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EDITED TRANSCRIPT

RB.L - Full Year 2013 Reckitt Benckiser Group PLC Earnings Conference Call

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OVERVIEW:

RB.L reported 2013 revenue of just over GBP10b, 2H13 revenue of GBP5.049b and 4Q13 revenue of GBP2.501b. Expects 2014 net revenue growth to be 4-5%.



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CORPORATE PARTICIPANTS

Rakesh Kapoor *Reckitt Benckiser Group plc - CEO*

Adrian Hennah *Reckitt Benckiser Group plc - CFO*

Heather Allen *Reckitt Benckiser Group plc - EVP, Category Development Organization*

CONFERENCE CALL PARTICIPANTS

Jeremy Fialko *Redburn Partners - Analyst*

Harold Thompson *Deutsche Bank - Analyst*

Erik Sjogren *Morgan Stanley - Analyst*

Chris Wickham *Oriel Securities - Analyst*

Bob Waldschmidt *BofA Merrill Lynch - Analyst*

Mark Sheridan *Nomura - Analyst*

Chas Manso *Societe Generale - Analyst*

Iain Simpson *Barclays - Analyst*

Jon Fell *Ash Park Capital - Analyst*

PRESENTATION

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Good morning, and welcome to RB's full-year 2013 results. I'm going to take very brief opening comments, and then I'm going to give center stage to Adrian, our CFO; and Heather Allen, our EVP for Category.

Let me just start the whole presentation with a few messages from my side. The first one really is this; that we know this Company has the right strategy. We have a clear strategy to grow and focus our business on health and hygiene; and we know that this is the right strategy for not just driving growth, but also value creation for our shareholders.

But I also know, having been in this business for a long time, that just a clear strategy, the right strategy does not take you very far; it often becomes a paper exercise if it is not followed with the right execution.

And what gives me pleasure is, I think, this business is getting better at improving its execution. We are getting better at executing. And you'll see plenty of examples today, when we talk about innovations, of how we are scaling these innovations and how we're making them bigger and better.

But we are also sure that, at this point in time, we have a lot more to do to improve from where we are. I know that RB is still not operating at its very best. We can be better still. So that's my first message.

The second message is very simple; that RB core expertise is in building brands that consumers love. That's what our core expertise in this Company is. But we also know that this expertise means that you need to have a long-term mindset. You need to have a mindset which drives growth for brands over a long period of time, which means that we need to fund those investments with the right equity program.

What's good about what we have done, really what's special about what we have done, to my mind, is that we have shown that we can invest for tomorrow and yet deliver today.



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I think my message to you is that over the last two years we've put in nearly GBP200 million, or over GBP200 million, of brand equity investment, plus capability building, and we've delivered over this two years 100 basis points of op margin expansion. So, this Company has delivered both the fuel for our investments for the future, but also the results for today.

And the third thing I'd like to leave you with this is, which is we all know that is going to be a challenging market. We see this all the day, all time, and so do you.

But I also believe that some of the noise, on emerging markets particularly, sometimes hides the fact that these markets are still very exciting opportunities for us in the long term. So, unlike maybe many people, I am not swayed by the headlines of today. I'm absolutely sure that the long-term story on emerging market growth rate is still very, very exciting for RB. This is the reason why I believe that although we have very tough times, very challenging times, we also have a very exciting opportunity for growth in the future.

As we talk more closely about what has happened in 2013, just as a headline, of course, we delivered 7% growth for the business as a whole; and on a like-for-like basis was 5%.

Clearly, M&A came in much better than what we had initially expected, and I'm quite pleased about that. I think it, once again, reinforces, to my mind RB's expertise, not just in identifying the right target; but really, what I said some time ago, what makes us special is what we do with these targets and what we do with the acquisitions. So it's very, very nice to see how we've outperformed against our good expectations on some of these M&As.

The other big thing, which I already told you, is that we've invested another GBP100 million in 2013 behind brand equity. But the interesting thing about what we have done in 2013, which is, again, a departure from prior years, is a lot of the incremental investment of brand equity has gone behind social and digital; it has not been on television.

If you ask me the proportion of investment in 2013 versus the past years, this one has been probably the biggest investment in incremental terms that we've made behind social and digital; but also behind things that I know will drive our long term, which is in penetration program, also, in building equities for our healthcare brands with healthcare professionals. I do know that things like this sometimes don't pay out in the month that we do them, or sometimes even in the quarter, but are the right programs.

So I think while you see the headline of GBP100 million more investment in brand equity, it's truly brand equity investment in the right places, with the right equity mindsets in place. So, that's very important.

Next point I'd like to say is that the [virtual] mindset model, earnings model mindset of the Company is alive and kicking. We improved our gross margin by about 150 basis points in 2013. Now, clearly, we know that we did have the benefit of private label continuation. But the important story here is that our whole strategic mix around health and hygiene, but also driving a very significant cost saving program, driving pricing, is coming into play and made a very nice gross margin expansion.

And, clearly, I talked about our op margin expansion of 20 basis points, which is also ahead of our target of maintaining our operating margin.

Finally, basically, on cash and on net working capital, sometimes forgotten items on the balance sheet, this has been a very nice year, too. I think we've shown how this strong focus on very vital elements of what makes this Company very good.

We managed to decrease our inventories. We managed to get our receivables down, that's all very nice parts of, I call them the nice parts of, net working capital, or the right parts of net working capital, without losing focus on payables. And then, I -- we converted over 100% of our net income in cash. So that's very nice; I think, a very nice tick, I would say, for us.

And, of course, the dividend is in line with our payout ratio of 50%.



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Moving forward, what I would say is that we have become a GBP10 billion Company for the very first time. It's kind of a milestone, so I think we should just talk about that GBP10 billion. It's about 30% bigger than where we were in 2009.

And when you look at our net income adjusted, we are at now around GBP2 billion, which is another nice round number; 40% higher than where we were in 2009.

These are very nice marks, tick marks, marks in our Company's journey. We are still behind where we see ourselves in the future, but really, still nice milestones, nice marks. Which somehow remind me that it's time to get somebody else on the stage, who is without a mark (laughter); battle-hardened veteran of 13 months (laughter), my CFO, Adrian.

Adrian Hennah - *Reckitt Benckiser Group plc - CFO*

Interesting introduction. Very good. Thank you, Rakesh. Veteran of 13 months, indeed; very good. Thank you, Rakesh, I think.

Turning, firstly, to slide, I think it's, 7 (sic), and the income statement, as you have seen, revenue for quarter 4 was GBP2.501 billion; a like-for-like growth of 2% for the Group as a whole, and 4% for the base business excluding RBP, after adjusting for movements and exchange rates and for the effect of acquisitions and disposals.

Revenue for half 2 was GBP5.049 billion; a like-for-like growth of 2% for the Group as a whole, and 4% for the base business.

For the full year, revenue, as Rakesh has just said, was just over the GBP10 billion mark; a 4% like-for-like growth for the Group as a whole, and 5% for the base business.

All 3 of the acquisitions made in the last 18 months have performed well on the top and bottom lines. This increased the total revenue growth for the base business for the year to 7%, exceeding our target.

We have now annualized the acquisition of Schiff; and will annualize the acquisition of Guilong -- or effectively have annualized the acquisition of Guilong at the very start of the year; and we will annualize the start of the BMS [collaboration] during half 1. The year-on-year effect of these acquisitions will, therefore, not be material for the Group in 2014.

Movements in foreign exchange rates reduced the quarter 4 reported growth rate by 4%. For the year as a whole, the net translational impact of currency movements on revenue was zero. And we have set out an analysis of the impact of currency movements and acquisitions in the appendices to this presentation.

Gross margin in half 2 increased by 80 basis points for the Group as a whole; lower than the 230 basis points increase in half 1.

Adjusted operating profit before exceptional costs in the half was GBP1.453 billion; level with last year.

The adjusted operating profit margin was 28.8%; 90 basis points lower than half 2 last year.

But the operating profit margin for the base business was 26.8%; 70 basis points higher than quarter 2 -- than half 2 last year.

