something you see as to be wary of?

**Kris Licht:** So maybe I'll start. So our earnings model is very attractive as I think we've covered many times. Much of that rests on strong innovation. That's the only way we can sustain our premium brands and the strength of our portfolio. And we have invested significantly in innovation. Today, we have much stronger pipelines in all three of our GBUs than we did four years ago. You can see the evidence in my presentation and as I said, there is much more to come. I would like to not disclose too much of that until we're ready to launch and talk with you about it. I hope you understand, but innovation is absolutely a core part of our algorithm going forward and we are investing importantly.

**Nicandro Durante:** Let me take the second. It is very difficult to talk about US recession impact in consumers because we haven't seen that. The consumer base and our portfolios perform extremely well in the US. In reality, we see less down trading. For example, private label is losing share in the US. So we are performing extremely well there. Our brands are growing. We don't see the same stress on consumers in the US as you see in Europe. Europe's consumers are really under stress. So things are moving well.

We had a significant price increase in Nutrition in the first quarter of this year. They haven't seen the impact in terms of volume, so things are moving very well. So it's very difficult for me to predict if there is a recession out there and how this is going to play out in terms of consumer demand. So I think that's early to discuss that.

**Jeff Carr:** Can I just add that if you look at that geographic mix, like-for-like revenue in the second quarter in North America was up nearly 8% and volumes were flat. So it was a good performance in North America.

**Nicandro Durante:** Yeah, I don't think it's slowing down.

**Jeff Carr:** Let's move across.

**Jeremy Fialko (HSBC):** Yeah. Morning. Jeremy Fialko, HSBC. Couple of questions. So first one is on ASEAN and I guess it's been difficult within the quarter, so maybe you could go into a bit more detail on the particular challenges and I guess why you're confident in the solutions.

I guess the second point is more generally. When I think back over previous quarters, it doesn't feel like your DVM business has necessarily generated the sort of growth that we might've expected a DVM business to generate. So perhaps you could talk about it both in the short term then maybe in a just slightly bigger picture on that one.

And then secondly, you've kept your three to five % revenue guidance intact. The consensus is at pretty much the top end of that. So could you just clarify that you are comfortable with consensus pretty much at the top end of the range? Thanks.

**Kris Licht:** So I'll start with ASEAN and we can talk DVM a bit as well. So firstly, I think it's important to know that our China business and our India business had a really good quarter. Dettol did really well from a trading standpoint. We're back to share gains in those markets. Those markets are very important for us.

There are a few select markets in ASEAN where we did indeed have some performance issues and we have taken action to address that. It's actually Dettol-related. Many of the other parts of the Health portfolio in ASEAN are doing very well. Intimate Wellness is doing well. OTC is doing well, but there is a need for us to perform better in Dettol in ASEAN and we're very focused on that. We put actions in place and we're confident that they're going to pay off.

Now, longer term, DVM absolutely is an important engine of growth for us. DVM has historically also been a great engine of growth. Through the pandemic, Dettol all performed extremely well in many of our DVM markets. So we have a clear runway for growth in both Health and Hygiene and Nutrition in emerging markets and it remains a big priority. So some of that is more a question of some in-quarter dynamics, a very competitive marketplace, and some weakening category demand in certain ASEAN markets. So I'm not concerned with our ability to grow in these markets going forward. I think we will see strong growth across DVM.

**Jeff Carr:** I think coming back to the question on net revenue guidance, the answer's yes. I mean obviously I think when it comes to consensus, if we weren't comfortable, we would say something. So the answer's yes. I mean it does imply a slightly slower second half and as I've explained, that's primarily due to Nutrition and the comps on Cold & Flu.

The rest of the business continues with really strong momentum and we expect to deliver good numbers. But the Nutrition comp is a difficult one to predict, by the way. It's a difficult forecast to predict and one where we do expect however to see negative numbers in terms of the second half of the year.

Yeah, please go ahead.

