Reckitt Investor Seminar Series

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Good afternoon, everybody. I am Laxman Narasimhan, the CEO of Reckitt, and I'd like to welcome you all to the first of our investor seminars. Thank you to all of you who have joined us in person and those of you who have dialed in from around the world. It's great to see so many of you in person after this long, and I look forward to speaking to many of you face to face later on. To clarify, we're following all government procedures to ensure a safe in-person meeting, including venue protocols, hand and surface hygiene, ventilation and social distancing. Before we start, I should draw your attention to the safe harbor statement in the materials and on our website. Reckitt has a long history of delivering outstanding shareholder returns. It is in our DNA. We are a company of owners, a shareholder friendly company. As CEO, my focus and my team's incentives are designed to deliver long-term out-performance for shareholders.

We also recognize and empathize that the last 18 months have been a particularly unusual time for this company. We launched a transformation program in February, 2020, just as COVID started to hit us. Parts of our portfolio benefited from the pandemic while others have been adversely affected. We therefore do appreciate and understand the impacts of our transformation and separating that from those of the pandemic. We realize there is continued focus on exactly where our investments have been made, how we are pacing the transformation to the shifting external environment, like the cost inflation we are seeing, and how margins will evolve from here. It is with that in mind that we have designed a series of investor seminars for you to get a better read on all of the above and to share with you what is it that makes us so confident in achieving our growth targets?

Finally, we understand your desire to meet a broader management team, given the extent of change. In addition to today's presenters, the rest of our executive team is in the front row. At the end of our session today, I will be happy to take your questions and we'll draw on my executive team to answer them.

We hope you will walk away today with four key messages. First, we are a company of owners. 55% of our employees are shareholders. We have an aligned and committed senior team leading the transformation who with their associates have not only delivered an incredible performance through very difficult circumstances in the pandemic, but continue to bring new insights as to how Reckitt can outperform as we come out of this crisis. We thank them for all that they have done and we're excited at the prospect of what lies ahead.

Second, the business has been fundamentally strengthened over the last 18 months. Our portfolio is sharper and we have made significant investments in creating a business with durable advantage for the future. Third, our financial performance, particularly on margins, is at an inflection point as we cycle through the step change investments we have made and as our business moves to a more normal trading environment, particularly for our OTC business, and as we price for the higher rates of input cost inflation. And fourth, as a result of this, we feel confident in our ability to achieve our medium term goals as laid out in our guidance.

One additional comment on current trading, as we said in the RNS released this morning, trading is in line with our expectations and we remain confident in our guidance for the full year. We won't be providing more detail at this stage, but we'll do so at our Q3 update in late October.

We start with our strategy. It's anchored in five mega trends we see, hygiene as a foundation of health, the growing importance of self care, the need to address the sexual infection crisis in the world, the need for nutrition for children and the growing number of adults and seniors, the digital explosion, all of which have to be addressed in a sustainable manner given the massive shifts in the environment and society. And as he will see over the course of the presentation, we will remind you of the reset we went through as Jeff lays out the margin investments we have made, which is on track, where we have made them, which is also on track, how we evaluate returns from those investments, as well as the progress we are making on productivity.

To bring that to life in terms of how the business is being invested in, Dr. Angela Naef, our head of R&D, and Arjun Purkayastha will illustrate the impact of the step change capability investments we have made. Kris Licht, our global President of Health and Chief Customer OFfficer, as well as Volker Kuhn, our global President of Hygiene will join me as the three of us lay out for you the significant growth opportunities across our three GBUs of health, hygiene and nutrition. With focused investment driving ongoing momentum in the business units, active portfolio management improving the mix of the business, and the evolution of our talent and culture, we feel confident in delivering our midterm targets, delivering mid single digit revenue growth as well as mid 20s AOP margin by the mid '20s. Specifically on revenue, we look to exit 2022 with a run rate of mid single digit revenue growth.

We have put in place a strong productivity program. Our initial target was 1.3 billion, which we raised to 1.6 billion over three years. The muscle we have built in the company gives us confidence to raise this target to 2 billion pounds over four years. This is a program focused on building the muscle inside the business to enhance the effectiveness and efficiency in the company, and to provide ongoing fuel for continued investment in the business and to provide a buffer for unforeseen headwinds. We are also managing our portfolio actively, moving the company to higher growth spaces and addressing structural challenges like our infant formula business, the IFC and China business, the sale of which closed two weeks ago, and the sale of Shoal, which we closed a few months ago. We are pleased with the acquisition of Biofreeze, which is now part of our company, has margins consistent with our portfolio and is showing double digit growth.

The first month with Biofreeze in August was the strongest trading Biofreeze has had in its history. And yet, while being shareholder centered, we are doing it the right way. We have set ambitious ESG goals with a focus on our brands, the planet, and a fairer society. Our contributions on the social front have gone up significantly over the course of the pandemic. Additionally, we are rated AA by MSCI and 20.7 on Sustainalytics, both of which represent improvements. Our environmental commitments are consistent with achieving the goals we set out in 2012. In fact, we surpassed our 2020 target to cut greenhouse gas emissions by 40%. We achieve 53%, and our new 2030 target is a 65% reduction.

In evolving our culture, we took what was the best of Reckitt of the past, an ownership culture focused on create and on innovation, and a culture of delivery, and added to it care, care for each other and for the world around us. And as a result of this, we are on track to delivering mid single digit revenue growth as we exit 2022, and mid 20s margin in the mid '20s.

All the speakers today will provide further color on how we will achieve these goals, either from the perspective of the GBU, from the perspective of our growth enablers or from the perspective of the financial framework. We feel comfortable that we have the levers at our disposal to bring the business back to our margin goals through a combination of gross margin recovery, the reversal of one-off costs, ongoing productivity as well as the operational leverage resulting from growth.

And with that, our agenda. We will start with the GBU's, take a short break and then come back with R&D and e-commerce. Then the financials and a brief wrap up, after which we will be glad to take your questions. And so with that, I'd like to call on Kris Licht to provide you with an overview on health. Kris?

Kris Licht
President Health & Chief Customer Officer

Thank you, Laxman, and good afternoon, everyone. First, let me introduce myself. I am Kris Licht, the global president of health and our global chief customer officer. I joined Reckitt two years ago from PepsiCo, where I played a series of operational and strategic executive roles. I've been in the midst of a transformation for the last two years, and I've thoroughly enjoyed becoming part of the entrepreneurial Reckitt culture. We have a team full of drive and ownership, and I thrive in an environment like that. Today, it is my pleasure to share with you the growth outlook and building blocks for outperformance in our consumer health business.

In July, 2020, we created a dedicated global health business unit with a focused leadership team to drive enhanced growth and performance with our advantage portfolio of brands. Over the past 12 months, we've developed and deployed clear growth strategies for each of our brands and categories that are grounded in a new and deeper level of consumer insight. And we have invested significantly in innovation, in our pipeline and in commercial execution.

Now, let me first share with you an overview of our health GBU. It's a sizable and truly global business. We are present in more than 130 markets around the world. Our geographic mix is balanced. A bit more than half of our net revenue is being contributed by developed markets, the balance from developing markets. Our portfolio is well diversified across four attractive categories, all of which have strong growth prospects based on a clear runway for household penetration and premiumization. OTC and germ protection taken together account for more than 70% of our total revenue. Intimate wellness is smaller but holds the greatest growth potential. Personal care is an important scale builder in our portfolio in many markets, which we grow and invest in selectively. All four categories have attractive earnings models with the highest margins generated in OTC and intimate wellness. We are increasingly becoming an omni-channel business. E-commerce is the fastest growing channel we have and is already contributing circa 12% of our net revenue. We will continue to overdrive this channel in the months and years ahead.

Turning to our advantaged portfolio of brands. Our health brand portfolio is exceptionally strong with all our power brands occupying leading positions in the categories and in the markets we play in. This is a result of a long-term strategy of continuous investment in brand building and differentiated premium offerings. During the recent pandemic disruption, we were not only able to hold these leading positions, but in the majority of cases, we actually strengthened them as consumers chose the most trusted brands and the most efficacious solutions to care for themselves and their loved ones in times of uncertainty and risk.

We have a clear midterm ambition for our health business. We want to be global leaders in the broad and attractive consumer health space. This is a very attractive neighborhood given the favorable macro trends that are driving sustained growth with lots of highly emotional and functional consumer needs and lots of problems to solve. There are more growth opportunities in this portfolio than we can capture, and so we have been choiceful and set clear priorities for our growth strategy going forward.

Now, what does it mean to be a leader in this space? First, we're aiming for midterm four to 6% sustainable revenue growth. This is slightly ahead of how we forecast the overall consumer health space to be growing and thus would entail outperformance. Consistent with that. We aim to steadily gain market shares. We have a legacy of competing very effectively in the marketplace, and despite all the volatility that our categories are exposed to like cold and flu seasonality, and most recently the extreme and unusual impacts of the pandemic, we are aiming to drive sustained market share gains regardless of the environment that we're in.

Thirdly, we want to provide consumer centric health solutions, not just products, but education, information and digital tools for consumers to be empowered to lead healthier and safer lives. This in turn drives consumers into our franchises. And finally, we will do it with purpose and fight at the heart of everything we do, at the heart of our brands and the good that they can do in the world. So this is to us what leadership and consumer health is all about. Setting the pace on growth, on market shares, on consumer engagement and on purpose.

Our category strategies are clear. It is to lead germ protection with Dettol and maximize the role Dettol can play in driving the stickiness of hygiene habits and enabling consumers to stay healthy and safe. It is to be a category leader, but truly act like a category leader in intimate wellness, growing category penetration and drawing new consumers to our franchise. It is to reignite the growth in OTC that is inherent in our portfolio by stretching our brands, accelerating innovation and entering new or creative places and spaces. And finally, we want to perform and selectively grow in personal care to build scale in our key markets and channels. These priorities are enduring and will guide us for years to come.

For a long time, we have been very focused at Reckitt on growing our power brands through a brand centric innovation strategy. This approach ran out of fuel in recent years as it overlooked adjacent and new consumer needs and failed to see a changing world of opportunities around our core business. As part of our strong commitment to growth, not only in health, but across our GBU's, we have invested in in-housing a new breakthrough capability called demand centric growth. When coupled with science and execution, we believe this represents a real competitive advantage for Reckitt going forward. The capability anchors our category strategy and gives us a new and deeper look at consumer needs across categories, and it leads us to more disruptive innovation and it helps us identify new spaces in places where we can extend our brands. We've also invested significantly in new science and technology platforms. This will help us deliver ownable product differentiation and give us the competitive edge. Angela will share more with you about the foundational progress we've made in R&D in her comments.

Finally, we are improving consumer health outcomes by broadening the spectrum of solutions we bring to market by shortening regulatory timelines so that we can get new innovation into the market faster and we can scale more efficiently across markets. Let me bring this transformation to life for you with an example. Here's the intimate wellness case. Previously, we used to have a very narrow brand centric understanding of this category. We used to think that intimate wellness was about condoms and lubes and the act of sex only, and we really focused the majority of our efforts on natural rubber latex condoms, where we were leaders. In the last year, we've spent much more time with consumers. Through a large and global consumer demand mapping, we talked to more than 50,000 consumers across 17 countries and realized that we're playing in a much larger sandbox than the act of sex, and that the needs and wants of consumers are proliferating and changing in exciting ways as stigmas fall away and culture evolves.

This means that our total addressable market increases from 5 billion to more than 45 billion pounds, and our plans now take us from condoms and lubes into much broader spaces like women's intimate wellness, next generation toys, digital solutions and other adjacencies. This new consumer centric approach enabled our transition from a single brand, Play, focused on Durex, into a much wider portfolio of brands that each satisfy distinct consumer needs and audiences. In summary, we're getting much closer to our consumer, both today as well as those consumers we will meet in the future. With that context, let me now turn to the key growth building blocks for each of our three largest categories.

After a period of slow growth in parts of our OTC business, due to COVID headwinds such as ibuprofen misinformation and a historically low cold and flu season, we are now gaining market share from an overall category and brand standpoint. We are also seeing momentum as we expected in the cough, cold, flu and sore throat categories where half of our OTC business is generated. We have invested significantly more in our OTC innovation pipeline, building on recent momentum. As a result, next year, the category innovation pipeline for OTC is going to increase versus this year. Innovation is a key top-line growth driver and we measure the value of the pipeline as the total incremental net revenue generated by the projects brought to the market.

Now, let me give you a few examples of innovations that have already been launched and are coming. Firstly, our Mucinex franchise in the US. Here we have the number one OTC innovation in the market with the Night Shift range, and our recently launched, highly efficacious Instasoothe sore throat range. In our Nurofen pain franchise, we have a new breakthrough 12 hour relief ibuprofen proposition launching in Australia first and in other markets later. A best in class ibuprofen paracetamol combination launching as Nuromol in Brazil right now, as well as the down scheduling of Nuromol in the UK, which provides consumers greater access.