Adjusted operating margin in the base business decreased by -- increased by 20 basis points for the full year, and operating profit by 7%.

There were a number of drivers of the gross and operating margin movements, and we'll return to these in a later slide.

Exceptional costs charge in the half were GBP22 million. We have set out an analysis of these costs in an appendix. We have also set out in the appendix the guidance we have given for exceptional items in the past, and the progress against that guidance. We are firmly on track with the guidance previously given.



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Lastly on this slide, you will note that the 2012 numbers are described as having been re-stated. This simply relates to the new version of IAS 19, and we show the technical numbers for this in an appendix to the presentation.

Okay, so moving to slide 8 (sic), and moving a little further down the income statement, net finance costs in half 2 were GBP15 million; essentially, the same as in half 2 2012.

Average borrowing levels were slightly above half 2 last year.

And, of course, the \$1 billion bonds we issued in September 2013 increased slightly short-term borrowing costs as they replaced US dollar commercial paper. These increases, however, were offset by lower net pensions finance costs.

The tax rate for half 2 was 24%, giving 25% for the full year; in line with the guidance we've given you.

The tax rate on adjusted net income, i.e., excluding exceptionals, in half 2 was 23%; and for the full year was 24%.

The Board is recommending a second-half dividend of 77p per share, in line with its policy of distributing 50% of adjusted earnings per share. This is a 2% increase in the full-year dividend.

Looking forward into 2014, a couple of more detailed points for you. Firstly, if the December 31, 2013 exchange rates were to continue to the end of 2014, full-year reported revenue and profit will be decreased by about 7%. At January 31, 2014 rates, the decrease would have been -- would be about 9%.

Then secondly, we expect the adjusted tax rate for 2014 to be around the same level as you've seen for the full year in 2013.

Turning then to slide 9 (sic); an analysis of revenue growth rates by business segment by quarter. Firstly, on price and volume changes across the geographies we operate in. The 5% growth in the base business for the full year was split broadly evenly between volume on the one side, and price and mix on the other. In quarter 4, the growth had a slightly higher proportion of price and mix.

With respect to ENA sales, we achieved very good growth for the full year. Like-for-like growth in half 1 was boosted by a strong and long 'flu season, as you know; and conversely, the principal driver of the slightly lower growth in quarter 4 was the strong comparator, supplemented by the decline in portfolio brands, which we'll look at in a minute, which are substantially in ENA.

In LAPAC, we achieved 10% growth for the full year. Quarter 4 growth of 9% saw further strong performances in India and China. Some decline in the rate of market growth is, however, clear in many LAPAC emerging markets; and we continue to see challenging conditions in Japan and Korea.

In RUMEA, we achieved 5% growth in the full year. The 3% Q4 growth was adversely impacted by the combination of operational issues, which we have signaled earlier; and the slowing market growth in especially Russia, our largest market in our RUMEA region.

We'll look at RBP in a little more detail in a subsequent slide. And we have again included, as an appendix, a reconciliation of the reported to the like-for-like numbers shown in this slide.

Turning to slide 10 (sic), and an analysis of revenue growth rates by the principal categories set out in our strategy in February, the year before last. Firstly, health. The reduction in the growth rate since Q2 is, clearly, attributable to the strong comparator last year. Looking through this seasonal effect, the strength of our consumer health business is clear from the half 2 performance.

In hygiene, Dettol and Lysol continued to be important drivers of this segment, performing well across all areas.

In home, Q4 saw good Vanish growth across most geographies and improved Air Wick performance in the United States.



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Portfolio brands were down 16% in quarter 4. The decline in footwear sales and in laundry detergents and fabric softeners, both mainly in Europe, were the main drivers of this decline. The growth rates in this category will continue to be quite volatile, due to the nature of the businesses.

Turning then to slide 11 (sic), and a look at margins. Firstly, on gross margin, the improvement in half 2 was lower than in half 1, an increase of 80 basis points; down from 230 basis points in half 1. But as in half 1, the growth in half 2 gross margin continued to be driven by a wide number of factors. Mix changes, pricing, and our own efficiency programs all contributed materially.

The disposal of Propack, the private label business, accounted for about 70 basis points improvement in half 2; down from over 100 basis points in half 1. And this Propack benefit is now fully annualized.

These benefits were offset by a reduction in the gross margin in RBP, which, again, we'll come back to in a minute; and some gross margin headwind from the currency depreciation in several emerging market countries. And, of course, we're also lacking a much stronger gross margin performance in the second half last year.

Beneath gross margin, we maintained in half 2 the level of investment in brand equity, or BEI, at 11.8% of revenue. This followed the substantial 80 basis points increase in half 1, and meant a second year in which BEI increased by over GBP100 million in absolute spend in the full year.

There was also continued investment in capabilities, in particular in emerging markets, and in particular in healthcare R&D. Together, this delivered a 70 basis points increase in operating margin in the base business in half 2; and a 20 basis points increase for the full year.

Turning then to slide 12 (sic), this shows an analysis of operating margin before exceptional costs by business segment for half 1 and half 2. As we've seen, the Group delivered a 70 basis points increase in adjusted operating margin in the base business in half 2; and a 90 basis points reduction for the whole business, including RBP.

You can see the significant reduction in RBP operating margin, 1,130 basis points. Again, we'll return to this in just a moment.

Within ENA, we saw continued good margin progress with further mix benefit from the strong growth in health sales, though this contribution was slightly less in half 1, as you would imagine; a continued strong delivery of cost savings from our efficiency efforts; and the discontinuation of Propack sales, most of which were ENA.

In LAPAC, as previously flagged, the half 2 margin was reduced by 80 basis points, and the full-year margin by 50 basis points, by the impact of amortizing the cost of the 3-year collaboration agreement with BMS. The positive effects of pricing, mix, and cost efficiencies were offset by some modest headwinds from the weaker emerging market currencies; and, of course, planned investment in area capabilities.

With regard to RUMEA, the half 2 margin was more significantly impacted by the weaker emerging market currencies, as our RUMEA countries import a higher proportion of their product from elsewhere in the Group. In addition, planned investment in BEI and capabilities, and some operational changes, lowered the RUMEA margin in the half.

Turning then to the next slide, net working capital, side 13 (sic), I think. You can see that the strong overall position continues. You can see improvements in receivables and inventory measured as a percent of revenue. Good performances, which we're happy with. And the Group's keen focus on this area will, for sure, continue.

We turn to the next slide, free cash flow, slide 14 (sic). As you can see, the Group had another good half of cash generation. Free cash flow generated in half 2 was just over GBP1 billion, GBP1.012 billion; again, close to the 100% of net income mark.

There was a modest increase in capital expenditure in half 2, with a focus on investment in healthcare factories, R&D facilities, and IT. As previously signaled, we expect this slightly higher annual level of capital expenditure to continue.



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The Group had a net debt of GBP2.1 billion at the end of the year. This was down from GBP2.8 billion at the end of half 1, due, of course, to the good cash generation.

Turning then to the next slide, slide 15 (sic), and a few words on the progress of the RBP business. Q4 net revenue declined by 18%; in line with guidance. This was driven by the essentially constant share of the US Suboxone market achieved by RBP's film through to the end of the year; an underlying growth in the market of 11%; the loss of tablet share to generic entrants; and performance in markets outside the USA in line with expectations, with volume growth largely offset by government price reductions.

Operating margin in half 2 declined by 1,130 basis points. As previously signaled, this is the result of the lower margins on film than on tablets; some pricing pressure; an increase in investment behind the pipeline; and, as with most specialty pharmaceutical businesses, the relatively low proportion of variable costs in the business.

Looking forward on a short-term basis into 2014, the effect of the loss of tablet sales will annualize from the end of quarter 1. We expect, however, fluctuations in wholesaler and retailer inventory levels in the prior year, to mean that reported sales in Q1 will be boosted by mid single-digits, and that quarter 2 sales will be similarly reduced.