**Fulvio Cazzol (Berenberg):** Fulvio Cazzol from Berenberg, thank you for taking my questions. I've got two. The first one is on price mix, which was obviously strong in H1 and Jeff highlighted three main drivers to that. One was carryover pricing from last year, one was the price increase in Nutrition and the other one is innovation. To help us sort of understand how much of that will stick in the second half, could you maybe give us a bit of a guide as to the contribution of those three drivers to the first half?

Then my second question is on the OTC business. I know that the results have been obviously quite good in the first half, partly because of the innovation that you've put into the market. So I was wondering if you could perhaps give us some comments on the market performance, particularly in the Southern Hemisphere, perhaps Australia, which could be a good lead indicator into how the winter season might progress in the Northern Hemisphere later. Thank you.

**Jeff Carr:** Well, let me start on the price mix. I think it's worth pointing out, but we report price and mix combined and then volume separate. Not everyone reports it the same way. Some people put mix in with the volume, which favours the volume when you have a favourable mix obviously.

But yeah, in the second half, I expect generally to see volume playing a more important part of the growth and the price mix coming down. Now that's a generalisation. I think in Nutrition we're going to see volumes also coming down because of the comps that we're up against. But generally, I'd say I'm expecting to see a stronger volume performance.

We said at the beginning of the year we expected sequential improvement in Hygiene volumes and therefore price where we start comping the bigger price increases that we took in the second half of last year, which is where we really did the heavy lifting in terms of price increases. We start comping them and therefore the price will naturally come down a little bit and volume will take a bigger impact. I think on Health it'll be a more balanced approach, but as a general sense for the group, I'd expect to see a bigger impact from volume and a decreasing impact from price mix in the second half of the year

**Kris Licht:** On the OTC season. Look, it's too early to predict the Northern Hemisphere. The Southern Hemisphere, we keep an eye on it. As you say, sometimes it's an indicator of what will play out in the Northern Hemisphere. It has been the last couple of years.

In general, without commenting too much on specifics of week-to-week trading in Australia, in general, we're seeing an elevated level of demand. So compared to pre-COVID levels, demand is significantly higher. Obviously, we've been through a very strong season, as I talked about in '22, so we're watching how we're tracking. So far we're not seeing any major concerns, but at the same time it is a very significant lap. We had a spike in North America in Q4 of '22, so it's too early to call it, but we're looking at it closely and we'll share more as we can.

**Jeff Carr:** I would like to add, I mean just for put the context, Cold & Flu, not OTC, but Cold & Flu is about 7% of our net revenue. So a plus or minus 10%, which is the sort of variations you see in a normal flu season, shouldn't really impact in terms of the guidance that we give or our ability to hit that guidance.

**Iain Simpson (Barclays):** Hi there. Couple of questions from me if I could. It's Iain Simpson at Barclays. Firstly, just thinking about the top line, Kris, you called out some stuff that you want to do to help that along in terms of innovation and product superiority and in market excellence. Are there any categories or geographies that you'd call out where you just think Reckitt has more of a fundamental right to win and really where you'd hope to see kind of share gains develop medium term? I mean, I guess at the moment your business, broadly speaking, is holding, or gaining share in half its business. I'm assuming you'd like that number to be a little bit better than 50% in two years' time. Wondered if you had any kind of categories or geographies we should keep our eye on.

Then second question, just thinking about that margin bridge. Firstly, I get that there's some lap of the profit on property disposal, but it's still a pretty big increase in other costs in the first half year-on-year in absolute terms, 200, 250 million. I wondered if you could give any colour on the drivers that or perhaps to come at it another way, you talked about dis-synergies from RB 2.0 and unwinding those, whether you'd give any indication of the likely scale of that and whether we'd expect to see those reinvested. Thanks very much.

**Kris Licht:** So I'll start. I will come back later this year and talk more comprehensively about priorities going forward. I am giving a lot of thought to the questions that you're raising. They're absolutely the right questions. And I have some views, but I just want to complete

my work in the analysis and then we'll come back and I'll be very clear with you in terms of what I see.