The Biofreeze acquisition in the US has opened up new areas of opportunity for us in the critical American analgesics market and a new pipeline of topical analgesics going beyond our core pill format, which we can bring to other markets around the world. Looking at other areas where we're bringing more innovation to the market, we can look at our European cold and flu business between Strepsils and Lemsip, going into the natural space with Strepsils Herbals, and providing new benefits with Lemsip First Action. And finally, Gaviscon, which has a proven growth model that has been driving share and category growth for more than three years. We will continue the expansion into new markets, taking an already proven approach to more new places and spaces.

Our earnings model in OTC allows us to invest and fully fund our attractive portfolio of brands and we expect continued momentum and share gain in the medium term. We have also confirmed through analytics and in-market experiences that our premium price points are generally appropriate, and indeed are what allow us to continue to invest at a high level in our trusted equities.

Turning to Dettol. In Dettol, we had a remarkable year in 2020 with heightened relevance of germ protection and very strong market performance. Dettol out of all FMCG brands became the number one household penetration growth brand globally, an unusual feat for the category, highlighting the unique power of the Dettol brand across our core markets. In 2021, we are emphasizing the continued need for sound hygiene habits, while continuing to build on our penetration and expansion of purpose programs in key markets such as Pakistan, India, the Middle East and here in the UK. Dettol plays a critical role in our health portfolio, providing scale in markets and channels including the medical channel. With Dettol, we're also growing market share. We grew market share through the pandemic. We run many initiatives against execution priorities and innovation priorities to sustain this momentum.

We are restaging our personal care range. We are investing in our laundry sanitizer range, which provides trusted Dettol protection from illness and odor causing bacteria. We're also going to new places. Out of home is a priority. We're rolling out a full range of ideal on the go solutions to protect from germs on hands and surfaces that hands touch. New partnerships is a priority. As an example, our partnership with British Airways, but also many other providers where single use bacteria wipes supports safer and more hygienic travel. And finally, we're opening up new spaces in the category. Our botanicals platform, which offers new, differentiated and more sustainable solutions under our Dettol True Clean triggers and wipes. This is Dettol efficacy delivered through plant-based germ kill, which is right on target for consumers looking for more sustainable products.

Now, one question we and others have wrestled with is what is the stickiness of hygiene habits and consumption? I can share that Dettol net revenue is stabilizing at above pre COVID levels at approximately 40% above our baseline. This is over the past few quarters. It shows the stickiness and the enduring relevance of hygiene habits and awareness, and we believe this trend is here to stay.

Turning back to intimate wellness, I shared with you how we play in a much bigger sandbox today. Our priorities are the following. First of all, we're going to restage our Durex brand with a design-driven brand world, a new consumer connection strategy with purpose and cultural impact. These changes will start hitting the market in Q4 of this year. From a market share standpoint, we are growing market share at 60 BPS at the moment. Our new PU condom range have proven successful in this, and with this, we're launching the PU ultra lube range in China, which will fuel further growth. We are sharpening the positioning of the KY brand by grounding it in couples intimacy, with a rollout of new design and consumer communications in the US starting in Q4 of this year.

We're going to new places. Our Ultra-Fast partnerships have made us closer to the consumer in the moment of need, and a good example here is Durex Ultra-Fast Glovo. In 2021, we had a record with Durex. We managed to reach a consumer in 120 seconds. Intimate wellness is the leader in our portfolio in terms of the e-commerce contribution due to the discreteness of purchase, and we will continue to overdrive this channel. In terms of newer spaces, female intimate wellness is a major priority and an attractive high growth space. Queen V, our new proposition, will deliver a holistic consumer experience with a focus on the micro viome and a digital first approach, rolled out in '22. This new offering rides on our microbiome science platform, which Angela will also speak about later. Overall, our innovation pipeline in intimate wellness is significantly strengthened and offers significantly greater growth potential.

Those are our category priorities and building blocks. However, none of that comes to life without excellent in market execution. At record, we have a legacy of executing well and we are obsessed with regaining our edge in execution and exceeding it. To us, commercial execution means winning with top customers, winning at the shelf and winning online. With respect to top customers, we have invested significantly in resetting and creating new strategic partnerships with leading retailers. While we are happy with the progress we've made, we recognize that we have lots more work to do. We have, as a result of these investments, received some recognition, including supplier of the year from Walmart in the US, Tesco COVID hero in the UK, and recently, we've been named the number one OTC supplier in UK category development in 2021. In terms of winning at the shelf, we are truly obsessed with distribution in health, as availability is key in driving penetration in our categories. Overall we've achieved a 30 bps share of distribution increase across health recently, and two thirds of our top CMUs are growing weighted distribution. A great example of this is Durex becoming the number two brand in India, driven by rapid distribution expansion.

And finally winning online. We are very focused on overdrive in this channel, as I mentioned, to capture the full potential of the shift to digital health. Accelerated by COVID channel shifts, as well as our own internal investments, online currently contributes 12% of our health revenue, and we expect it to be a material contributor to the group's five-year ambition of reaching 25% of group revenues in five years.

Our new Omni Innovation Model already generates substantial additional sales for our health categories. This is underpinned by real-time data generating more agile innovation, and is relevant for all our categories, but it's particularly essential for our intimate wellness business.

Finally, I would like to share a new partnership with Boots here in the UK that went live recently, where we now deliver OTC medicines on Deliveroo in the UK. This superior consumer proposition enables consumers to receive our healthcare products within 30 minutes, a model that has great potential in all metro areas given its convenience and ease of use.

So in summary, we are obsessed with execution, we have made good progress, and we have more to do. Stepping back four key messages from the health GBU. Firstly, we have significantly strengthened this GBU over the last year, we have a focused health leadership team that's driving a clear set of priorities and a clear category strategy forward, we have re-invigorated our innovation pipeline significantly, and we have confidence in our mid-term growth ambition. Thank you, and I turn it over to Volker.

Volker Kuhn
President Hygiene

Thank you, Kris. Good afternoon, I'm Volker Kuhn, I joined Reckitt last August as chief transformation officer, and since May I have been leading the hygiene GBU. I joined Reckitt because of our tremendous potential for growth. I love how deeply entrepreneurship and ownership are rooted in our DNA, and the grit and agility of our teams are fascinating. And this is why we can scale and execute with speed and excellence.

We have a portfolio of iconic leadership brands with great potential, and last but not least, our purpose and fight, as explained by Laxman from before, at Reckitt to make an important difference in the world is very, very motivating for me.

Now let's have a look at hygiene. Hygiene delivers about 45% of Reckitt's revenues and 47% of our AOP. Our portfolios skew towards developed markets, with developing markets contributing about 20% of revenues. Our six core categories account for more than 80% of revenues, and an even bigger part of AOP.

Our e-commerce footprint is growing significantly. We have doubled our sales in the past two years while we were at 7% of revenues last year, year-to-date we're already at nine. Our three biggest categories each deliver more than 1 billion pounds in retail sales, surface and disinfection, auto dish, and air care. The next three, fabric care, lavatory care, and pest are each between a quarter of a billion and three-quarters of a billion in retail sales.

We have very strong brands in each category, and leading shares. Lysol is the largest disinfecting brand in the world, followed by Dettol. Together, Lysol and Dettol are almost three times bigger than the next player in retail sales, and importantly are growing faster than other branded players. With Lysol we generate 98% of our sales in markets where we are the leader or number two.

Finish is the leading auto dish brand globally. It's the most recommended brand by dish washing machine manufacturers. As with Lysol, we generate 98% of our revenues in markets where we are the leader or number two. In air care we're the leader or number two in 89% of the markets where we play. Now our household penetration in each category is relatively low, which gives us ample room to grow each category. Therefore, our strategy is centered on category growth.

Our GBU ambition is in sync with Reckitt's purpose to relentlessly pursue a cleaner and healthier world with our purpose-led and superior brands. We aim to be present in 33% of households by 2030. Importantly, we will benefit from a rising global middle class. Over the next 10 years, we expect the number of consumers with more than $11 disposable income per day to grow by 50%. Over this income threshold, our portfolio starts to be irrelevant. Thus by 2030, we aim to generate a third of our revenues in developing markets where most of the middle class growth will be. And at least a third of our revenues will be online by then.

All in all we want to grow our revenues by 4 to 5% per annum in the midterm, with a balanced growth across our portfolio. To achieve this ambition we have now for each category a consumer-anchored category growth strategy in place, similar as Kris explained for health.

Actually we are refocusing on Reckitt's historic strength, one to grow and create categories, two to delight our consumers, three, to have industry leading earnings models, and four and above all, executing with excellence, agility, and grit.

Now we want to grow our categories by getting more consumers using, and more shoppers buying our categories, driving penetration and premiumization and creating new categories, or as we say, spaces, by leveraging our consumer insights in demand spaces. We'll delight our consumers with preferred product and packaging experiences, preferred brands that are anchored in purpose and in performance. To continue delivering industry leading margins, we remain laser-focused on our earnings model. We are flexing our productivity muscles to eliminate non-value adding cost, and to sharpen our revenue growth management. We are leveraging our strong innovation pipeline and the strength of our brands to take pricing.

This is particularly important given the high cost inflation we are facing from commodity and freight costs, and we will nurture the high cost and cash discipline that is deeply enrooted in our DNA.

Now let me share with you some insights how we bring this to life in our three biggest categories. As mentioned, we are by far the market leader in surface and disinfectant with Lysol, Sagrotan, Napisan, Vega, Harpic, and Dettol. Now this is not by chance. Obviously we are benefiting from the COVID tailwinds. No one knows with certainty how endemic this pandemic actually might be. Thus, we are staying very close to our science partnership network, as well as consumers and customers to remain agile in particular in supply chain and planning. Now for planning purposes, we expect the category will trend 10 to 30% above pre-COVID levels going forward.

Like Kris mentioned for Dettol, Lysol is similarly outperforming the category. We are significantly stronger as we are extending our leadership in disinfection and outperforming the market. Lysol gained more than 500 basis points in market share in the US since 2019, and on wipes we get more than a whopping 900 basis points in the US.

This year, we are adding 4.5 million new households in the US, and 9 million to our franchise globally. So overall, the brand significantly strengthened its position with consumers. Actually in fact, our equity rating improved by 200 basis points since 2019. So we are extending our market leadership not only by growing market share, but more importantly, by growing the market, expanding in spaces and places.

Now, how are we doing this? As Laxman mentioned, hygiene is the foundation of health. So our focus is to protect our consumers every day. We are turning COVID insights to drive proper hygiene habits, to be safer all the time and everywhere.

For example, we're extending our school programs to protect children in every market. Another example is our out-of-home drive. Actually 75% of US consumers are very concerned about germs outside of the home. Our new and improved on-the-go products are addressing this need in particular.

And our Global Business Solutions Team is supporting this by widening and deepening our customer relationships in education, travel, and entertainment. We already gained leadership and professional wipes in the US, and we're only playing in a small portion of the professional market today. So we have room for future growth, and actually exciting innovation plans to win there.

Now let me zoom a bit closer onto our laundry sanitizer business to showcase how we are broadening the shoulders in disinfection and how we are driving category growth. Following our successes in Europe, we launched laundry sanitizers 2018 in the United States, and we have gained already 5% of penetration, and this keeps growing. In the past three months alone we have doubled our retail sales compared to the same period a year ago. And consumers love our proposition, as evidenced by a repeat rate of above 50%.

And for example, in Italy, 25% of households use laundry sanitizers. So you can see why we are excited about the future here. And our retail partners love it too. Laundry sanitizers create massive value for them. Imagine this, a wash load of a premium detergent in the United States is about 19 cents of retail sales a load, now adding laundry sanitizers to this load adds another 45 cents revenue per load. This more than triples the retail value per load, and at higher margins for our retail partners. So this is a perfect example how we are creating a category, focused on consumer insights and consumer delight, driving penetration and premiumization. So this isn't a market share game for us, but a category growth game.

On top, we are expanding our global presence into new places. Since June last year, we have grown Lysol's presence from 18 to 58 countries. Now our strong regulatory function has enabled this record speed expansion. And take France for example, starting from zero, we are now the second largest growth contributor in the French multipurpose cleaning market. We're driving more than 30% of category growth. We are creating the whole disinfectant sprays segment there, massively growing shopper basket size.

Now let's move on to auto dish where we are the global leader. The purpose of Finish is to ease the burden of dishwashing. We bring consumers the highest standard of dishwashing while also empowering them to conserve water, the very precious and scars resource.

If you compare an auto dish cycle to hand wash cycle, you typically save over 90% of water. And on top of this, you save time, and most importantly, you get much better results. So with this program we are driving penetration in collaboration with leading dish washing machine brands. Even in well-established markets, like the US, we have massive room to grow. Imagine we have only in the US 55% of households own a dishwasher. And in the past 12 months, we have added 1.7 million households in the US alone.