We also expect to see, in quarter 1, some loss of market share as the more price sensitive segments of the payor market look to switch patients to cheaper alternatives; and later in the year, some pricing pressure on margins.

Turning then to slide 16 (sic), we will look here briefly, in brief outline in the next slides, at 4 drivers of what we see as the longer term value of RBP. Firstly, the competitive dynamics between RBP and the competitors on the market today; secondly, the challenges to our Suboxone film patents in the United States; thirdly, the RBP pipeline; and fourthly, the opportunity for RBP outside the United States.

We expect the USA market for Suboxone treatments to continue to grow strongly. We also continue to expect our film to lose some share, and that there will be some price erosion, as the more price sensitive payor segments look to take advantage of cheaper alternatives.

We also continue to communicate and demonstrate the clinical advantages of our film over generic Suboxone tablets, and to obtain data comparing it with new branded products. The advantages of our product are widely recognized by patients and physicians, and this gives our product strength as it faces branded challenge and generic price challenge.

Turning to the next slide, slide 17 (sic), and the Waxman-Hatch challenges to the film, there have been no further material developments in the 3 Waxman-Hatch challenges to our film patents in the United States. We expect the litigation to follow the typical timeline for Waxman-Hatch litigation, and, accordingly, it may be some time before there are material developments.

We continue to believe that our IP is strong, with multiple levels of defense arising from multiple patents.

Turning to the next slide, slide 18 (sic), and a very outline view, a very outline view, I emphasize, of the RBP pipeline. As mentioned earlier, we have increased investment in our pipeline, reflecting the stage of development of the projects. Total R&D spend in RBP in 2013 was GBP47 million; an increase of 88% on the level in 2012.

This slide simply highlights that two of the programs we have previously mentioned have recently had, or have, significant milestones later this year; or one in particular later this year. We will provide a fuller description of all the products in the RBP clinical pipeline to you later in the year.

Turning to slide 19 (sic) and the RBP business outside the United States. As some of you will be aware, RBP attained the rights to Suboxone back from Schering-Plough in the United States in 2002, since when our excellent management team there have built the strong business we have today.

We only reacquired the rights outside the United States in 2010; and since 2010, our management has been very focused on developments inside the USA. Accordingly, the business and business potential outside the USA is much less developed.



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This chart gives you just a few pieces of data on the business outside the USA. Current sales are small, but the potential is significant. And again, we'll cover this area with you in more detail later in the year.

In short, RBP is a global leader in the provision of pharmaceutical treatment for addiction. The market for addiction treatment is significantly underdeveloped and has much potential for further strong growth. RBP faces some short-term uncertainty, but is well placed to build in the medium term on its current leadership position.

So turning, lastly on RBP, to slide 20 (sic) and our strategic review of the business, the review we announced in November of last year is underway. We're making good progress in creating a standalone structure for the business.

In carrying out the review, we are, of course, being guided by the goals of maximizing the value of the business to our shareholders. And all options for the future of the business, as we stand today, remain fully open. We will, as we set out in October last year, give you more information on this review later in the year.

With that, I'll hand back to the boss.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Thank you very much, Adrian. I hope the whole explanation around RBP has also been a helpful update.

We have also put out an announcement, in the press release this morning, that we've appointed a Chairman for RBP. Let me just tell you who he is.

His name is Howard Pien. He has got a tremendous track record of success in global pharmaceutical businesses. He started his career in a number of well-known names, with his final position being as President of International Pharmaceuticals for GSK 'til 2003. And then his last, I would say, executive responsibility was as Chairman and CEO of a company called Medarex. And over the last years, he has been advising and working with a specialty pharma company.

So he's got both big pharma, as well as specialty pharma, company experience. We hope Howard will be able to bring some more expertise and depth to our strategic review program, so which is very interesting news, so I just felt we should talk about that.

Before we turn the page over for 2014 and talk about our exciting innovation, let me just try and summarize what has happened in 2013, just on one page.

The first is that I think you've seen that this business has really tried to increase and enhance our capability by focusing on consumer health and strengthening where we need to be very good; not just today, but also in the future. I think we're happy with the progress we are making in strengthening our capability in consumer health, and becoming a much better player in this area.

The second thing is this. From a strategic point of view, the 3 key M&As that we did 12 months ago, or so, were all very carefully chosen for the impact that they will create for the future success of RB. The first one, Schiff, gives us a powerful entryway in VMS, and we are all very excited about the opportunity in VMS.

The second one was our work in China. In China, we have created a platform in consumer health by acquiring a market-leading sore throat brand.

The third one was this collaboration agreement, where actually we did not have much of a presence in Latin America and now we have a very strong business platform for healthcare in Mexico, in Brazil.

As we've flagged a number of times today, the progress we've made in a very short period of time is very good; it's really very good. As you will see later, the fact that we have actually taken this 12 months of experience and trying to scale it up from here is also very, very good for us.

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The next bit is more on the operational side. I think you will see, from Heather's presentation, that when we created the organization structure we created, and we didn't really talk that much about it in the past, but we have said that the new organization should enable this Company to become better at scaling initiatives bigger; to enhance the scale.

Because in most complex organizations you have a phenomena, which I've always described as snakes and ladders. You have ladders, but you also have snakes, which are waiting to put you back to the point you have started. The new organization structure we put up in place was about killing the snakes and increases the number of ladders. You will see, from Heather's presentation, how the ladders are taking us to a different place than we would have normally got to. So, that's very important.

The next part is I do remember my first year of full presentation in the new strategy, January 2012, and I remember there were members of the audience who asked me about two questions; two, I remember.

One was how do you actually drive growth in developed markets in Europe? It was a big problem. I stood there and I said, without really having the history to show you, that a good company is one which can drive growth in both emerging markets and developed markets. Because you guys can get sometimes very excited about saying this one is 40 there, and 60 there, and the other way round. But, actually, nobody remembers that you still have a very large business you manage and grow in developed markets.

The challenge of the industry, and challenge for companies like us, is how do you actually get there? So, I'm very pleased, actually, that we have shown a sustained capability of driving growth in developed markets, and Europe is back in growth. So, that's really very important to know.

The next question that I was asked was, like, we know you are quite bad in China, aren't you? A decade of trying in China, you haven't got anywhere. And that was, indeed, acknowledged to be a weakness.

I did say that we are going to focus on China and make that better. And I have to tell you that the last two years, but also the last year has been a really very nice success here for China. Today, I feel that the Chinese business has got to a scale, and in a virtuous way, not in a parasitical way, where it's going to create good value for us. So I'm really pleased about that, too, from an operational point of view.

And finally, of course, like I said before, this Company is at its best when it's also driving growth virtuously; not just basically forsaking today for tomorrow. We've found the right balance between the two. I think I'm very pleased with the fact that we've actually increased our investments, first of all, doing really great gross margin expansion over two years; invested behind brands; invested behind capabilities. And, hopefully, over two years giving 100 basis points is, I would say, a very nice result, too.

I think 2013 has marked really two years of, to my mind, really good progress.

There's something else which I'm not going to take you all through the chart, but I always want to remind you where we stand in terms of our KPIs. So, really the last two lines are quite important for you to know.

In terms of health and hygiene, we are now 72% of our business. You might remember, in 2012, January, I said we'll get there by 2016. Well, actually, we've got there by 2013. We've got there by 2013, clearly, because of fantastic organic growth; but also because of the M&As that we have done, so I have to say that.

Both the much higher organic growth on health and hygiene, as well as M&A has gotten us to 72% by 2013 itself. And now we, again, from an organic point of view, expect to grow that by about, on an average, 1% per annum, per annum. That's still our target. So, you can do your math for the future.

The other KPI we set was that we want to see our geographic portfolio from 45%, 55%, you might remember, to the other way round over a period of time.



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We had 42% of our business, at that point in time, in emerging markets; 58% in developed market areas. We have gone backwards in 2013, a bit. And we have gone backwards because of clever mathematics, because the FX and the M&A that we have done over the last 12 months have actually meant that our emerging markets' KPI was not fulfilled in 2013.