Obviously, our portfolio is full of power brands that are very strong with a great runway for growth. So we have many places where I see a runway for growth and at the same time I believe that we have to be choiceful about which ones we invest the most behind. So this is sort of what I'm working on right now. So it's a timely question, but I'm not quite ready to give you a straight answer. Apologies for that.

**Jeff Carr:** Let me address the bridge and maybe you might want to come back in terms of the potential. Just in terms of the other cost, you're right, it's up 19% at constant currency so it looks quite dramatic. But we had not just the one-off items in last year. If you remember what we said at the half last year is, we had a phasing in terms of some of our spends in 2022. So the fixed costs were low in the first half, higher in the second half, even absent the one-time impacts. I think as a percent of net revenue, first half was 20.3%, second half was over 23% of net revenue. So there's quite a phasing impact. So actually when you look at it on an annualised run rate, the first half number isn't so bad. And as I mentioned in the presentation, I think the second half actuals will be more in line with last year.

Now having said that, salary inflation is significant. We look at significant increases or mid to high single digit increases in terms of salary inflation and we have to offset that with efficiency improvements regardless of the more significant changes that perhaps Kris was alluding to.

I think in terms of other areas, we are now travelling again. So you do see things like travel costs increase. Again, those are things we expect to offset by our general day-to-day management of our fixed costs. But when you get to the full year number, you'll see a much more modest, I think I said just under 10% increase year-on-year as opposed to the 19%. And that's made up of – once you adjust for the onetime costs, it'll be an increase of around about 6 or 7%, which is basically the inflation that we're seeing in salaries. I don't know if you want to say anything else about the potential.

**Kris Licht:** I would just say that it's going to be a focus area. We need to lower our fixed costs to be able to invest into the growth that you were also just asking about. And we need to get that virtuous cycle that's already working in our P&L, but we need it working harder for us. So there's a number of interesting areas that we're looking at. And like I alluded to; new technology is a factor as well. So I think we can become more efficient in our business and we'll share more specifics about that later this year.

**Jeff Carr:** Is there any more questions in the room? Or operator, are there any questions online? Operator?

**Operator:** Of course. With our first question comes from Rashad Kawan from Morgan Stanley. Rashad, your line is now open.

**Rashad Kawan (Morgan Stanley):** Hey, thank you and good morning, gentlemen. Thanks for taking my call. A couple of questions from me. First one, as you think about your volume trajectory for the rest of the year, what gives you confidence in your ability to improve the

trajectory versus the first half and how critical is your incremental marketing spend and innovation pipeline within that?

Then the second question, I know, Jeff, you said that you don't expect consensus margin expectations to move up for the full year, but with the gross margin beat in the first half and volume dynamics likely improving, what do you think will prevent margins from getting to at least H1 levels in the second half? Thank you.

**Kris Licht:** Okay, well I know volumes is of interest so let me talk just briefly about how we look at volume and volume going forward. First of all, our Health business is showing flat volumes, which is an excellent performance. We do see some volume declines in Nutrition, but as we talked about, that's a function of the abnormal market conditions the last year. And actually, it is higher than we expected it to be at the start of the year. So our volume performance in these businesses is good.

Hygiene is showing sequential improvement. We were for a while seeing significant volume declines in Lysol because we were lapping the effects of COVID. Actually the last quarter, Lysol declined 2.2% in volume. So, this improvement that we're talking about, we can see it in the business and we believe that that will continue. So we're fairly confident that our outlook as we discussed it is solid.

**Jeff Carr:** Let me take the question on margin. Look, I'm not going to go further than just repeat that we're comfortable with consensus in terms of margins. I think consensus is sitting at 23.4%. We were slightly higher in the first half and I think that was a good performance, a bit higher than my expectations. That was a good performance. And obviously, there's a lot of moving parts, but we are comfortable with consensus. If we felt there was an opportunity to upgrade, then we would, but we think this is in the right area and that's a good performance relative to 2022, ex the effect of Nutrition that would be a 40 basis points increase year-on-year at a time when we are still seeing significant impacts, not just from commodity inflation but also from high CPI and salary inflation and energy costs. So I think that's a good performance. It was a good performance on gross margins in the first half. And if we see opportunities to upgrade that, we'll talk to you in due course. But at the moment I'd say we're comfortable with where consensus is.