An important driver of category growth for us is e-com. And we are designing e-commerce fit solutions that are on top more sustainable. And thanks to those dedicated designs and our demand creation, our market shares online are significantly higher than offline. And Arjun will later share some interesting insights in our e-com acceleration that is super exciting.

We innovate for consumer delight and category growth. Our thermoforming solutions deliver significantly better results at higher delight at premium pricing versus our previous generation of products. This also delights our retail partners. By shifting a consumer from a hot press tablet to thermoform, the retail sales per dishwash increased by 60%. Similarly, we continue to innovate and drive the benefits of additives. Using an additive adds 40% to the consumer spend per wash.

And finally, yet most importantly, the global dishwasher machine penetration is only 13%. The addressable market for dishwashing machines is households with disposable annual income of more than $15,000. Therefore, a key growth driver will be the increase of the middle-class globally. By 2025 this group is expected to grow by 160 million household, which is a significant acceleration. And we are the clear market leader in these high growth developing markets.

Air care offers exciting opportunities for growth too. We are seeing already early signs of our success. Since 2019, 4.5 million new households were added to our franchise with our premium priced Essential Mist line and electricals. Take Essential Mist as an example, while our penetration is growing very rapidly, it is still very low, 4% in the US, and 2% in the UK.

The Essential Mist category growth model is very simple and attractive; consumers buy a starter kit for approximately 10 bucks, the usage experience is loved by our consumers, and this drives annual refill sales of $22 in the US for example. Also an air care we have specific e-com fit solutions that are much more sustainable. And empowered by our strengths in digital first demand creation, we are winning in this fast-growing channel.

Imagine, we are already the market leader online in the United States, while we are only number three offline. And we are playing in the air care with a distinct portfolio of brands, Air Wick, with its historic strength in devices and refills, with Lysol Neutra Air we are expanding Lysol's disinfectant play in the category to kill germs. And with Botanica as premium natural offering, Botanica is recruiting new buyers to our portfolio, about 70% are new to Air Wick. Botanica is designed for a much younger group consumer group, and it's premium priced, and delivers high repeat rates.

In our six core categories, we run series of digital-first or digital-only experiments. Here you see an example from air care, we created Kazaa super premium air care brand inspired by luxury home decor. We are experimenting with it in a very targeted way, and this give us useful insights.

Now, let me share with you a few early examples in hygiene, how we are winning by further strengthening our capabilities. We have developed a new digital media tool that we piloted in 50 projects and are now rolling out globally as we speak. On top of this, we created eight digital excellence apps and trained over 200 staff with this, our media ROI is significantly improving.

For example, in the US, we are running tests with customized creative messages to various germ-concerned audiences like healthcare workers, parents, and teachers. We are very encouraged by the early results. Another example is Finish in the UK, we now geo target our media to areas with high propensity of households that are likely to have a dishwasher, or likely to buy one. By this, we have increased our ROI significantly, and grown our market share by 160 basis points.

We are also strengthening our go-to market and improving our relationship with retailers globally, as explained by Kris before, and as evidenced by ratings in Advantage Monitor.

Like Kris explained, the great recognition for us is that Walmart awarded Reckitt Supplier of the Year in Hygiene. So customers are supporting our category growth strategies and plans. For instance, we are doubling the total distribution points for Lysol in the US with all key retailers.

Examples from Mexico demonstrate how we drive laundry sanitizer regimen with detergents at the point of purchase. Retailers are actually placing Lysol sanitizer right in the middle of laundry detergent end caps to drive this co-purchase.

While we have global brands, we activate them locally with local insights. Here you see an example from the Philippines, our disinfectant spray, combined with Pula bear, the official Red Cross Philippines mascot. In a joint campaign, we invested to build mass testing labs for COVID and leverage this campaign also with retailers to drive more prominent in-store activation.

And the third, yet extremely important pillar in our capability strengthening, is innovation in supply chain. While we have shown in some key areas to be more resilient and agile than our competitors, we are not satisfied with the status quo, and we are making significant investments to strengthen our supply chain reliability and agility.

Most important our innovation pipeline is more consumer-centric and category-growth focused now, and our pipeline is stronger than ever. This year we have a 30% higher innovation pipeline value compared to 2019. And our pipeline value for 2022 is over 40%

bigger. Angela will provide a few more insights in this extremely important area for us to win.

So let me sum up why we are excited about the future of our hygiene business. One, we extended our leadership in disinfection during the pandemic in a significant way, growing penetration, entering new spaces and new places, and strengthening our position with consumers. We are using this COVID upside to strengthen our capabilities and capacity to win in the future.

Two, we have a clear and consistent consumer-centric category growth model in place in each category. We are focusing on growing the category with consumer preferred offerings by our purpose-led premium performance brands through premiumization and user's regimen, and by growing penetration, as shown in auto dish, and by creating demand spaces, as soon with laundry sanitizers.

Three, while we already harvesting the early benefits of our capability strengthening, we are just at the beginning of this transformation journey. Over the coming years, we will further strengthen our capabilities in all parts of our value chain, especially in digital marketing and sales capabilities, as well as our go-to market operations, to serve our customers even better.

And four, we have a strong portfolio of world-class brands, a clear strategy, and a stronger than ever innovation pipeline. Plus, we are strengthening our capabilities to win, to win sustainably with our consumers, to win with our customers-driving category growth, and to create industry-leading margins and shareholder value. This is why we are excited about the prospects of our business going forward.

Now, let me hand over to Laxman, who will provide perspective on our Nutrition GBU.

Laxman Narasimhan
Chief Executive Officer, Reckitt Group plc

Thank you Volker. As I said earlier, we closed the sale of the infant nutrition business in China on September 9th. The business that remains is a majority developed market business with a very strong anchor in North America, which is where Mead Johnson was founded in 1905, with the mission of giving every baby a healthy start to life.

Developed markets are 61% of our revenues, the rest of the business is in developing markets. ASEAN, where we have stabilized the business and is back into share gain, and the stable business that we have in Latin America. E-commerce is a big driver of the growth in this business, a bit smaller than it was when we had infant nutrition in China, but clearly a large element of the growth going forward given the business characteristics of the relationships with moms, as well as the high order sizes.

Our North American IFCN business is now the largest single business within nutrition. It is strong and has been performing consistently well since the acquisition in 2017, averaging nearly 5% like-for-like revenue growth. The trading momentum continued with the first half of this year, and we are beginning to see some small, positive bumps in birth rates in North America post the pandemic. Our market share is strong, and we have attractive margins with strong cash generation.

Following the disposal of IFCN China, and with the US executing successfully, our focus now turns to the growth and margin profile of our developing markets businesses in ASEAN and Latin America, where as I said earlier, our market shares have largely stabilized.

Now we play in four categories, which together drive three to 5% revenue growth for nutrition in the medium term. Just under 60% of our nutrition business is comprised of our core Enfa family of brands. Our specialty infant business is currently largely a North American business where our brands are Nutramigen and and PurAmino, they play in allergy, with a very strong science backbone, and have achieved strong market positions, in fact market leadership recently in North America.

The opportunity set for our specialty infant business is global, and we are rapidly expanding it. Together we expect that our core Enfa business, and our specialty infant nutrition business is a low-single-digits growth business, growing in the region of 1 to 4%.

Additionally, we expect our adult nutrition business to contribute 100 basis points on average to our growth each year. This is a large total addressable market. We have the science, and we have one brand launched and others in the works, and an exciting brand like Sustagen in the developing markets.

Finally, we expect our vitamins, minerals, and supplements business to deliver 4 to 6% growth, in line with what we are seeing as we expand and extend our new brands. Together, that combines to drive three to 5% growth in the medium term.

We have focused strongly on refining the model that underpins our nutrition business, specifically the incremental investment in science, innovation, expert recommendation, and executional excellence, coupled with our continuous relationship marketing, or what we call Care Model, which maximizes consumer lifetime value, and provides the basis for a broader Reckitt relationship with a household at a time in the life of a consumer when behaviors change the most.

Our core Enfa business growth relies on science and differentiated claims to support premiumization, offsetting the declines in birth rates. Our science is very strong across cognition, digestion, and immunity, and the business has a strong pipeline of products and claims. When coupled with clear consumer insights, again, through the demand space work that we've extended across our entire business, strong go-to market execution, and coupled with the significant white space potential in places which have high birth rates, the business can grow low single digits.

However, specialty infant nutrition, which represents around 20% of our IFCN business is a high growth part of the business. And it also comes with stronger margins than the core Enfa business. This business is driven by the significant growth in the underlying conditions like allergy globally. The strong signs that Reckitt brings to this business, and which has been evident for nearly 100 years, since Edward Mead Johnson set the business up as a response to the broader needs of children like his own that had metabolic disorders. Over the last 18 months, we have rebuilt our advantage in the specific channels that the specialty infant nutrition plays in as well as broaden the portfolio. Our focus is now to expand to new places and new spaces. We are currently seeing this business grow high single digits and we expect this to continue. The large addressable market on adult nutrition reflects the significant opportunity posed by an aging population. It provides a unique opportunity to stretch the science of Mead Johnson in lipids, pre-post biotics, proteins, and especially carbohydrates into new spaces. We launched Propital in China and in Asia and the opportunity for this brand and other brands in this space is global.

We have a few other propositions in the works. And additionally, as you will hear from Angela later, we're working on external partnerships with the many labs that are bringing molecules to life focused on longevity and senior health. Our target is driving 100 basis points of revenue contribution from this area, which equates to around £20 to £25 million of additional revenue every year in the medium term. We see this as highly achievable, given the total addressable market opportunity. Finally, the combination of strong brands, our e-commerce capabilities, our brand incubation capabilities, coupled with strong scientific platforms and our partnerships with customers underpin our growth ambitions for vitamins, minerals, and supplements business. This is a category which has grown by 5% annum historically. As our new brand Neuriva has demonstrated, we are seeing significant penetration increases and our cross border capability is taking the brands to other markets like China. Digital is broadening our reach and our focus on innovation has increased our pipeline while also broadening our brands like we've done with immunity to address new consumer needs.

We do have slower parts of our portfolio that we are working on, but we believe overall with these growth plans, we can deliver 4% to 6% growth in the medium term. In summary, we have a stronger and more stable business after the divestment in China. We see attractive growth opportunities in new places, specialty infant, adult nutrition, and vitamins, minerals, and supplements. We have strengthened our capabilities to realize our potential and have a re-energized leadership team that is confident of achieving our medium term growth emissions. Those were the perspectives from the global business units. And at this point we will take a short break after which you will hear from Angela, who will provide an update on our progress in R&D.

Our break will last 10 minutes and we will start promptly at 3:10 PM. Thank you. We'd like to get started. Could you please take your seats. Thank you.

Thank you for returning to our investor seminar. It is my pleasure to introduce Dr. Angela Naef, who leads the R&D function. Angela.

Angela Naef
Chief R&D Officer

Thank you, Laxman. Hello. My name is Angela Naef and it is my absolute pleasure to have the opportunity to share with you how research and development at Reckitt is focused to deliver sustainable growth. I have been with the company for a year now, and during that time, I've been able to listen and learn and identify how we strengthen the foundations and build our capabilities focused on the mega trends, consumer insights and technological readiness. I joined the team because I believed in the purpose driving the transformation. Reckitt is a company with amazing heritage, strong brands and a drive for making a meaningful difference in people's lives. The recognition that science and technology can be a key enabler to this and with the opportunity to shape how we do that, posed a great new challenge. Across the globe, we are more than 3,000 scientists, engineers, technologists, and experts who bring creativity, curiosity, and an unwavering focus on the consumer and commercial impact for our business.

We operate from nine global centers of excellence and 40 regional labs across our markets. This gives Reckitt both a global hub approach to drive scale as well as proximity to consumers and customers and market to deliver solutions at pace. There are four things I want to talk to you about in terms of our focus. The first is through our strong commercial orientation and collaboration across categories and markets to deliver a step change and growth. Underpinning this is the focus on making the highest returns, strategic choices, launching successfully in the market and building critical capabilities to unlock even more value.

Let me take you a little bit more detail on how we are doing that. We have a framework called our five value creation capabilities which provides the clarity of the jobs to be done and our focus areas. At the heart of this framework is the R&D value creation engine. This is the very core of what R&D does for Reckitt and by fueling the value creation engine capabilities, we deliver across three major outcomes. The first incremental top line growth through the creation of new products and new claims. Second, gross margin expansion with process innovations to enable our manufacturing facilities derive more capacity and productivity. And third, we protect the base and support safeguarding the company with risk mitigation and compliance efforts to ensure we deliver safe and effective solutions. I would now like to step you through at a high level, each of these five value creation capabilities to bring a bit more detailed to them all.