So we are behind on the emerging markets' KPI because of two factors; the impact of FX, as well as, in my -- when we set targets, we did not taken into -- obviously, there were constant targets -- and, well, it doesn't matter. That's where we are, and I'm not too unexcited about that. So that's where we are on the KPIs in 2013, and we march on. We march on from here.

With that, let me just introduce to you Heather Allen. You have met her before. You have seen her before. She's going to talk about our amazing pipeline for 2013.

Heather Allen - *Reckitt Benckiser Group plc - EVP, Category Development Organization*

There's no ladders in the presentation, just so that you know (laughter).

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

There are no snakes, too.

Heather Allen - *Reckitt Benckiser Group plc - EVP, Category Development Organization*

Yes, and there's no snakes, as well. Good morning. I'm delighted to talk to you about our innovation for 2014, so I'm going to just jump right in and start with health.

We acquired Mucinex in 2008, and since then we've taken the brand from cough to multi-symptom cold and flu, as well as sinus; always remembering one thing, which is mucus. Because Mucinex is about -- I always get this -- I'm going to trip over my words. Mucinex is about mucus; Mucinex in, mucus out.

So, we're really excited, in 2014, to be able to offer Mucinex Allergy. Super fantastic launch in the US. Allergy's a \$2.5 billion market in the US. More than 75% of Mucinex users also take an allergy treatment, and now we're able to offer them Mucinex Allergy; maximum strength, non-drowsy antihistamine, acts fast, and lasts for 24 hours.

So, super excited about this. And it relieves the symptoms that makes allergy sufferers crazy; the runny nose, mucus. Mucinex in, mucus out. So, super excited about Mucinex Allergy.

Also, super excited about MegaRed. This is a great example of the scaling that Rakesh talked to you about earlier, because we're launching MegaRed into more than 20 markets in 2014. Some of you may have already seen the displays in Boots. If you've seen the displays in Boots on Oxford Street, I can see a few heads nodding, hopefully, you've seen some of them.

But we're really excited about this. And there are some very simple principles for the success of MegaRed. The first simple principle is establishing amazing retailer presence. The third one is strong trial driving, which is, of course, backed by big awareness.

This is one of our billboards. In Poland this one is; I think it's in Warsaw. Super fantastic; an excellent example of in-market execution. And I'm just going to run you the educational launch advertising from the UK.

(video playing)

So, this is the launch advertising for the UK. We're really, really excited to take the MegaRed franchise and launch it into so many markets.



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I'm going to jump back to the US now and talk about Airborne, where Airborne is launching into Airborne everyday. Airborne is an immune support brand. People take it when they feel they need a boost, they feel they need support for their immune system.

We're launching now Airborne everyday, bringing immune support, plus a multivitamin, because lots of Airborne users also take a multivitamin. We've created a blend giving them immune support and their daily multivitamin for everyday use. So, super exciting launch in the US on the Airborne franchise.

And given we've had this business for about a year, we're really, really excited to be driving all of this innovation to market. So, super exciting.

I'm going to move now to Nurofen, and I'm going to talk to you about two initiatives. The first one is Nurofen for Youth. I'll be -- we talked about this before. This initiative's been fantastically successful for us. It's actually, in Germany, now the second largest SKU in children's analgesics, behind the number one SKU, which is Nurofen for Children.

What's exciting now is we're able to expand this to seven more markets in 2014. So, super excited to take the success of Nurofen for Youth and start to expand it, which is something that will happen when we have registrations come through, and we're able to take some successful SKUs into more markets.

But we're also starting this year with the (inaudible) on Nurofen, which is Nurofen for Children Pain and Fever; effective relief that lasts for eight hours to really tackle the pain, the sore throat, the feverish symptoms, the body aches that really prevent kids from getting the rest that they need. Really exciting. Lasts for eight hours, which really aids rest, aids recovery. So, I'm really excited about that.

Moving back to scaling, another initiative that's going into more than 20 markets this year, I will show you the Scholl Express Pedi. The Scholl Express Pedi is an electronic foot file. It's going into 20 markets this year. It's brand new; super exciting.

I'm not going to turn it on because that will get very distracting. But the Express Pedi really gives you perfectly smooth skin in one application. It's got a simple rotating head, absolutely unobstructed by the device; you can get to all the contours of the foot. If you're a runner you sometimes get calluses in the center of your foot, the back of your foot. It can reach all of your foot for perfectly smooth skin in one application. We're really excited about it; and it's, again, as I said, rolling into more than 20 markets in 2014.

And, of course, I need to talk about Durex. So, really exciting news for Durex Real Feel. Durex Real Feel this year will give even more natural skin-on-skin feeling. It's a world's first for Durex.

Behind this sits the world's thinnest polyisoprene condom. Polyisoprene is a softer, more flexible material, which gives a more natural feeling. We will have the thinnest polyisoprene condom out there for the most natural feeling possible, and we're bringing this into 25 markets in 2014. So, super excited about that as well. I get very excited about innovation, as you can tell.

I want to show you one other thing on Durex, which I think relates to scaling; it's what we activated for World Aids Day at the end of last year. I'm not going to play the video, because the video's two minutes, so that would take up, like, one-quarter of my time, but if you want to check it out, go to someonelikeme.tv.

This was our World Aids Day activation for Durex. We reached 900 million people globally; 200 million views of the video; 19 million engaging with us, talking to us, tweeting us, sharing us; really engaging with the brand across 36 markets. We ran 11 live events. It was a big partnership with MTV. And it's a fantastic example of one of our brands doing something on a fantastic global scale for an absolute great cause and building great brand equity. And so that's just an example of [someonelikeme](http://someonelikeme.tv); check out the video, it's still up on someonelikeme.tv.

I want to move to hygiene. And I have a question, not expecting any answers, for the audience. But the question is what's powerful and pure? And the answer to the question is Finish. Yes, the answer to the question is Finish.



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This is our biggest Finish launch ever. And we get really excited about this in the office because we're taking this to the most amazing number of markets. We're going into more than 30 markets in 2014. It is the first time we have ever done the same initiative on Finish in that many markets at the same time. We're super excited about it.

And it's more power, yes, because we've boosted our oxygen action. It's more pure; we've used less chemicals. It's absolutely spot on for what consumers are looking for, and the retailer execution is absolutely amazing. Please check us out. Look in Tesco, look in (inaudible) the absolute fantastic retailer execution. And this is how we're explaining it to consumers.

(video playing)

So, really excited about that.

And actually, really excited about how our surface franchise is doing in power and pure power and free. We've talked about Dettol Lysol on this before; it did really well for us in 2013. We're now also expanding that to our local heroes franchise with Asia and Brazil, St Marc in France, so really driving that successful franchise across our local heroes now as well.

Moving from power and pure, I want to talk about staying tough, and staying tough on germs. Dettol is having a big brand refresh this year. It's really, really important to make sure that your brand is fresh.

With a big brand refresh going on in our 10 most important markets on Dettol; soft on skin with a new pH balance formula, and some great looking packs, and tough on germs. We'll be really driving that tough on germ claims, our tough on germs, with protecting consumers from 100 illness-causing germs so that they can be 100% sure.

Fantastic year we're expecting for Dettol with the big brand refresh, making sure that people are really clear that we're soft on skin, but we are really, really tough on germs, which is super important for our consumers.

And I want to talk about one innovation, Harpic. We don't talk about in-the-bowl cleaners very often. I get quite excited about in-the-bowl cleaners.

We have this very super successful product called Harpic Hygienic, which is a very simple block, cage-free block. And Hygienic just got maxed; we have three blocks and two positive fresheners on the end, Harpic Hygienic Max. And we're really, really excited because it's a big extension to our successful Harpic Hygienic franchise.

Home. Some really exciting things to talk about on home, starting from Vanish. Vanish Oxi Action is a very successful franchise for us, and we constantly have to make it better and improve it. This year it's getting better with whatever the stain; really focusing on ensuring that we've got the right performance, and really helping consumers get the best results from their Vanish. They can put it in the wash, they can soak with it, they can pre-treat with it, and whatever the stain there is a way to get it out with Vanish.