**Jeff Carr:** Can we take another question if there's another question online?

**Operator:** Thank you. We have our next question comes from Alicia Forry from Investec. Alicia, your line is now open.

**Alicia Forry (Investec):** Hi. Thanks everyone. I just wondered if you could comment on the deterioration in volumes in Europe and Australia and New Zealand sequentially in Q2. It looks like it got a bit worse than the rate in Q1. Could you comment on what's driving that please? Thank you.

**Kris Licht:** Yeah, so I spoke a bit to volumes. Now, actually what we are seeing is sequential improvement in the Hygiene business. Now, the European marketplace is very competitive. The consumer in Europe is under pressure. There's no doubt about that, but we are seeing sequential improvement. We're confident in the plans that we have in place.

And as I look at the volume numbers, I mean we've had a specific poor performance in terms of volume in Mortein, which is making our total Hygiene volume number look softer than



really most of the brands are. Most of the brands are actually improving very well and trading well.

Finish as an example, is gaining share in Europe at the moment and we're very pleased with that. But there's no doubt that the consumer is under pressure. It's a very competitive marketplace and we continue to optimise our competitive strategies in Europe.

**Jeff Carr:** Okay. Let's take another question if there's another question online.

**Operator:** Thank you. With our next question comes from Karol Zoete from Kepler. Karol, your line's now open.

**Karol Zoete (Kepler):** Yes, good morning. Thanks for taking the question. I have two questions. First one is for Kris if you can reflect a bit on the Health business. So, today you're fairly focused Health business, particularly in OTC on a few areas. If you look forward, is then really the ambition to potentially add more categories and adjacent categories to become less focused on the flu season, or we're really more leveraging the current strongholds?

Then a more near-term question is, how do you look on the promotional intensity in some of your categories? With input cost coming down, are there already signs that this is normalising? Thank you.

**Kris Licht:** Okay. So starting with Health and OTC, as I discussed, and as you've seen in prior quarters, our OTC portfolio has performed extremely well and our brands are very strong and that allows us to expand the shoulders of our brands into adjacent categories. I talked about InstaSoothe, but there's multiple other examples. We've added Biofreeze, which means that we now have a topical analgesics platform and we intend to expand that and drive good growth behind that.

As Jeff said, Cold & Flu is far from the only thing that we are focused on. Actually, we have market-leading pain franchises that are unrelated to the cold & flu season. Sore throat occasions happen all throughout the year, as I'm sure you all know. And so, there's Gaviscon, is another platform where we see strong growth and a great runway for growth that is also unrelated. So OTC is a fantastic market for us to compete in. We already have a strong portfolio. Our brands can certainly stretch and solve more problems for consumers.

I don't think we would say we're explicitly interested in not playing big in cold & flu because that's also a very attractive market. It's just a seasonal business and you have to know how to navigate seasons, but it's a feature of the category and we can perform with those characteristics.

**Jeff Carr:** I think on promotional intensity, look, I'd say yes, as you go through the second half and we see more people competing for volume, you're going to see a little bit of an increase in promotional intensity. I don't think it's significant, but I do expect there's going to be more promotional intensity in the second half in such that the growth that's going to come is going to come more from volume growth and people are going to be fighting for market share in that area. So I do see a little bit of an increase in promotional intensity, but that's baked into our guidance and baked into our plans.

I'm going to take one final question again from the telephone if there's another question on the telephone?

**Operator:** We have no further questions on the line.

**Jeff Carr:** Okay. And in that case –

**Nicandro Durante:** Okay. Sounds good. Thank you very much. Thank you for coming.

**Jeff Carr:** Excellent. Thank you.

**Kris Licht:** Thank you.

[END OF TRANSCRIPT]