I have highlighted science and knowledge and external partnering capabilities as I will provide a deeper dive into those later in the presentation. We start with our commitment by putting the consumer at the core. Through our sensory and consumer science labs, we are using human insight and behavioral analytics to quantify and dimensionalize our understanding of the problems worth solving to ensure that the overall experience is designed into the products. You heard from Kris on how you're delivering more occasions for intimate wellness by expanding into new materials like polyurethane condoms that deliver a different experience of size and fit creating more choice for consumers. Next is science and knowledge. This is the heart of how we deliver own able product differentiation through our focus on science platforms, allowing us to unlock even more value by spanning the breadth of the portfolio. We are using our regulatory and medical advantage to open new markets and create new differentiated claims.

You heard from Volcker our focus on global business solutions and R&D is creating new hygiene protocols for the new world that we are all living in. Our external partnering strategy is critical given that the pace of play in science and technology has never been faster and consumers understand the benefit of science now more than ever. And through our external partnering ecosystem, we are able to access leading edge science and technologies. Our scale at pace is all about how we scale development and market introduction. We do this through enabling strong digital foundations, using things like machine learning and AI, and also our external partners to speed up the development process and ultimately launch. And of course our talent and culture are key to enabling a thriving technical organization.

A key part of delivering against those five value creation capabilities is very disciplined strategically aligned approach to making investment choices. Since 2019, we have invested an incremental £100 million taking our total investment in R&D to about £360 million. A third of that additional increment is focused on modernizing our infrastructure and our systems. The remaining two-thirds is prioritized against initiatives, which are driving growth. Growth we are already singing in our pipeline a 50% increase from 2021 to 2022 with projects fully resourced for execution, and with continued momentum through 2024. We already have early stage concepts that we are working on. And of course, as we progress projects will graduate, enabling further redeployment opportunities which are represented in the pipeline growth expectation indicated here. As you have heard from Kris, Laxman and Volker, each of our global business units are driving growth through strategic pipeline actions across short, to medium and into the longer term.

For nutrition, the focus has been on adding in a whole new growth area in adult nutrition. For hygiene, we have been able to broaden into new opportunities as additional demand spaces and new occasions have emerged like On-the-Go for disinfection and premiumization and the auto dish segment. For health, we have been focused as well on the consumer category driven approach which is providing more insight into the functional and emotional benefits that consumers seek, enabling new innovations and delivery systems, need states, and new pharmaceutical actives. In addition, changes in regulations in the area of RX to OTC switch and down scheduling creates more choice and accessibility for consumers for new safe and effective solutions. And it's not just about quantity, we are also improving the quality of our pipeline, where you're delivering three times more value in the pipeline from disruptive innovation. That is innovations, which represent breakthrough solutions to meet consumers unmet needs.

In addition, we have increased our patent filings by 40%, indicative of a more inventive and differentiated pipeline. Enabling us to make excellent choices is the critical operating model and rhythm we have, which puts greater rigor around investment decision-making. This is grounded in the stage gate approach like many with key milestone tracking and focused on the critical inputs and outputs. We are really clear on our inputs. We look to the areas of top-line growth opportunity that are margin creative. We look to the areas where innovation headroom exists. We're creating new solutions would have meaningful impact to consumer needs and therefore demand. We look at the level of investment that is required. We balance risk with technical and commercial likelihood of success. And of course, other non-financial elements, we need to consider like intellectual property potential, regulatory and sustainability. And the outputs are our measures of success.

We are aiming every day to drive consumer superiority to the product experience. Our new products have a positive sustainability impact, which is helping us to meet our global ambitions. We gain market traction because consumers are buying the products. We deliver against those new product sales targets. We are creating the right product for the right channel, especially e-commerce and omni-channel solutions. This overall framework is enabled by the full cross-functional inputs of different expertise, driving inclusive innovation approach. And we have brought this to life further in the organization through the creation of the innovation council, which I chair alongside colleagues from marketing sales and supply. And the aim here is really to drive that end to end innovation approach by bringing discipline and simplicity, to get to more forward thinking new idea generation.

So coming back to our five value creation capabilities, let's focus on the pillar of science and knowledge. Our science platforms are a more foundational approach to our science and technology discipline, which enable us to unlock more differentiation by maximizing the benefit they bring as they span across the breadth of our portfolio. We have selected the nine that you see on the page because they have considerable underlying foundational benefit to the overall group portfolio. And by driving it holistically across the GPU's, we deliver the most cost-effective approach. We also gained the benefit of going across categories and brands, for example, in the area of digestive health, brands such as Gaviscon, digestive advantage and Enfamil. So the science travels across, therefore, we can develop and build on new learnings across the portfolio.

And our key capabilities that underpin the entirety of the R&D function, here too, we ensure that we are right sized and have the right level of both breadth as well as depth to deliver across current and future products. Over the course of the last 18 months, we have added in significant and very specific expertise. Over 400 new staff have been added across the organization with a very purposeful approach to scientific platforms and key foundational capabilities. The organization is now more prepared and more tooled for our future. Over the next two slides, I will share with you some further details on two of our science platforms, the microbiome and polymer science. The field of the microbiome has been exploding just the last few years. Scientists have essentially discovered an entire new organ and the impact on human health, animal health, and the environment as vast. The microbiome, that is the microbes that live in us and on us and around us, is also enabling entirely new growth areas.

At Reckitt we have targeted these six areas anchoring our microbiome science platform. We are doing foundational research and development, creating and launching new products, which are delivering results now. Just a few examples to highlight in the area of the vaginal biome, as you heard from Kris, the focus on female intimate wellness through our Queen V brand is helping to restore a balanced microbiome for women using active ingredients and delivery systems. And with body owned dietary supplements, helping to drive the vaginal microflora from the inside out. And the baby biome, the precious first thousand days of life. Research clearly shows that seeding and healthy infant microbiome has lasting health benefits in the areas of things like allergy and immunity. And the built environment biome like the building we're in today, the microbes that are around us, vocal referring to textiles and areas of innovation in the laundry segment with laundry sanitizers.

In addition to bio-based disinfectants, to ensure that we have the confidence and the balance of good and bad germs and that clear relationship of hygiene is the foundation of health. In total, what makes the microbiome science platform so powerful is how the science really cuts across all of these six areas. And by building those connections between them, we can create better insights and further utility for future innovations to come. And for those of you who are here with us in the room, we do have a display downstairs where we demonstrate how we have used the science of the microbiome in our products. And I would happily take any further questions later. As we turn to polymer science, in the area of the polymer science platform, we are focused on five key anchor points and the integration of many of these into product and packaging design.

When you think of any consumer product, of course, the packaging is often the first experience that you have. How easily does it open? How safe is the product inside? Is it good for the environment? We are using novel film technology to down gauge and lightweight packaging, as well as including post-consumer recycled polymers in areas like Finnish and Enfamil. We're using surface modification through coding technologies and Gaviscon and Harpic to improve shelf life. And it's also about the product inside. We are using smart release technology and advanced polymer design to help deliver long and extended release pain relief with nerve and long lasting. It is the interaction between the active ingredient and the polymer excipients that makes the whole innovation work. We can also leverage the diversity of materials in our intimate wellness and condom category, enabling products with natural rubber latex and polyurethane and future materials yet to come. The precise structure property relationships are necessary to be able to understand and deliver a holistic and optimized approach to materials across the entirety of the portfolio.

Equally important is our commitment to put sustainability at the core of our innovation process. Our ambition is that every innovation that we make is more sustainable than its predecessor, whether it's a small incremental change or a major new launch, everything counts. In R&D we have introduced a customized sustainable innovation calculator, which we require every single project which comes into the pipeline to go through and be assessed. This evaluates the impact of a product versus existing benchmarks so that we can evaluate those critical decisions that we take forward inclusive of how additive they are to our sustainability ambitions. We look at things like reformulation, packaging, ingredients, device optimization, consumer use, illustrated by this dashboard which just demonstrates how we look at each of the factor of the calculator. So it's just an example. The point here is to acknowledge that there are always benefits and trade-offs to innovations and we have to weigh those decisions really carefully.

For example, a natural ingredient may score highly on one aspect of sustainability, but have a how your water impact than a synthetic ingredient. Or plastic packaging may actually have a lower carbon footprint than a composite equivalent. That is the power of the calculator as it looks at all of the elements and helps to inform our overall decision to the impact that the product will have. We want consumers to trust our brands, to feel confident that our products are safe and cause no harm to the ecosystems or the people that they touched during their life cycle. And by actively encouraging an innovation culture where sustainability is always considered and improvements both big and small are made at every opportunity, we believe that we will be able to deliver against our ambitions. And our focus on sustainable innovation is one of the factors contributing to our overarching improvements with the ratings agencies.

MSCI is currently at AA and Sustainanalytics at 20.7 as Laxman pointed out earlier. And I just wanted to make a point around one of the key benefits of these independent third-party scores increases is in fact verification, another proof point, if you will, of our progress, which is viewed very positively by future partners, NGOs, governments, academia, and retailers. More sustainable and e-commerce ready is a significant confluence of opportunity. Designing and developing for e-commerce is driven by really understanding the whole supply chain movement, consumer accessibility, and the user experience. As you can see in the first example here that we have for Durex, we have optimized the product quality through better packaging design to stay protected in the journey to the consumer.

If you take the vanish example, we have reformulated the product to maintain stability and shelf life as well as exploring new packaging configurations, which make it easier to take a product through the entirety of the e-commerce model. And working with our customer partners to drive purpose campaigns is also a great way to ensure that consumers have the knowledge and data and making their choices. We recently announced a program with Tesco and TerraCycle Loop, introducing a refillable canister for Finish. And we believe that reuse solutions will be key to reducing our plastics footprint, one critical element of our sustainability ambitions and part of our ongoing commitment to test and learn with different approaches to understand what works for our consumers, our planet, and our business.

Finally, I want to touch on how we are working on becoming a partnering destination for leading edge science and technologies and commercial scale-up. As I mentioned previously, the pace of play in science and technology has never been faster. And we believe that there are great new ideas happening in many areas around the world from academics, startups, suppliers, and many others. And we aim to be a committed commercial partner to co-develop, to co-create, and to ultimately launch new solutions. The key differentiator for Reckitt is our ability to scale at pace, launch in multiple markets and making sure that we are creating superior product experience. It's the reason we hope why partners want to work with us. Our ecosystem is really diverse enabling us to draw on the latest developments, scientific inventions and capabilities, which compliment our ability to develop products. We have a strategic supplier program which gives us access to new ingredients which can impact our products that we are used.

We work with thought leaders to shape an advanced scientific understanding around consumer needs. For example, we are working with one of the top thought leaders on food and milk allergy from the University of Naples, which is aiding the science of our Nutramigen products and helping to create new medical insight and evidence. And with our partnership with arm on appropriate reflux management, we are partnering with key experts and physicians on the optimal patient care balancing root cause of reflux incidents and a right medical intervention. We are focused on enhancing our science and technology driven innovation to attract high quality ideas and partnerships, which will further be cemented with the launch of our external partnering platform early next year. This will be the face of our external partnering model designed to capture the latest ideas and attract new partners for us to work with. And we look forward to sharing with you more details as it gets closer to that time.

So what I'm hoping you take away from today, we are building a stronger function through step change in our investments in science and technology, sustainability, e-commerce and partnering. We have strengthened our pipeline, which is both bigger and has more balance across near and farther out innovations. We have a terrific and strong commercial integration across the business units with a sharp focus on investment and returns. And as a result, we are confident we will help enable those medium term growth ambitions while delivering a competitive advantage, quality experiences and productivity for the future. I'd like to turn it over to Arjun for e-commerce. Thank you.

Arjun Purkayastha
Chief eCommerce Officer

Thank you, Angela. Hello, everyone. I'm Arjun and I hit the e-commerce digital and ventures division at Reckitt. I believe that most of you may not have heard much about this part of Reckitt before, so I'm going to try and give you a whistle-stop tour today. Before we jump into content, a quick intro about myself. I've been with Reckitt for over a decade now and PNG before that. I love being at Reckitt because of the amazing people that I have the privilege of working with, the brilliant brands that we build together, and most importantly, how no two days are the same. We are always innovating and doing something new.

Everything that I have learned about e-commerce and digital comes from the east and not from the west. I have spent more than half my career across Asia, where e-commerce is really all the commerce. So a lot of what you will hear from me today comes from this background. So let's get started. Reckitt e-commerce used to be less than £500 million in revenue about five years ago. Over the last 18 months, we have consistently invested in building a strong e-commerce organization and infrastructure. Given this investment in consumer trends, and in the last 12 months, e-commerce represented 14% of the group, 11% if you exclude IFC and China and over 2 billion in consumer sales. Our five-year ambition is to become 25% or one quarter of the company through a combination of organic and inorganic growth.

We've been focused on ensuring that e-commerce is built as a global capability and not just focused on China and the US or just one business unit. If you look at our growth over the last 12 months, you can see that all of our business units are growing strong double digit, and so are all of our geographies. Even in countries where Reckitt is relatively small, for example Peru, we are committed to building our e-commerce capability to ensure that we are still ahead of the curve.