We've actually driven this across the world with tip exchange, which is now in almost 30 markets, to help consumers also exchange tips with each other. I have a special recipe for getting the grass stains out of cricket whites. I'm sure there's lots of other consumers out there who are sharing their tips and their best ways to activate, and I'm going to show you what we're doing (technical difficulty).

(video playing)

And Airwick. Airwick this year is launching a home signature collection in premium reeds in more than 10 markets. It's a really bold step for us. We're really excited. The fragrances are super fantastic.

And we're also launching our Rare collection. Our Rare collection is another great example of scaling. This is going into more than 20 markets. It's a really exciting collection; looks really disruptive in the store. But, more importantly, the consumer will be super delighted when she gets it home.



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Fragrances like oriental passion flower, so really, really exciting fragrances. We're taking it fully across the range with a big, big fragrance event across, as I said, more than 20 markets for an uplifting natural experience for all of those consumers. We're really, really excited about it because, actually, Airwick is about freshening your home; and we know the consumers are really, really excited to discover some of these rare scents.

With that, I'll hand it back to Rakesh.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Thank you, Heather. With that, before I get to the Q&A, let me just try and take you through, very simply, the targets for 2014. The targets for 2014 are basically our net revenue at 4% to 5%; and operating margin, flat to moderate expansion.

Just to set you the context, this is -- this takes into consideration the modest, but immaterial, impact of net M&A left remaining from 2013. As Adrian already flagged, there is some impact, but it's immaterial on a Group level in the first few months of the year.

So, that's really what it is. It's nearly like-for-like growth, the 4% to 5% growth target that we have set. It's almost like-for-like growth. So, that's our net revenue target for 2014; and our op margin being flat to moderate expansion.

Okay? So, Jeremy? Jeremy is going first.

QUESTIONS AND ANSWERS

Jeremy Fialko - *Redburn Partners - Analyst*

Jeremy Fialko, Redburn. A couple of questions. First one on currency transaction and margin, could you just talk about some of the sensitivities surrounding that? Because, obviously, if you're getting a 7% to 9% hit on your revenues, how much of that, or what sort of margin effect, might that have on your numbers? Or is it too complicated for you to really give any guidance on that?

The second point is on this amortization of the BMS cost in LATAM. Again, what sort of number is that we are looking at?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Let me take the second one, and Adrian will take the first one. The more complex question, Adrian will handle.

There has been an impact of the collaboration amortization; that has meant that the LAPAC margins, which have been reported as negative, would have actually been in positive territory without the amortization. So, that's a very simple way of look at it; it has had an impact, at a LATAM level, on op margin.

You also had a question on what is the impact of currency on revenue, and on [margin].

Adrian Hennah - *Reckitt Benckiser Group plc - CFO*

Yes, transaction impact of currency. If you step back, essentially, we have a pretty good match, in the round, between the currencies in which we get money in and the currencies in which we spend money, so we do not have a, in normal circumstances, material transaction exposure.

However, we do have a slight exposure when you narrow it down emerging markets because, although we have a lot of factories in emerging markets, it's part of our model, for much of our product range, to have factories close to the market, which is one of the things that helps give us a hedge. But, obviously, some of those factories buy inputs that are denominated in dollars; and also, particularly in our healthcare factory, where



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we have a more centralized manufacturing network, which is dictated by the economics of consumer health products, we also have more imports into emerging markets.

We have seen in the last part of last year, where there have been some, obviously, quite big depreciations in some of the emerging market currencies, a minor headwind from transactional ForEx-driven impact in cost of sales, and I tried to flag that a little bit in the results comment. It's bigger in RUMEA. It's not enormous in either, but it's bigger in RUMEA than LAPAC because we have more imported into RUMEA. We have more factories we've already got in LAPAC.

I think, in summary, it's a modest impact, a modest exposure. It was slightly negative towards the end of last year because of our exposure that sits in emerging markets, and we has some pretty big movements there, but I wouldn't want you to overstate the size of this exposure.

Harold Thompson - *Deutsche Bank - Analyst*

Harold Thompson, Deutsche Bank. I've got four questions. Rakesh, you kind of made a point on Europe being positive. You seemed quite excited about that. Could you maybe just give us some examples of what's going well in Europe? Is it markets, or is it the mix which is really starting to work for you? Or is it just broad based across the business?

Secondly, you've set your targets for the year ahead. Some other corporates have done likewise, but have flagged a weak Q1 versus the full year. Is there anything you want to add at this point on any specifics towards the short term?

Thirdly, Heather said Vanish, and Rakesh said, is really back to growth and doing well, so have we lapped the competitive battles there and are starting to recover market share?

Then finally, portfolio brands, as you said, was a significant drag on your organic growth this year. You said it's going to remain volatile. Can you just remind us what's left in portfolio brands? Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Okay, so let's start with Europe. Yes, Europe is back in growth. And it has been a challenge for companies to drive growth in Europe.

What has happened in Europe? I think we have become much more focused on where we want to, I've said this before, but let me just remind you, play and win, and where we want to play -- where we don't want to lose, let's put it this way, and where we don't really want to focus. So we've been very much more selective about how to invest and where to invest, and to put a proper strategy, not just from a category point of view, but also from a geographic point of view.

I think Europe also is not one market. I think most people think about Europe as one market, and it's not one market. And if you accept that there are parts of Europe where you can actually selectively drive growth and parts where you actually need to manage Europe in a very different way then maybe there is opportunity for driving growth in Europe. And that's what we've done.

We've been very selective on portfolio and geography -- category portfolio and geography. Some examples, and let me just answer another question of that through an example, Vanish. Vanish has been a battleground for Europe for a number of years. Actually, we got sucked into that battleground and that meant that we were, in my opinion, playing a lose-lose game. Lose-lose game because I think the promotional intensity of Vanish, of fabric treatment, had got to a point where I don't think there was a winner in the market.

What we have done is very simple; we've actually refocused the whole proposition back to the real enemy. And the real enemy for Vanish is not the one with the green cap. The real enemy on Vanish is the one who brings detergents to market, because detergents are just not good enough. Actually, if you re-focus the battle on the real enemy, which is detergents are not enough, you actually get consumers to come and try our category for the first time. For someone who's sitting with very significant market share, that's a big winning strategy.



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So, actually, we have re-orientated, in some cases, the way we focus on some of these battles; driving, let's say, better pricing in the market also as a result of lower promo, but also investing for growth in a very different way, being more selective across categories and geographies.

Some examples that you've seen, but these are not only examples for 2014 but also for 2013, really doing things better in Europe, but taking best practice from even US and translating in Europe. And I have an example where, for example, what we were doing tremendously well in the US, which is, I think, how we do some of the air care executions, are much better than -- in the US. We've actually used some of those examples in markets in Europe to become better.

I think it's a consequence of a unified organization, a simpler organization, a faster organization; an organization which is much more competitive.

We've invested more in Europe than we had in the past by driving costs down, to be very open, but also being very selective. So I think we have done just the right thing for Europe, because bringing Europe into growth is a very important part of doing better.

The other question was around Vanish. I think I have already answered what is important to get it back into growth; just very simple fundamental things on Vanish, remembering who the enemy is and driving equity in the right way, rather than play a lose-lose battle.

Q1, you asked for Q1, where this is going to be. I think we should not set targets for a quarter. I think it's a very dangerous game to play. And even if I -- I'm tempted to say something, but I'm not going to. I'm not going to because that is a trap.

You guys should not worry about the quarter. I think you should worry -- I can't even ask you to worry about the long term, because it's not possible. But I think really you should not get too excited about the quarter. Whatever I publish in Q1 should not be of any consequence. The most important thing is whether we are trying to focus on the right driver of value creation, and we are.

I think some quarters will be better than the others, and it's a fact of life. We don't play that game. So I would not answer that question, even if I had a view on what it is going to be.

And then the last one is on portfolio brands. The good news is that portfolio brands are becoming a smaller part of our business than they were five years ago. They were 12% of our business; it's 6% of our business. But, as you've seen, it's pretty volatile. And simple math, and I'm not as good as you in math, of course, 15% of 6% is whatever points of growth. So you can see that there is, in some quarters, an impact of the portfolio brands.

In many of these cases, these are very conscious decisions that we are taking. It's not a question of, like, that's the way the market is and that's what we are going to suffer.

I think we are making planned choices on, again, where to win and where to not focus. And portfolio is a streamlining of those decisions. And some of those are to do with footwear, which we have talked about before; some of them are in laundry and fabric softeners. I think it's not a good idea to fight for something which you know is a losing game. I think we are better off playing another game, where we are likely to be a winner.

So I think our portfolio, I'm not highly unexcited that the fact is that we have got 15% lower. It's 6% of our Company portfolio. In some quarters it does make an impact. In the year as a whole, of course, there is an impact.

I think one of the things that we have not appropriate flagged, but I think some of you will have seen, that, actually, over the year 2013 our results are higher quality results than even 2012. Because if you look at just pure health, hygiene, and home growth, which has been our focus, which is what I've talked about enough to you all, I think our 2013 numbers are actually much better than 2012, which was a good year actually.

I think portfolio is a planned, deliberate choice for the Company. I really don't want to get too excited about the fact that it's minus 15%, or minus 5%. That's how it is going to be. We are going to make very planned decisions, the right decisions, to drive the right quality of our results.



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Erik Sjogren - *Morgan Stanley - Analyst*

Erik Sjogren, Morgan Stanley. Two questions from me. Firstly, on the BEI, obviously, you had a couple of years now with big step-up. How do you see this going forward in terms of percentage of sales?

Then secondly, could you talk a little bit more about RUMEA. You highlight certain markets where execution difficulties, and the market slowdown, etc., so how do you expect this to move forward now, essentially?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Absolutely. Let's just start with RUMEA, and then I'll come back to BEI. RUMEA, actually, first and foremost, I'd like to say, I'm not very happy with what we have done. It's not very easy to say that. It is very -- not very good. But I may just tell you that it's not something which has happened suddenly over the last quarter. I just want to make sure that everyone understands that the difference between RUMEA fourth quarter and the previous quarters is not things going from bad to worse, actually not.

Our operation -- our operating dynamics in RUMEA are, if I might even say so, showing some positive early signs of what we have [done]. We've done a lot of things, changes in organization; changes in management; changes in how we invest behind our brands; improving our capabilities, and I would say some of that has modest early signs of positive results. But the difference between RUMEA in previous quarters and the last quarter is down to, I would say, a pretty significant change in Russia dynamics.

I think the year as a whole has not been a stellar year for RUMEA. We have some external challenges, which we all know about, which we have to manage, but there's only a limited impact we can make on those.

What we can improve, and we must improve, is our internal operating dynamic in RUMEA. And we are all over this. And we've put high quality capable people with the right mindset. And it's not going to happen overnight. I never expect things to, like, in our industry, to turn good to bad overnight, but also the other side. So we have to just back ourselves doing the right thing, and, hopefully, we will see better times in RUMEA.

Back to your question on BEI, I never personally signed up to setting ourselves every year saying I will expect x-million more in BEI. I always said that we first look at our opportunity in front of us, which brands, which markets, which investments, where innovation, and then decide whether we are investing appropriately behind these.

If we were short, we have to raise it. And that's what we have done. We have not got stuck with a target in mind and then gone backwards; we go from bottom to up. And in the bottom-to-up exercise, we decide the investment plan. So I don't have to stand in front of you and say this is the amount of BEI we are going to spend. We are going to appropriately invest behind our brands; that's our commitment.

Now, if you want to be very specific in terms of percentage to revenue, etc., what I would tell you is this; that we will invest appropriately behind our brands in 2014, absolutely, without compromising. This is a key part of our, again, virtuous mindset. But I think you should also remember one thing which we might have overlooked, that we conducted a very significant global media exercise in 2013, which has come to an end now.

So, as we look forward to 2014, we look forward also with some optimism around the value creation we will have on having conducted one of the -- after many years, a very significant exercise. We hope we will be investing in a better quality way, and, hopefully, we should get some more benefit from this exercise.

We will certainly increase our investment in BEI in absolute, but I don't want to give you any targets in terms of percentages and mathematics likes that.



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Chris Wickham - *Oriel Securities - Analyst*

Chris Wickham, Oriel Securities. Just a couple of things. I was wondering if you could, perhaps, put a bit more flesh on where you are with the strategic review on RBP. Obviously, you've given some details about appointment of a new Chairman.

Then secondly, I was wondering, perhaps, if we could look the other way, and think we're quite a long way into SSL ownership now, it continues to deliver some very positive messages about your ability to acquire businesses and do well with them; and perhaps expand a bit more on your appetite for bringing new businesses into RB.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Let me take the second one. And I'm going to get Adrian to take the first one, although the answer to the first one is very shortly.

The second one is this, I really do believe that this Company has a tremendous capability to do well with M&A. I think most of that capability is not saying only which one we want to buy, because we probably say no to many more than what we say yes to.

But I think, as I've said before, the tremendous capability, actually, which is the unique one, I would say, is how well we do; how swiftly we integrated; how swiftly we get the synergies; how our mindset of deploying some of the extra synergies into driving top line growth; figuring out the jewels from it; learning it fast and expanding them, scaling them, making them bigger. I think we've seen that in all the acquisitions, at least to my mind, we have done; done much better than previous owners of those acquisitions. So, that is certainly very good.

The second thing I'd like to say is that this Company's story is still principally driven by organic growth. That's what we're focused on. We don't wake up in the morning, go to the office thinking, which one is the next.

I think we have tremendous opportunities to grow organically. Our growth on health of 10% is, I think, tremendous. Organic growth of 10%, it's just tremendous growth. 7% on hygiene, it's just great.

But I've also said that we are placed in consumer health, which is a tremendously fragmented industry. The top 10 players in consumer health is 20-odd-% of the total market. I do expect that over a period of time this industry will consolidate; there will be aggregation. And when that aggregation takes place in industries you always obviously have two sides; those who are getting out, and those who are on the positive side, on the aggregation side. I've said in the past that RB will be on the side of the aggregators.

So, that is how I feel. I don't have an immediate point of view on anything. I have a point of view on the industry as a whole in the future.

Right, for you I have a question on whether -- what update to give on --?

Adrian Hennah - *Reckitt Benckiser Group plc - CFO*

Yes, Chris, I'm sorry, we're not really able to give you any more update than we said with our prepared remarks. We are -- there's a lot of good work going on, lots of internal preparation.

Whenever you're looking at bits of an organization there's technical stuff to do in grouping it together, and so on, lots of good work going on that, but we're not at a stage where it makes sense for us to be talking any more about the outcomes. And we will come back, as we said we would, in October, in the course of this year, and give a lot more detail. So, I'm afraid, that's all we can say at the moment.



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Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

I said this before, I'm going to say it again; in RB, this is our way. We don't have -- we're not working for 10 months and then one day we say we are announcing a review. We announce a review, and then that was the time when we started the review. It's not like we start the review when we announced the review, which is in October, late October.

I think we are well progressing. I think the progress has been good, but we're not ready to say anything more.

Bob Waldschmidt - *BofA Merrill Lynch - Analyst*

Bob Waldschmidt, Merrill Lynch. I've got three questions, if I may? Firstly, just coming back to Bristol-Myers and the amortization, given it's a collaboration agreement over, I think, it's three years, I'm assuming you have to amortize the cost pro rata over those three years; and then if indeed you end up with the asset long term in terms of purchase then I guess there's a step-up in margin as that falls out. So, that's question number one.

Second question, back on RBP, clearly, the US had some investigations into your offices there. Any update we can have on that would be certainly welcome.