Our portfolio in e-commerce is very focused. These top 10 brands represent over 80% of total e-commerce growth over the last 12 months and make up over 70% of total e-commerce sales. Again, over these 12 months, all of these brands have been growing very strongly as you can see in the numbers. But most important to fall is our reputation amongst consumers online which has grown exponentially. Across each of these brands at a global level, we have over 4.5 stars on Amazon on average as an example, and when and if the rating drops below 4.2 stars on even a single SKU, we act immediately to fix the issue. One of the Reckitt values that we are extremely focused on is excellent execution. This is the number one priority for my team. And for myself, let me give you an example. If you were to go to Amazon UK right now, this is what you would find. A hundred percent of all record brands have on average 4.2 stars or above all of them can be delivered either within the same day or in the worst case by tomorrow, you can subscribe and save on all of our brands, which is extremely important, especially for brands like Finish, which are used every day. More than 80% of our brands are tagged by Amazon as choice for the category. This is important because if you search for dishwasher detergent, or ask your Alexa to buy your dishwasher detergent, Amazon's automatic choice will be Finish.

Next, we are climate pledge friendly. We are one of the first companies who signed up to this initiative, and within a year over half our brands are already rated as CPF. Over 90% of our brands are also available on Amazon Fresh. Each of our e-commerce managers on the ground, as well as our leadership, are all obsessed with this level of detail in e-commerce execution. And finally, if we step outside Amazon, and just as an example for this month, Boots and Superdrug have given us a greater than 95 score on their satisfaction with record as an e-commerce partner. But we're just at the beginning of this journey. And we have a very long way to go. If you see our serviceable market, we see a minimum of 2-3x more potential over the next three years. And here's why. As you know, e-commerce penetration is growing across consumer-packaged goods. And the strong underlying growth algorithm that we have built means that we also have strong tailwind supporting us.

Second, on increasing lifetime value, brands like Dettol and Finish are ideal for automated purchase. Today, about 20 to 30% of our Amazon UK consumers are on Subscribe and Save. But our ambition is to increase this to 70 to 80% of our consumers. Next, on our addressable market potential we believe our market can grow by up to 10x in the next five years. Brands like Durex have the potential to become 70% direct to consumer and digital business. And consequently, a powerhouse for data, insight and innovation, and also to transforming our portfolio. You heard Kris speak earlier today about Queen V, and how we're thinking differently about intimate wellness. This is also going to have a major impact on our e-commerce growth. As you know, in 2019- 2020, we started on a major transformation. A big part of this was to define what e-commerce is for Reckitt. We have gone from selling offline products online to creating an end-to-end capability from digital marketing data and automation to venturing.

And to do this, we work under a very unique operating model in the industry. And this model is called Be Big, Be Fast and Be Bold and Open. As you can see on the screen, Be Big is now 75% of our teams focused on scaled e-commerce. They run big brands in big channels, like pure players, such as Amazon, Alibaba, and grow them into profitable end to end businesses. The focus here is on sustainable growth and ensuring the right earnings model. Be Fast is our aggressive expansion business. This is where we build scale on new channels, D2C, E-B2B, live streaming, social commerce, et cetera, where there is a lot of potential but we only have a small footprint today. Be Bold and Open is our experimentation engine and the home of our moonshot ideas. Here, we partner with our colleagues in R&D and in the GBUs to launch new brands into the Reckitt portfolio.

Since we started our transformation program, we have kept our focus on three areas, and these form core of our e-commerce strategy. First, availability and preference. As you know, e-commerce has hundreds of big and small channels and platforms. And we believe our brands should be present in each and every one of them, and also be the most preferred brand in the category in each and every one of them. The idea is to build a first mover advantage in the channel. Second is focusing on data and automation. With the 2 billion consumer sales we have, we also bring in millions of data points every day, and we are using this to drive efficiency in our advertising spend as well as in our fixed costs. Finally, our investment strategy, which is very focused on investing in capabilities we can't or don't want to build, and also investing in early stage startups to learn and create value for Reckitt.

Over the next three slides I would like to take you through an example of each of these. First, let's start with availability and preference. This jigsaw puzzle represents all the channel's direct sells in the UK today. Now what you see here is that every year we have been expanding into more and more channels in a very deliberate manner and building a moat, or a durable, competitive advantage in those channels by being a first mover. Now, while a majority of revenues are focused on a few channels, it's impossible to know in the e-commerce world which channel is going to be the breakout channel tomorrow. And when that happens, we don't want to play catch up. We want to be there first. Just look at what happened during the pandemic. We have seen that Deliveroo and Uber started doing groceries. We started with GetIr last month. And we'll soon be on Weezy, Dija etc..

Second example is of our data and automation capability. We have invested significantly in our digital capability, enabled by a strong technology foundation as shown here. We run a fully integrated model called CARE, which Laxman talked about in his nutrition presentation. This stands for Consumer Acquisition Retention and Expansion. This is something that we learned from our Mead Johnson subsidiary. All of the data we get from the channels you saw on the last slide feeds into our CARE machine, which then helps us drive six major capabilities. First, global media buying across all our business units. Second, CARE drives our central insights, which then feeds into innovation and advertising. Third, in the last 18 months, we have also invested in building our digital factory, which takes these insights and uses it to produce over 40,000 pieces of content every year in-house. We have also built on marketing excellence last year, which supports our data-driven marketing capability focused on improving our efficiencies.

Fifth, CARE also collates all of the first party and second party data for the group, and we use it to power our global data strategy. And finally, our direct to consumer platforms. We have invested and built now over 40 D2C brand storefronts globally. The third example is of our venturing division. Many of you may not be aware of this, but we've been operating a venturing division called Access VC for the past few years. As a part of this, we have been deploying small amounts of capital into companies, which can either bring new capabilities to Reckitt, or take us to new spaces and places, which as you will have heard from Laxman is core to our strategy. So far, we have deployed over 80 million in capital across several brands. And while we are not a valuation driven venture capital organization, we are very disciplined in how we deploy this capital and what are the returns we expect from it.

To give you one example here, Packable is an e-commerce enablement company in the US. We started investing in them a few years ago when they were relatively small, but we saw a lot of potential in them and the capabilities that we could build together. Since then, Packable has grown to become the number one third-party seller on Amazon in the US, and as of three weeks ago they hit a valuation of $1.9 billion, making them the first unicorn in our portfolio. Together we now run one of the most sophisticated e-commerce operations in the US, and they have been a major contributor to the success of record e-commerce in the US. Access is a very exciting division, and I'm sure you'll hear more about it soon. Hopefully this has given you a good idea of the depth and breadth of record e-commerce.

Before I hand over to Jeff, I want to leave you with four key messages about e-commerce. Number one, we have a large opportunity and a strong track record of growth across markets and GBUs to access this. Second, our capability is stronger through the investments we have made in technology, digital, E-B2B, and new spaces, plus our venture investments. Third, we have a stronger execution with a focus on consumer satisfaction and omni-channel partnerships with our customers. And fourth, we are therefore confident in delivering our ambition of 25% of Reckitt's revenue and enabling Reckitt's median term growth ambitions. Over to you, Jeff.

Jeff Carr
Chief Financial Officer, Reckitt Group plc

Well, thank you Arjun. I'm going to start by just recapping our approach to capital allocation. And I've set out a framework in six key principles, and they're not new. First, we invest in our operations to drive growth and maximize returns. We will explain today how much we have invested in our operations, where it has gone, and what type of returns we expect from those investments. Second, we remain extremely focused on cash conversion. In 2020, we delivered 3.1 billion free cash flow. Now this was exceptional and benefited from a significant favorable working capital inflow. And as I explained earlier this year, we expect an element of the working capital to reverse in 2021, resulting in lower free cashflow in 2021. However, the two year average cash conversion will be very strong and we'll continue to focus on strong cashflow conversion in future years.

Third, we remain committed to a progressive dividend policy. While we have held the dividend during the margin reset, we will move to dividend growth once our two times cover is restored. Fourth, we'll continue to target a single A rating and maintain financial ratios appropriate with that rating. Fifth, we'll manage our portfolio as appropriate to ensure we delivered our targeted returns. We've taken decisive action on our IFC and China business, precisely because we did not believe it would deliver returns appropriate for the group. And finally, we will manage an efficient balance sheet and we will return surplus cash back to shareholders when and where appropriate. So let me now just briefly recap the investments we said we would make back in February 2020, and there were three areas that we discussed. P&L investments. These are the recurring investments in competitiveness, growth enablers, and growth drivers. They're funded by the 150 basis points margin reset, and through our Step-Up productivity program, which was originally to deliver 1.3 billion over three years.

The next area of investment is the one-time finite life transformation costs, which were planned at 250 million pounds. These remain in line with our original plan. Through the end of the first half of this year, we'd incurred 150 million pounds of expenses. And these charges have been taking in our operating margin and not adjusted from results. And the balance, 100 million pounds, will be spent during the second half of '21 and phased out in 2022. The final area of investment is capital expenditure. We originally said we would incrementally invest 300 million of capital expenditure over two years. However, subsequently we increased our guidance to 400 million incremental over three years. Now for the most of this presentation, I'm going to focus on the P&L investments. And as you know, a lot has happened since February 2020, not least of course COVID has had a significant impact on our business. This chart highlights how those changes have impacted the scale of our investments for 2020 and through the first half of this year.

So based on our original February 2020 plan, we would have invested £700m during this period. £200m funded by the margin reset, and £500m funded by the productivity program. Now we've had several positives and negatives changes to our P&L investments, and I'd like to explain these. First, our like for like sales growth in 2020 was 11.8%, obviously significantly higher than planned, and this resulted in additional leverage. However, offsetting the leverage was also an element of the leverage, at least additional COVID costs which incurred in 2020. Next, we've exceeded our original productivity goals, hence we increased our three-year target from £1.3bn to £1.6bn. And now, as Laxman said, we've extended the program to four years with a £2bn expected delivery. On the other side, as we explained at the half year results presentation, we've seen cost of goods inflation increase through the first half of this year, amounting to eight to 9% inflation on average across the full year 2021.

This has impacted margins this year, but we are confident we can recover this through further productivity and pricing actions over the course of the coming quarters. Additionally, IFC and China experienced dramatic margin declines during the first half of 2021. And you can see from our last release that the business was basically break even in the half, putting additional pressure on our first half group margins. Next, the net mix was adversely impacted by a hundred basis points in the first half of '21, and the single biggest element of the adverse mix was due to the non-existent cold and flu season and the uniquely low sales volumes from our cold and flu remedy brands, such as Mucinex and Strepsils. Finally, we've dealt with a variety of one-off items, including legal settlements and inventory adjustments, which have impacted margins during this period.

The net effect of these pluses and minuses is that we have increased our total investment over this 18 month period, from £700m as originally planned, to £900m. And this all excludes any incremental investments or margin erosion related to IFC and China. Note, the step change margin reset is now complete. And our adjusted operating profit margin is at an inflection point from which we will see margin recovery starting in the second half of 2021. Now I'd like to focus on where the £900m of P&L investments has gone. This is pretty much the same format as we shared in February 2021 and shows a breakdown of the £900m split between the three investment areas I referred to earlier, competitiveness, growth drivers, and growth enablers.

So starting with competitiveness, we originally invested in key areas such as germ protection to adjust outlier pricing. If you recall, we also made investments in IFC and China, but we've now adjusted that out of the analysis. Since then, we've continued to make strategic decisions to invest in competitive battles, to ensure that we maintain and grow market share. These are specific country by country, brand by brand investments. And the total of our competitive investments has been £200m. Next, we've invested in growth drivers. This includes our go to market costs, marketing costs, BI, to support our expansion markets, new business areas, such as global business services and the development of e-commerce growth. This investment has been largely, but not solely, to support the growth and expansion of Lysol and Dettol. And as you know, these brands have grown significantly. In H1 2021 the two year stack growth of Lysol was over 100% and for Dettol over 40%.

And finally we have the growth enablers, investments in core capabilities that ensure our growth is sustainable over multiple years. You've heard from Angela earlier that we've significantly stepped up our R&D capabilities, and these investments alone amounted to around a hundred million pounds. As Arjun has said, we have significantly increased our digital investments as we build our CARE capabilities, and we've invested in our centers of excellence, in e-commerce, sales and marketing excellence, to embed best practices across the group and ensure we raise the bar every day in each of the markets that we operate. In total, we've invested £400m in our growth enablers. As mentioned earlier, these investments are now complete, and on the next page I'll address how we track and measure the returns on these investments.