Then thirdly, in terms of the mix of growth for 2014, we've got growth in Europe, that's wonderful. Can you give us a comment in terms of how you see the market growth rates, US, Europe, emerging markets; and then your relative thought in terms of performance of your business within those? Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Right, let me start with the last one; and then, where needed, I think Adrian can come in and jump in.

How I think about markets at this point in time for 2014, I think we expect -- I'll tell you which is the most difficult market to call. I'm going to tell you, this is my personal opinion, not necessarily shared with anyone, maybe even on this floor, the most difficult market to call, I think, in my opinion, is going to be the US, personally. Just personally.

It is very difficult because the macros look quite good, the headline data. But when you think about consumer behavior, not very sure. So I think that's the most difficult market to call out in the US. And it's a nice sizeable market, where we've done very well.

Europe, I would expect to be in the same territory that we've seen. Europe, I think, would be good if we can get 1% growth in the market in Europe. That's how I see it. It would be a good time, because it was a bit wobbly in the past. So, I would say about 1% growth in Europe. US maybe in the same ball park; 1% in ENA growth.

In emerging markets, I have said in the past, couple of years ago, that growth rates have come down from high single-digits to mid to high single-digits. That's what I've said. And I now see growth rates of around mid single-digits, in aggregate, in emerging markets.

There are some which are as clean as they used to be, but there are some which are really -- again, like the European phenomena, there is not one common European phenomena; there are parts of Europe which are worse and parts of Europe which are behaving as if nothing happened. Similarly, in emerging markets there are some markets which are really quite weak versus where they were 24 months ago, 12 months ago; and in some cases, they are quite okay.

I think you should just -- that's how we think about it; mid single-digits- or so- in emerging markets as a whole; ENA should be about 1%, or so. That's how I see them right now.

And we should -- we have, and you have seen from ENA growth rates and emerging market growth rates, we are outperforming these markets by about 200 basis points, which is what we have always said our ambition should be. So, that's on emerging markets.



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BMS amortization, three years' later what will happen? In LAPAC, the margins will go up, obviously, because in LAPAC -- what will happen at the Group level, we will see. So, that's what is going to happen in three years from now. There is going -- there will be some impact from the BMS [lack of annualization].

You had some questions around mix? RBP investigation. There is nothing we can share with you. We have no information about what their basis is and, therefore, there is nothing more we can share with you in the investigation.

And then, is there anything else I've missed out?

Bob Waldschmidt - *BofA Merrill Lynch - Analyst*

No, that's it. Thanks.

Mark Sheridan - *Nomura - Analyst*

Mark Sheridan, Nomura. I'm just keen to know the evolution on this -- on the brand equity investment, GBP100 million for two years. You were talking about more and more of that's digital. Can you just give us the evolution of that digital spend, and really what you're getting out of that? Do you get more out of that than the traditional spend?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

That's very good. The thing is this; there are two ways of looking at how we invest behind digital and social. One is truly understanding the consumer path to engagement and purchase. And that part is not necessarily as straightforward as it used to be. They are interacting with brands and with categories in multiple touch points; through TV, of course; through point of purchase; through social and digital.

So the first exercise is to clearly understand for each of your categories what the most critical touch point is. And when we think about that, we then try and see how to make the right impact at the right touch point.

I think, in the past, as I've said before, no new news, is that RB does not have to look over its shoulder to see which other company is doing a better job in social and digital. I think RB has to look forward to see where the consumers are ahead of us, in how they are consuming and how they're engaging with brands in social and digital. To my mind, this is the real risk for companies; that we're behind consumers, not behind each other.

I think what we have looked at, and I think part of the media review also has shown us great learnings in how we can actual dial up and be more -- engaged more with consumers on social and digital.

Some of our brands and some experiences, Heather talked about the partnership with MTV to lift the social purpose of Durex; but also, the great work we have done on Durex. Durex is not a brand that you can actually advertise in all times of the day in all markets, as an example.

We have significantly increased our investment in social and digital, really understanding those critical moments and touch points where consumers engage with our brands in that space.

But beyond social and digital, I also said that we will increase our investment behind building our brand equities in the healthcare domain. What that means is that we know that the influences in healthcare are not just companies. Companies don't directly influence only. We have many influencing points, like healthcare professionals.

Sometimes people go to pharmacies. Sometimes the doctor detailing is the most important aspect of getting people to try your brand, or try a product, and then have faith and confidence in the future. So we have increased our investment also in healthcare professional, (inaudible) management, and so on, and so forth.



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And the final point of investment, and I did say it many years ago when I talked about brand equity concept, was how do we actually create consumers for the very first time?

The work we do with new mums in hospitals; for example, we go and give samples of Dettol to all new mums. When I say all, meaning not 100% of them, but a number of new mums in over 30, 40 countries around the world. That creates a lasting relationship for life. I can't tell you exactly what's the ROI of that spend, when I give a -- when I really brief a mum who's really worried about her child's health and wellbeing.

And when we talk about hygiene practices, when we talk about how do we -- how to keep your child free from germs and how to protect them, and how to make them healthy, keep them healthy, I don't know where there's an immediate impact on sales. But I do know it's the right thing for creating a lasting relationship with our brand. And we know it works over a large number of times.

So, long answer to your question. We have a much more comprehensive opinion about brand equity building. It's not about television, it's about all these things that I just talked about, in a way.

The reason why we put this measure was not for you; and I've said this also, it's not for you, it's for our own people. Because what does happen in companies is that always people try and secure their short term by investing more in that area, even if they know they're making a tradeoff for the long term.

Advertising and promo is the worst bucket in the world which still comes to being in spite of my two years of saying it's (expletive). Because you can cut advertising and promote. One is basically forsaking your future for the short term.

The reason why we put these buckets together was because it's true that television advertising may have a shorter term payback than social and digital, which is a bit less measurable; or even healthcare professional detailing; or the work we do with mums.

I don't want people to cut on those areas to show that we can actually drive (inaudible). I want a more comprehensive measure. So really, it's a complex measure for you all, and I'm sorry about that. It's not for you, it's for my own people.

Chas Manso - *Societe Generale - Analyst*

Chas Manso, SocGen. My question's, Mucinex, could you give us an update on all the sub-categories that Mucinex has gone into? How well is Mucinex doing in coughs, in cold, flu, and sinus?

And you did mention that the entry into allergy is a new -- I think it was GBP2.5 billion category revenue pool. If you put it all together, all the categories it's in now, what is the total category revenue pool that Mucinex plays in?

The second question is on, I may have missed this in the presentation but, your organic growth. If you could split it into volume and price mix, and particularly in Q4, because I think Adrian said it was a higher price mix in Q4, and everyone's a bit concerned about important inflation.

And the final question is on the dividend. The final dividend, if I've got it right, went down 1p, so I was just wondering why you've inserted that extra bit of caution into your dividend? Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Why don't we start with Heather taking the question on Mucinex, and I then I think, Adrian, you can follow up with the dividend one?

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Heather Allen - *Reckitt Benckiser Group plc - EVP, Category Development Organization*

It's just over a \$5 billion market that we're playing in now on Mucinex. When we look across cough multi-symptom, cold and flu, sinus, and now allergy, so super exciting in terms of the number of markets that we compete in; and, clearly, driving our relevance throughout the year so that we can support ourselves through the season. And that's basically overall. It's a much bigger pool, much more relevant throughout the year for the brand.

Adrian Hennah - *Reckitt Benckiser Group plc - CFO*

On the two other questions, on the dividend policy, all we've done is follow the policy. The policy is that we pay out 50% of our adjusted earnings per share. We're paying out 50% of our adjusted earnings per share, that leads to a 2% increase for the year as a whole; it leads to a 1% decrease, or 1p decrease, for the half year because there's obviously some headwinds in the exchange in the second half, and there was RBP.

We weren't being cautious, or not cautious, we were following the policy. And the Board didn't see any reason to change from the policy. So it wasn't a signal of any sort that you should go away with that at all. The -- we're very comfortable, so we pay out 50% of earnings per share. It's a sensible place to be in terms of capital allocation, from our point of view, so we had no intention of changing that.