I've taken four examples of the growth investments we've made, R&D, e-commerce and digital, Dettol and Lysol expansion, and our sales center of excellence. Of course, overall top-line growth is our goal. However, for each area we set specific targets with specific payback periods, the ROI on each investment, and the status of each of the KPIs is then tracked at our quarterly investment board to ensure that they are meeting the expected returns. Taking each in turn, R&D generally pays back over a multi-year period. However, by quarter we track the number of prototypes and IPs in development, the number of initiatives reaching production, and of course the incremental revenue contribution. E-commerce and digital investments invariably have quick paybacks, measured by revenue growth. So for each investment, we can measure the direct return.

As Arjun said, we also have a Be Bold venture investment fund. Again, we can measure the returns directly. And for example, our investment in Packables, as Arjun said, is likely to deliver very strong returns. For Dettol and Lysol expansion, as we move into new markets, of course we track the brand performance directly. Our investment timeframe varies, but generally we need a two to three year view to ensure the investments in people and BEI delivers suitable returns. On the other hand, the returns from GBS have been almost immediate, with the uplift in sales paying back the fixed cost investments within the same year. Our sales center of excellence is another area where we're seeing quick returns for sales excellence we've built a team responsible for raising the bar in sales execution throughout the company. There are obvious links to supply chain and we can measure our improving performance directly through customer service levels and on-shelf availability and indirectly through customer feedback and customer surveys like the Advantage survey.

Revenue growth management is another area where the sales excellence team are directing improved practices and given our sales teams the tools and know how to deliver trade investment efficiencies. And again, these can lead to significant returns over short time periods. Now let's understand some specific return proof points in each of the four areas we've just discussed. For R&D, as Angela stated, the overall group pipeline value has increased by 50% while in some areas such as OTC, where the starting point was very low, the pipeline has increased two fold. E-commerce market share measured from H1 2019 to 2021 has increased by some 310 basis points. And the two year stack growth for our e-commerce business over the same period was up 95%. Dettol and Lysol have now entered 68 new markets. And Dettol, as you heard from Kris, is up 40% versus pre pandemic levels, well above the category growth of 20%. And the outperformance versus the market is supported exactly by our market expansion into new places.

The outcomes of our sales excellence can be demonstrated by the Advantage customer survey in the US, which show Reckitt makes strong progress in overall customer satisfaction. Moving from the bottom quarter out to the mid point ranking versus peers, it's not the end point we seek, but it's a good step in the right direction. We also saw actual service levels measured by pack fill rates improve, both for the total company from 2019 to '21, and specifically, for example, by Gaviscon, where we saw pack fill rates improved by 20 percentage points to the high nineties. Overall, we're confident that these investments are building a stronger company which can deliver sustainable mid single digit net revenue growth. Of course, we still have a lot of COVID noise in our results, impacting key brands such as Lysol, Dettol, Mucinex, Strepsils, Lemsip. However, if you take out much of the COVID noise, a large element of our portfolio is already growing at the mid single digit target range.

So before I finished with a summary of the P&L investments and the direction of travel of our group operating margins, I wanted to briefly touch on our productivity program. Many companies have such programs. I'm aware of that. But I do believe the record program is a very strong program indeed, embedded throughout the business and addressing every line of our P&L. This productivity program is critical to maintain our competitiveness, support gross margins, while also providing funding for our ongoing business as usual growth investments. We have delivered £700m of productivity in the 18 months since we initiated the program. There's a disciplined oversight to ensure the delivery is real, and the funds are available to apply to the appropriate business initiatives. Breaking down the £700m, £450m has been delivered at the gross margin level. This includes implementing standard operating practices across Reckitt manufacturing facilities to drive efficiency and deliver best practice.

Also, our design to value laboratory has now analyzed over a thousand products to create ideas to reduce waste, improve the environmental footprint, deliver high quality products to consumers, and all at lower cost. £200m has been delivered within our BEI spend, as we improve market data and analytics, buy media better, and streamline and reduce the cost of our creative efforts. And £50m has been saved through organizational simplification and reducing non-direct cost of goods spend. For example, we've unwound duplication in many areas of the business, which resulted from RB2.0. This work is ongoing and further savings are anticipated in our 2022 productivity goals. So where does this leave us with regard to the direction of travel for group adjusted operating margins, now that the step change P&L investments are complete? First, in H2 we expect to see a return to more normalized levels of cold and flu sales. The winter of 2021 was unique, and as expected we are currently seeing improved trading. And as a result, we will see stronger health margins in the second half compared to the first half of this year.

Next, we've disposed of IFC and China. This will create a tailwind for nutrition and group margins in 2022. IFC and China had diluted group margins by 90 basis points in 2020 and 110 basis points in the first half of this year. The finite life transformation costs, which were announced as part of the reset in February 2020 will be phased out in 2022. There will be some residual spend remains in '22, however, the level will be significantly lower than in

2021. Pricing actions and productivity will offset the commodity costs inflation we've seen this year. This is a timing issue, and our brands are strong and can support pricing to offset inflation. But when increases in costs are as high and as sharp as we've seen in 2021, the necessary actions will lag by one or two quarters.

Finally, we will continue to grow. And as we grow, leverage will provide tailwinds to our operating margin. Now off-setting this, we will continue to fund competitive battles to ensure real volume growth and market share growth and cost inflation while not expanding at the same rates as the first half remain a real challenge, and one which deserves some caution. So we have a clear path to margin improvement, and we expect to see margins improve in 2022 versus 2021, and that's excluding IFC in China in both years. We will not give further guidance at this stage except to say that we're confident in reaching our 25% target by 2025. Now very briefly I'll move away from the P&L to talk about capital expenditure. We'll have invested an incremental £250m in capital expenditure by the end of 2021 and we remain on track to invest £400m incrementally over the three years to the end of 2022.

In the interest of time, I won't go through the examples shown here in detail, but suffice to say in each example, each example is consistent with our net revenue and operating margin targets, and we measure strict returns and we review the targets before we invest any capital expenditure in the group. Now let me sum up with the key finance messages. First, we've invested in growth capabilities to deliver sustainable growth, and we're on track to exit 2022 with mid single digit revenue growth and to deliver mid twenties operating margins by 2025. Next, we see the first half margins as an inflection point. The margin reset investments are complete, and we expect margins to improve in 2022 as we move towards our midterm goal. We remain strongly focused on cash conversion, expect strong cash conversion in 2022 and beyond. And finally, we will manage an efficient balance sheet within the key ratios appropriate for an A credit rating. However, surplus funds will be returned to investors where appropriate. So thank you, and now I'll hand back to Laxman.

Laxman Narasimhan
Chief Executive Officer, Reckitt Group plc

Thank you, Jeff. You have now heard from Kris, Volker, Angela, Arjun and me on why we are confident on achieving our medium-term goals. Jeff has been able to give you more insight into where we have invested over the last two years, how we evaluate the returns from those investments, and also how we expect our financial frameworks to evolve over time. Now I'm going to give you a short wrap up of today's session, and then we'll get straight into Q&A with the whole team here.

We are building this company for durable advantage to drive long-term outperformance. This is the key focus for my team and for me. In 2020, we shared why we believed hygiene was the foundation of health. That self care will be very important, that the sexual crisis was a large problem for the world, and engineered nutrition was an opportunity for a rapidly aging population, as was giving children a great start to life.

We set out why digital and science would be key enablers. We also set out our purpose, in a nutshell, why we existed. We exist to protect, heal, and nurture in the relentless pursuit of a cleaner and healthier world, in our homes, but also in the environment around us.

Then the pandemic happened. As you know, parts of our business have benefited from the pandemic, while others have been negatively impacted. We have had some success during this period, but we've also endured significant challenges. We firmly believe that this crucible that we've all gone through during this period has made us stronger as a team and as a business, and we are confident in achieving our medium term goals.

The struggles that the people around the world endured during this period led our young employees to define our fight, which was about access. And to put our money where our mouth is, we committed to investing the equivalent of at least 1% of our operating profit, into causes to help our communities. We also saved money in travel costs last year, and we put that back into the communities in which we work and in which we live, including with partners, some of whom are on this page.

Last year, we gave away the equivalent of 1.5% of our operating profit to the community. And yet we believe our purpose and fight is at the heart of being a shareholder friendly company. Our focus on shareholders and long-term outperformance has meant taking the time to build a company with durable advantage.

The founding cornerstone of this business is, and will be our people, our culture, and our entrepreneurial spirit. Our long-term durability depends on our culture, building on what has made us successful in the past, and adding what we believe is relevant for the future.

Reckitt operates in growth categories with leading authentic brands, but it is our entrepreneurial spirit combined with our talented people, our capabilities and unique culture that sets us apart. Productivity builds on this platform, allowing us to invest further.

As you have heard, our teams have worked tirelessly in this area. We are ahead of plan and have raised our target again to £2bn over four years.

And as you know, productivity gives us the fuel to invest in brands and strengthen their equities, while broadening the service area in which they play. It provides us the fuel to continue investing in consumer insight, R&D and innovation, which in turn drives our growth engines as we share today.

Our relentless focus on customers, consumers, and execution, both online and offline, as shared by Volker, Kris, and Arjun, have seen marked improvements, but we are hungry and ambitious here, and therefore we have still more to do. All this coupled with active portfolio management gives us confidence in the business we are building for the long term, and in the delivery of our medium-term goals.

We therefore hope that you will walk away from today with these four key messages. First, we are a company of owners. 55% of our employees are shareholders. We have an aligned and committed senior team leading the transformation, who with their associates, have not only delivered an incredible performance through very difficult circumstances in the pandemic, but continue to bring new insights as to how Reckitt can outperform as we come out of the crisis. We thank them for all they have done, and we're excited at the prospect of what lies ahead.

Second, the business has fundamentally strengthened over the last 18 months. Our portfolio is sharper and we have made significant investments in creating a business with durable advantage for the future. Third, our financial performance, particularly on margins, is at an inflection point, as we cycle through the step change investments we've made, as our business moves to a more normal trading environment, particularly for a higher margin OTC business. And as we price for the higher rates of input cost inflation. And forth, as a result, we feel confident of our ability to achieving our medium-term goals, as we laid out in our guidance.

We thank you for your attention and we will now take a very short break as I'm joined on stage, and then we'll directly go into questions. Thank you again for your time.

Thank you all for joining us for our question and answer session. We will start by taking questions from the room, and then we will take questions from those who are calling in. I'd ask please that you restrict your questions to two, and you direct them at me so I can draw on this group sitting on the stage, as well as some of our leaders who are actually the front row, in order to answer your questions.

So with that, we're open to taking any questions from you. Please mention by the way, who you are and where you're from. Thank you.

David Hayes: Hello. It's David Hayes from SocGen. Just on the financials, probably one you're going to pass to Jeff I think, Laxman, but you increased the productivity targets, but not the medium term margin outlook. So you're talking about there's 25%. I guess the question is, is that because it's costing you more than you thought to get the response that you wanted in the businesses? Or is it that being a little bit semantical, I guess, you would've put 24% as mid-20s before, and now it's gone up to 25?

Just trying to understand why there's more cost saving, but not an margin uplift target? Thank you.

Laxman Narasimhan: Jeff?

Jeff Carr: The productivity that we have expanded into 2022, the program we've expanded into '22 is becoming an embedded part of what we do. And we've been building up that muscle as well as some of the commercial muscles that we've talked about over the last two years.

How we utilize that as we go forward is going to vary. In 2021/22, we will probably end up allocating a little bit more to, for example, errors in inflation and margin maintenance. But as I see it going forward, more of that will be allocated into business-as-usual growth initiatives.

And as we increase those growth initiatives, it should allow us not just to achieve our mid-single digit target, but who knows. It would be nice to be at the top end of that mid-single digit growth target. And as that happens, you get more leverage and obviously, it helps margin as well, and it becomes a virtuous cycle.

So that's the thinking. I don't think it's necessary to change the targets, but to believe in that virtuous cycle, and we do believe in it. And as we believe in it, as we execute against it, you should see the benefits coming through in future years.

Laxman Narasimhan: Great. Yes, please.

John Ennis: Hello. John Ennis, from Goldman Sachs. My first question's on the portfolio, just as a whole. I wondered, what proportion of the portfolio is growing below the medium-term targets you've outlined, by sub-category? So not below the mid-single digit group figure because you've given us that, and also because some of the sub-categories aren't expected to get to that level, but what proportion of the portfolio is not quite reaching the sub-category ambitions you have?

That's the first question. And then my second question is on e-comm. What proportion of your online sales today are sold direct to consumer, and where do you see that going to by 2030? You gave an example for Durex, but I'd be interested in your view on the wider group? And related to that, what are the sort of margin ramifications from that channel shift? So they are my two. Thanks.

Laxman Narasimhan: So just on the portfolio, let me take that on first, and then I'll draw on my colleagues on the direct to consumer question that you have raised. As you have seen, our portfolio, every part of our portfolio has a certain role that it fulfills. And I think as Kris mentioned, if you look at the personal care business, it has clearly provided a scale in some of the emerging markets.

So essentially, if you look at some of the brands that we have in there, they're quite sizable in many of our emerging markets channels. Taking them out causes deleverage, and so we're very selective about what we do about them in terms of growing them.

In the high hygiene business, we clearly have certain portions of the portfolio, like we've mentioned. Like for example, pest, which at this point in time is going two to three, but we believe pest has a lot of potential, particularly as you look at the Hygiene Health Foundation and what's coming, we believe it's got real potential and we are working hard on finding ways to ensure that we grow in that category faster than we have in the past.

If I look at the nutrition portfolio, I think we have a couple of geographies, not necessarily sub-categories, but geographies that we continue to look at in terms of ensuring that we can grow them faster, particularly Asian and Latin America, where the market share has stabilized, where we have ample opportunity in terms of bringing innovation to those markets, in terms of further premiumizing them and growing them, including bringing further our e-commerce capability into those markets in a more forceful manner than I think we have so far.

So that's broadly on the portfolio. If I could go to direct to consumer, and as we've said, overall, our ambition for e-commerce is that we expect that to be 25% of our global group revenue over the course of the next five years. The direct to consumer piece of it is small at point of time, but we expect very rapid growth. Arjun, do you want to add to that?

Arjun Purkayastha: Yeah. I think just adding to that, the channel construct of an e-commerce business changes as the depth of your e-commerce business increases, and the reason we know that is all our countries are not at the average. So we have countries at 1% or 2%, but we also have countries which are greater than 50% e-commerce already.

So we know that D2C grows in proportion to your total e-commerce as you grow. How it will grow will also depend on how your portfolio mix is, because brands which have a higher lifetime value and higher average order value will tend to grow.

So if you have a... let's say for example, in a country where you have a lot of Mead Johnson as a part of your portfolio, D2C will naturally become a much bigger part of the portfolio. But for example, in a country where you don't have Mead Johnson at all, it may not become as big as a country which has.

But over a period of time, it will always grow. It will never become majority of the business, from what we've seen in consumer products, but it easily goes into double digit.

Laxman Narasimhan: Kris, do you want to add to that, particularly as you look at intimate wellness? Go ahead, yeah.

Kris Licht: Sure. Yeah, direct to consumer has a lot of headroom in intimate wellness, and we are making investments there right now. It's difficult to say just how high is up in that category, but we expect it to be a very significant proportion of total e-commerce sales over time.

There's a whole host of reasons for that. The brands lend themselves to that, the nature of the product. There's a lot of reasons why we think that'll be a major part of our growth going forward, but I hesitate to give you a hard number at this moment.

Laxman Narasimhan: Yes, please. Oh, sorry. Oh, go ahead please. Just a moment. You're there. Oh yeah. Sorry for that. Yeah, go ahead.

Jeremy Fialko, HSBC. So two questions. First of all, if you take the second £900m of incremental and investments so far, how would you characterize that in terms of, let's say, deficit spending to get you back to the capability that you would expect to have, versus building gaps versus the competition?

And then secondly, when you measure the return on that investment, I guess, first of all, overall, are you on track? And then are there any areas where your investments so far hasn't yielded the return you'd have liked? And maybe you can talk about kind of where that might have been and how you've changed course? Thanks.

Laxman Narasimhan: Jeff?

Jeff Carr: It's difficult to characterize the investments as catch up versus taking us forward. I don't think there's a line, a clear line that says, "This amount of the £100m or £900m was catch up, and Y was taking us forward to where we need to be in order to generate the returns that we're looking to generate. So I wouldn't want to get into characterizing it, the £900m in either of those buckets.

In terms of areas where perhaps the returns haven't been what we expected, the obvious answer to that is IFCN China. We did invest significantly in IFCN China. Obviously, it's now sold, both in terms of price margin support, and capabilities. Clearly, we took a decision that, that wasn't going to work. And I guess you could hold that up as a clean example of how we took decisive action where investments weren't paying back.

Beyond that, I think generally, a lot of the investments that we're making are not sort of six months or nine months or 12 months payback, they're two or three years. And so, it's difficult to say exactly. Clearly, some of the expansion markets for example, are working better than others. And I think Volker or Kris could give some examples of where, for example, I think Volker, we're talking about France where the expansion market for Lysol is performing extremely well.

Others probably aren't... Of course, it's natural, won't be hitting the targets we expected, so we'll perhaps pull back some of the investment in those markets.

Laxman Narasimhan: But cumulatively, the expansion markets are doing what we thought, but having said that, there are a couple where the germ sensitivity is a bit lower. I think you mentioned this as well, Volker, isn't that right, where the germ sensitivity is low?

Volker Kuhn: Yeah. So clearly, we see the countries doing much better with higher germ sensitivity, for sure. Give you an example, even markets where we weren't really investing before, where we weren't then in full investment during COVID, one example is the Philippines. We tripled the business, so that went extremely well.

You have other areas where there's a bit more chemophobia and less germ concern. Those countries, we are actually trailing down some of our investments, but all in all, I think the more important part, where our investments are really paying fast back is the example I gave to you on laundry sanitizers, how we are broadening really the shoulder of our franchise, and really hitting home with the well-established brand in the US, and that really taking off.

So all in all, as Laxman said, our actually, return on investments of what we call our amplify program, stretching our shoulders in broad... i places, in spaces is doing very well in the hygiene area, and I think also on Dettol, it's the same.

Laxman Narasimhan: I think it's fair to say that some of the competitiveness investments were catch up investments, to the question you raised, right?

Jeremy: Mm-hmm (affirmative).

Laxman Narasimhan: Because we were out of whack on value in some of those markets, and I think it was appropriate to make those competitiveness investments. And I think I would categorize them as being catch up investments. Oh, go ahead.

Chris Pitcher: Thank you. Chris Pitcher from Redburn. Two questions, first on marketing, we've seen a lot on how science and R&D, and innovation is going to drive the growth agenda, but we haven't heard as much on the old Reckitt marketing success. Where does executive responsibility for marketing reside on the stage? And is that an area where you're going to keep investment up?

And then secondly, on nutrition, we're still waiting for a new Head of Nutrition. Can you commit that there will be a new head of nutrition and that nutrition will be kept separate, even though it's a smaller business ex China? Thanks.

Laxman Narasimhan: So let me answer your second question first. I've stepped in to provide leadership as we transition leadership in that business. We've appointed a Chief Operating

Officer for the business, he's a terrific guy. And I think that you'll get a chance to meet him at some stage as well.

On your first question, just with regard to marketing, I think this was supposed to be a bite sized investment seminar. And I think you might agree that this was more than a bite. It felt like a more sort of maybe a huge bite. So we will have a separate seminar just on marketing itself.

To give you a sense of where it lies, it lies inside the business units. So essentially, Kris and Volker clearly run that along with what we have in nutrition, but we also have a Center of Marketing Excellence that is based inside the hygiene business, which of course, reports into Volker.

And you will see that actually, what we've done is we've contemporized what was great before, into something that's highly relevant in today's world, particularly for the digital world that we are in. So we will have a separate session on that, if that's okay. Good. Thank you. Yes, please.

Pinar Ergun: Morgan Stanley. I have two questions. The first one is today you shared plenty of examples on the innovation investments, the improvements you're seeing internally. Can we point to the strong US Nielsen Scanner Data, and argue that we are already seeing the fruits of this investment, or is it too soon to say?

And then the second one's on working capital. Reckitt always had a very impressive working capital practice, but given the global supply chain challenges, are you facing any pushback from your suppliers on your existing terms? Thank you.

Laxman Narasimhan: Great. On the first question on the Nielsen Scanner Data, I'm going to first turn to you Volker, just on hygiene and then Kris, maybe you can touch a bit on working capital and what's happening there? Yeah.

Volker Kuhn: Yeah. Look, I think when you look at Lysol in particular, you see actually, our investments working. The reason why I think we are doing much better than some of our peers is because our broadening of shoulders is working. And on top of this, we have strengthened our penetration with households and going back to the previous questions, obviously, set up massively our marketing, and the way we market, the much more targeted way that we think we're coming out of that stronger as at before.

So I think overall, we are well placed in this, and as mentioned before, we are stronger and we will come out much stronger than others, we are convinced.

Laxman Narasimhan: Kris, could you touch on the health business please?

Kris Licht: Sure. So we are in the early stages of the season. So again, we're being appropriately cautious about how we interpret that, but certainly, what we expected to see is happening. And we're seeing a return to more normal levels of sell through, and our brands are doing quite well. So it's encouraging and we're watching it every day.

Laxman Narasimhan: But to answer your question on this, I don't think yet, you're seeing the full impact of innovation on health in the Scanner Data.

Kris Licht: True, true.

Laxman Narasimhan: Particularly in the US...

Kris Licht: More common.

Laxman Narasimhan: You're going to see more of it with Dettol, and some of the markets in terms of the expansion you see, you're clearly seeing it there.

Kris Licht: Yeah.

Laxman Narasimhan: Take a look at Trueclean and what we've done just in the UK with some of the botanicals range, I think you're seeing that there, for sure.

Jeff Carr: Yeah. Working capital?

Laxman Narasimhan: Working capital, Jeff.

Jeff Carr: No, let me just say, working capital is always a dance with suppliers, and I don't see any current trends or pressures which are any different from the more recent past. The trick about working capital is purely about focus, and I go back to the mid-90s at Benckiser, when the working capital ethic of Reckitt that you see today was first installed.

And it's about focus and it's about managing working capital as a key KPI. And I've since then been to other businesses where working capital is poorly managed, and it's usually because it's not managed with the focus that we have here at Reckitt. And I can assure you, it will continue to be a focus and will continue to deliver strong, free cashflow.

Laxman Narasimhan: Yes, please. We'll take a couple and then we go online... Oh, sorry, phone calls, and then we'll come back here. Is that all right? Yeah. Go ahead, please.

Fulvio Cazzol: Thank you for the question. Fulvio Cazzol from Berenberg. My question is on the core Enfa products, which you highlighted are 60% of nutrition. So around 12% of group, not really growing, 0% to 2%.

Can you just highlight what the rationale is to keep this business, following your disposal of the China operations? Thank you.

Laxman Narasimhan: Well, first of all, I think we also showed you that if you look at the North American business from 2017 until now, it's been growing at 5%, right? So growing at 5%. You can't necessarily separate core Enfa from the opportunity in specialty, because they are all linked, just to the sense of what we are able to get.

And I think what it also does with the science that we have in that business, the ability to basically turn the science of what's important in the first 1,000 days, also becoming highly relevant for the last 10,000 days.

And so, what we are doing is essentially taking the science and flipping it and say, "How might we repurpose it in terms of adult nutrition?" Angela, I wonder whether you wanted to just comment about how we're using the science over the first 1,000 days for the last 10,000?

Angela Naef: Yes. Thank you so much for that, Laxman. It's really amazing, the fact that the body can create what it does in a 1,000 days. And on the other side of life, the processes and the sort of biological destruction, if you will, are actually undoing some of those processes.

And so, research in terms of aging, understanding things like muscle, heart health, cognitive health, is actually giving us great insights into some of those ingredient technologies that we've been using in infant nutrition, have direct applicability into the later stage adults, into the adults.

We've launched ProVital with very specific health needs states, relative to cognition, digestive, and so forth. I think we're already seeing great benefits of being able to leverage the science between those two, and not just unidirectional from baby to aging, but also aging to baby.

Laxman Narasimhan: Great. One more question here, Eva? Sorry, somebody else. Yeah.

Eva, Quiroga: Sorry. I would like to come back to something that Kris mentioned. You talked about OTC, obviously innovation playing a big role, but you also talked about the globalization potential, and we've obviously lived through the Mucinex experience, which showed us that it's very difficult. What's changed from a regulatory point of view, from how you are approaching that topic?

And the second question is it's obviously great to see that Reckitt has its innovation mojo back. How can you ensure that you are not going to fall into the old trap of raising prices on the back of better product, to a level where the consumer just doesn't want to follow?

Laxman Narasimhan: You want to go the first part?

Kris Licht: Sure. In consumer health, there's a certain way you have to run your innovation pipeline for it to thrive. You have to have a longer term focus than in some of our other businesses. If you stop investing for the long-term in some things like R&D, but also regulatory and clinical work, if you stop investing or when you invest too little, that creates a bit of a hangover, okay. You're going to live with the consequences of that for some time.

So what we have rapidly done over the past 12 months is started investing in the key strategic sales that we think can really move the needle. And it takes a year or two for that to materialize, but once it does, it's very meaningful, okay, in terms of global expansion and scaling across markets.

I mentioned that we're launching Nuromol in Brazil right now. That took some investment and some work to get to that point, but the fact that we placed that bet about a year ago is helping us now. So we need to be decisive and think longer term, and that's what we're doing.

Laxman Narasimhan: I think one other thing I would add if I could, is we've looked at these platforms of local brands, some of the jewels that we have. If you look at Tempra in Latin America...

Kris Licht: Luftal, yeah.