In terms of the split of top line between volume and price mix, indeed, I just repeat what we said earlier, which was that for the year as a whole around half-half, half volume, 50%, half price mix; but that in quarter 4 we did see slightly more price mix proportionally than volume.

We don't see anything particularly significant in that. You can see, in the portfolio element, the fact that, that declined more itself, or we moved slightly that ratio that way. But, in essence, we don't see any material difference in quarter 4 from what we've seen for the year as a whole.

Iain Simpson - *Barclays - Analyst*

Iain Simpson, Barclays. A couple of questions from me, if I can. Firstly, Suboxone film has clearly done incredibly well, holding share against both generic tablets and also against Orexo, which you have a chart for it in the appendix, but I can't even see Orexo on the chart. Any color on that would be great as to the sustainability of that, and the drivers of that.

Secondly, clearly, Project Fuel did quite a lot of heavy lifting in terms of freeing up margin for BEI reinvestment. I just wondered if you could say anything about whether there might be any more cost savings in the future, or how you felt about that.

And then just lastly, it seems a while since we've heard anything on food at all, which is kind of understandable given its size, I guess, but any update on that would be great. Thanks.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Let me just start with the first question on market share on Orexo at the end of 2013. Although we should not underestimate basically any competitor, but we had a choice to make whether we should put ourselves on the market share chart, or them, because the scale difference is so much. And we decided to put ourselves on the market share chart and not them. I think their market share was around 1%, but I could be wrong by a few decimal points. You know I don't concentrate on decimal. So, that's one.

The second one is about our food. Let's talk about food. I think food is a very good business. First and foremost, I think we have fantastic brands in food. It is a great business, but, clearly, the category situation and the food -- the category itself in the US is not in the best shape, overall category dynamics on food.

This is the category in my mind that was benefiting in the past by significant inflationary impact in terms of pricing, and that was coming through. But this is a market which is essentially flat in volume, and flat in inflation. In that context, we just have to navigate through great brands.



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I don't think the food business itself is troubled. It's a good business, it's a solid business, and in the context of the market it performs okay, I would say. There is not very much more I can add on food.

Is there anything else I missed out from a --?

Iain Simpson - *Barclays - Analyst*

Project Fuel.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Project Fuel, yes. I don't think Project Fuel is a year-to-year project in that sense. We start all over again, of course. But Project Fuel is very much embedded in the mindset of what we have to do every year.

I have always said that in this Company that when we think about innovation speed is a greater driving faster than optimized cost. We actually don't always wait for the best cost structure before we decide to launch innovation. We'd rather be faster than be absolutely buttoned down from a cost point of view. That gives us tremendous opportunity to come back and then say, okay, we are now going to get behind costs.

Project Fuel is also a constant program of actually saying there's always juice in the lemon; always. So we are going to have another Project Fuel in 2014, because we can't give up on that, and hope to use that to drive investment in the business.

Harold Thompson - *Deutsche Bank - Analyst*

Yes, just one follow-up question. A few years ago, the pitch on your consumer healthcare franchise was to buy businesses, suck costs out of them, and then globalize some power brands in healthcare. And then we kind of run into a little bit of a lull where the regulatory side was just not quite achieving the speed which you wanted.

To me just sitting there, we seem to get a wave of brands stretched across the world going on in [healthcare]. Have we reached that kind of sweet spot where you've caught up with your delay? Or is it the types of product you're launching just don't require quite as much regulation?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

I think it's a bit -- I wouldn't say we have reached the sweet spot, because I think this Company can never be happy while from a mindset point of view we can do better, and better, and better; always.

But I think we are getting better with how we -- some of the investment we've made in our regulatory side gives us a better quality of understanding of what it takes to actually get multiple rollouts. You see what I'm saying? Because every country does not follow the same regulations and the product cannot be immediately rolled out from one market to the other. So I think some of the regulatory capabilities that we have put in place are enabling a more, I would say, scaled up version of our healthcare businesses.

On the other side, I have to acknowledge that the recent example of BMS is also down to having a lower hurdle from a regulatory point of view, and, therefore, our ability to do -- to launch them faster.

But I would not just give the 12 month -- that 12 months that it has taken us is not only down to regulatory; it would be too uncharitable from our people if I said that. Because I think taking a new category on, and then trying to understand the dynamics of the category, in a completely new territory that you haven't had any history and experience before on those categories, and then figuring out exactly how to enable those launches,



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is not just down to better regulatory capabilities; it's also down to a faster and a much more globalized organization structure. That is what we have put in place.

I think health will always have those dynamics of not being able to do everything in one go. We accept that. But we are better prepared now to do it in as many cases as we possibly can with the right regulatory capabilities, but also the organization enables it, to my mind.

Harold Thompson - *Deutsche Bank - Analyst*

Then final question on allergy. The Mucinex expansion into there, if I look at Strepsils, you've bought some Strepsil-type brands, Cepacol, I think, in the US; and then your Chinese; and then something, of course, in LATAM. But if you are now in allergy in the US, would that prevent you from wanting other allergy brands in the US? Or is Mucinex that's it, that's the power brand?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

If your illusion is to something which does not happen -- is outside the Company, I have no comments to make, as you can well imagine.

I think Mucinex has a tremendous opportunity on one basis; that in the US, it's truly trusted in an expert in getting mucus out. We know that 75% of consumers who buy Mucinex also buy allergy products, so it's a very simple extension of saying where does mucus relevant, and do my consumers already think about my brand in a similar way. So I think this is a very natural progression of Mucinex into allergy, which is continuous.

We've always done cough congestion, sinus, cold and flu, allergy, so that's what power brands do. They come with a [call] idea, and then they take their ideas to other segments and categories. That's the different between managing brands and managing categories. Managing categories is thinking about one category, and which category, how will you manage the category; brands transcend the category thinking.

We don't think about which categories; we think about brands and footprints, and what this stands for, and what can they actually -- how can they actually give better -- satisfy consumer needs better, and so on, and so forth. That's what enables Mucinex to get into allergy. And that's it.

Jon Fell - *Ash Park Capital - Analyst*

John Fell, Ash Park Capital. Rakesh, you mentioned your enthusiasm at the start for emerging markets. And we've seen in the past, when there's been slowdowns, that it's often been quite a good time for the really strong companies to invest, either organically or through M&A. Are you seeing any opportunities yet? And as well as having a plan for the year on what you want to achieve as an organization, do you have the flexibility, organizationally or budget-wise, to take advantage of any opportunities that might come along?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

In emerging markets, you mean?

Jon Fell - *Ash Park Capital - Analyst*

Yes.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

No, I think, first of all, when I said I'm very excited about emerging markets this is because I know that emerging markets over the long term are always going to be a key driver of our growth.



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We have tremendous opportunity because we still think about our penetration and how low it is in emerging markets, so how many years of growth we can actually look forward to, even if the market conditions are tougher, and I've just explained to you that they are tougher.

If you look beyond the immediate toughness of the market and see the longer term opportunity of emerging markets, that's what excites me. I don't look at the headline of the morning; I'm just looking at the long-term story here.

In terms of M&A in emerging markets, I think -- I've just said what I have to say about M&A, that we will always be looking for the right opportunities if they make sense from a strategic point of view; if we think we can be better owners of the business than somebody else; and if we think we can drive tremendous value based on what the valuation of the business is, and how we can actually extract that value from there on. And that, we are not thinking about just as a pure emerging market, or a pure developed market exercise; it's much more about strategy.

You've seen over the last three years -- last year, rather, or even few years before that, a number of our assets were actually in emerging markets. We've got Paris, and India; we've got BMS, which is not an pure M&A, it's a collaboration to start with; and in, of course, China. But in those three cases they were very specific, India, China, Brazil, Mexico, asset, high quality businesses, very good brands, that we believed were, to our humble mind, undermanaged, and that we could do much better with, which we have.

So I think that's what we are going to look at; the strategy, and whether we have interesting ideas. And whether they are developed markets, or emerging markets, is something to be seen.

Okay? Well, thank you very much for joining us today. Thank you.

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