Laxman Narasimhan: Luftal in Brazil, we've essentially started linking it into the science platforms, and frankly, into what we're doing with digestion in the case of Luftal and Tempra. And so, those sort of linkages actually give us further innovation ideas, and particularly, in cases where you have some of the regulatory frameworks changing in some markets, and they clearly are changing by the way, in some markets, as self-care and the importance of self-care goes up, it gives us a greater play.

Kris Licht: Maybe one final thought is that there're different types of innovation in OTC, and sometimes you don't need a molecular innovation in order to be able to deliver very meaningful, new consumer benefits. Okay. So there's really an array of different innovation, and I think we're getting more out of R&D now in terms of delivering added benefits. And we can do some of that on an accelerated timeframe.

Laxman Narasimhan: There was a second question, which is really around pricing, and really, how do you ensure that you don't price so high, that actually, consumers don't follow? How do you think about?

Kris Licht: Yeah, look, it's a topic that we've studied very closely, and there's nothing in the data that we're seeing... There's maybe an anomaly here or there in one market, in one skew, but as a general pattern, we're watching this and we're seeing that our brands command premiums exactly because they are trusted, because they're efficacious, and because we invest in them.

So our premium price points is absolutely core to our earnings model. It's core to our gross margins, and we just have to be thoughtful about not overdoing it with our pricing, and I think we are.

Laxman Narasimhan: The one thing we've really... If I could, over the last 18 months, is actually thought very long and hard about revenue growth management. Do you want to touch on that?

Kris Licht: Absolutely. So sometimes it's not about actually pricing up or down. It's about creating an architecture that creates different price offerings for different occasions. So one of the things we've leaned into is opening price points, recognizing that some of our OTC medicines are quite costly. So how do we create a ladder that can trade the consumer into our franchise? And over time, as they become very connected to our franchise, and they see the efficacy of the product, then they trade up.

So we're working on that. I think there're more opportunities there. We can see some in some of our key markets, and we're going to look to unlock those pretty quickly.

Laxman Narasimhan: We are passionately focused on mix and just understanding price mix, and the opportunities with price mix over time by channel is where we will go, to ensure that we get the benefits of the innovation, but at the same time giving consumers choice across channels.

If I could, I'd like to go to callers online, and I presume I will hear a miraculous voice and someone will ask me the question, which is great. In which case I'm going to the callers online. Please mention who you are, where you're from?

Celine Pannuti: Of course, ladies and gentlemen, if you would like to ask a question, please press star, followed by one on your telephone keypads. If you choose to withdraw your question, please press star followed by two. When preparing to ask your question, please ensure that your phone is unmuted locally.

As a reminder that star followed by one on your telephone keypads.

Laxman Narasimhan: Okay. While we wait for folks to get the technology, maybe we'll come down here, please. No, in front, please. In front, to the gentleman in front. To Martin. Thank you.

Martin: Thank you. Laxman, I'm sorry. I'm struggling a bit to make myself heard. Thank you. The question is about culture and leadership, which hasn't been on the agenda today. Those of us who follow the company for a long time knew that for its first 20 years, it was a bit of a Masonic cult. It grew its own leadership emerge from within.

Everybody on the stage, apart from Arjun, is new to the company in two years. So I think the question for you is why did you feel the need to churn your leadership team so aggressively? Has that created problems of tissue rejection, which have impeded realizing the goals? And where would you characterize is the temperature of the top 400 managers? Committed, not committed, et cetera. That's the question for me.

Laxman Narasimhan: Great Martin. Thank you. I think I'll answer the first part of your question, and then what I'm going to do is draw on my colleague, Ranjay Radhakrishnan, who's our head of human resources and I'll get him to answer the second part of the question.

Well, the first part of the question, when you think about what we went through, just in terms of the strategic choice that we made, I think it led of course to an implication which resulted in the kind of leadership that we had. Now if you'll recall when we went to the process, we also identified certain alumni to bring back in to the company. So Jeff has come back to the company after having been away for many years.

Sami Naffakh, who's our head of supply chain, has actually come back to the company after many years. So it might seem a little bit more sort of, "Gee, there aren't many people from the past here," and I think that's an appropriate statement, but at the same time, what we've tried to do is build on the success of the past. And we believe strongly that the ownership culture, the create culture and the deliver culture is an excellent part of the culture that the company had. And it still stays. It's still something that we're absolutely focused on. Now we've had to enhance the create cultures, Eva just pointed out, and that's part of the investments that we've made in R&D and the demand centric growth spaces and all of it in order for us to get the brands to where we want be.

In terms of your second question, mister, how has it been received, I'm going ask Ranjay to essentially comment on it. Ranjay.

Ranjay: No problem. Hello, I'm Ranjay, I joined in March 2020. Okay. I'm not going to repeat that. Okay. In terms of how this has been received, if you look at all through the transformation, and if you look at our recommends call in people survey, or if you look at the pride score, they're significantly ahead of industry benchmarks, and we believe we should continue to see that. And the main reason for that is we as a leadership team, strongly believe that if we actually explain the rationale of the why of the transformation to our colleagues, then they will embrace the change, which they have.

Now you should understand that factually, 75% of our senior leaders are still from the internal bench. And we have always had a culture of actually bringing in some of the best from the outside, inside. And with this transformation, what we have really done is dial that up to bring in people whose experience and capabilities. We really need to raise the bar to higher levels of performance.

Laxman Narasimhan: Martin, what I'm going to do is ask Sami ... Sami, you came back to the company. Could you talk a bit about how you see the culture?

Sami Naffakh: Thank you, Laxman. So I'm Sami Naffakh. I'm the chief supply officer. And yes, I was within record in between 2003 and 2009, and then I came back about a year ago. Look, I think it's a very relevant question. I would tell you that what I see still in record, because it's really in the DNA, and we haven't lost it, is this can do entrepreneurial drive, make things happen. And I think the way Reckitt has navigated through the pandemic is good illustration of this.

Now what I find new and very appealing, and one of the reasons I came back is because Reckit now has a purpose. I think we're really becoming a purpose driven organization. We're really aiming and committing to being a good corporate citizen. And on top we're doing things differently. So not only are we doing the right things, but I think we're also aiming at doing things right in a much more structured, embedded, sustainable way. And that to me is a key difference.

Laxman Narasimhan: Jeff, I wonder whether you want to make any comments about that too.

Jeff Carr: Yeah. Look just for everyone's benefit, I go even further back. I was with Benckizer from the mid 90's until 2004 after the merger with Reckitt. So I lived through really exciting times. I met yourself, Laxman-

Laxman Narasimhan: Several times.

Jeff Carr: Several times in 2019, and having spent a career telling people not to go back to a company they've been to before, I decided to come back because I loved Reckitt back in those days. It was, as you said, a unique culture and a business. The reason I came back is I'd seen that business go somewhere off the tracks. And I was really disappointed as a shareholder, but also just because of the history that I had with it, and I wanted to be part of putting it right. And I came back partly because ... Well, all because of the way that we discussed the culture that you wanted to build here, building off the best of the past, but then looking beyond just shareholders to all stakeholders and making sure that care element became a key element of what we're doing. So it wasn't just an EPS at any price. It was a focus on building something sustainable, something real over the long term, and that's the reason I came back.

Laxman Narasimhan: I wonder whether Filippo, you're the newest member of the team. Talk to us a bit about why you came back. Or why you joined us.

Fillipo: Hi everybody, Fillipo Cattano. I joined in April as the chief information and digitization officer. My experience has always been in CPG, big CPG, bigger CPGs. I think for me, what I really liked is this entrepreneurial culture that in my space, technology, digital, it's about speed of execution and making an impact in a faster time. And I think the other one is really the upside. There is so much that we can do more of, from foundations to value creation, to new business models, through technology that I'm really excited about the opportunity to work on that.

Laxman Narasimhan: phone lines.

Operator: Our first question comes from Celine Panutti of JP Morgan. Celine please go ahead. Your line is open.

Celine Panutti: Thank you very much. Thank you for taking my question. First, I wanted to talk about innovation. Can you say what percentage of sales in 2021, maybe in H1, came from new innovation? Just to understand when you talk about next year being higher the pipe, to see what's the upside. And also, I think you mentioned that had capabilities for a switch, RX switch. I don't think this is something that Reckitt had done in the past. Can you talk about what are the opportunities there?

And my second question would be on the portfolio. Do you think that the trimming of the portfolio has been done now? I'm thinking you've not presented on personal care, and some of the 20% of the business in hygiene that is not in the six main platforms. And with that, I don't know whether each of them could comment, whether I don't know whether VMS is right in nutrition, and Dettol and Lysol share so much in common, is it right as well in health? Thank you.

Laxman Narasimhan: Well, that's several questions. Let me do the following and let me maybe take a couple of them, and then maybe go around the room. Just on the innovation by pipeline value, Angela, perhaps it might be useful to just talk about innovation pipeline value and how we've defined it. And then perhaps Kris and Volker, you can touch a bit on the question.

As we mentioned at the outset, we're not disclosing the percentage of net revenue from innovation this year. We're clearly going to be ... It's something we're going to be disclosing from next year, but you want to just talk a bit about that?

Angela Naef: Yeah, great. Thank you, Laxman, and thank you for the question. Yeah. So we have really taken the last several months to harmonize and stabilize our overall innovation portfolio taxonomy. And I think that's a really important point as we look across innovation for the entirety of the group. And with that, we've been able to divide both the quantity that we talked about today, in terms of the overall lift that we anticipate. And what we're talking about that 50% is incremental net revenue associated with the projects that are running through the pipeline. So that 50% lift is from 21 to 22.

In addition to that, it's this quality aspect of the pipeline that I think is really important as well. The projects are resourced for success, meaning the confidence that we have to deliver against them is really high. And secondly, the types of innovation that we're going after, core, adjacent, disruptive, and having a balance of our pipeline, delivering against those different aspects to make sure that we're making the core innovations that we have in market today at pace relevant to consumers, but also then stretching further into adjacencies and further on into disruptive type innovation.

So this quality quantity equation is really important for us. And as Laxman just stated, we're not yet reporting on actuals in terms of our new product sales just yet, but it is a plan for us in 2022.

Laxman Narasimhan: Do you want to add to that Jeff, about the reporting piece?

Jeff Carr: No, let me just add very briefly. We have to harmonize a lot of the KPIs that we have in the group, having basically gone their own way over the last three or four years, and bringing that harmonization back together. So we know how much innovation we're putting through hygiene, we know how much innovation is going through in health, but bringing that together is a job that we're doing this year by standard definition, so that we can report it from next year. And as we report it next year, we'll show the current year and the following year. But we have to build back that standardization in order to be able to have a consistent methodology, and it takes a little time.

Laxman Narasimhan: Let me take the portfolio question, and then I'm going to draw on you guys as well if that's okay. Right. The first one on the further trimming of the portfolio, I think the commitment we have made is that we will continue to be active managers of our portfolio, and of selective opportunities where we feel that someone is a better owner of a brand or a selective asset more than we are, that of course we will act on it, keeping fully in mind shareholder value as we do it. At this point in time, we have really nothing more to announce on it, and we are pleased with the portfolio as we have it.

To get your question about Dettol and Lysol, and why are they in two different businesses. If you go back to the point of RB 2.0, one of the reasons for really questioning that call was in fact, the fact that they were in two different businesses, but actually they were going to compete with each other. And we've moved away from that. We've moved away from the idea that as Volker talked about it, a consumer view of surface disinfection. Now Dettol's the health reason of business as well because in some markets Dettol can only be sold in a pharmacy chain. And so what it does is it does provide some scale on the go to market side to where we have it. But the most important thing is how we coordinate across Dettol and Lysol.

Kris and Volker, do you want to touch a bit on how you guys go about doing that?

Kris Licht: Yeah, I'd like to. I'd like to make a broader point and then we can maybe speak about Lysol and Dettol. The broader point, I think, is that the way we work in the company today, and especially across many of the commercial functions and also in supply is collaboration happens at many levels. And there's , I would say, a higher level of collaboration, and so just because something sits in one GBU or the other doesn't mean that we don't collaborate when we see a consumer opportunity that we can commercialize or a new market we can go into, or for that matter, a more efficient way to ship. So we really are collaborating very actively across the GBUs. I don't know if you want to speak to how we do it on Dettol and Lysol.

Volker Kuhn: Yeah look, so first of all, we share a lot of the R&D resources on Dettol and Lysol. Our core excellent center of R&D sits exactly together. So if you go into that facility, you wouldn't know what is health or hygiene, it's one. So that's, I think, core to this tool that we leverage the scale of our science, of our technology platforms as Angela explained before very well. So that's super crucial.

Secondly, obviously we share best practices when it comes to consumer ideas and we scale them. If you have carefully listened to both presentations, you have seen that certain things sounded almost identical, which we do with Lysol and Dettol. Other things we do differently, because our brands at the core where they're coming from are different. We are coming from surface disinfectant, Lysol, Dettol has a lot of bar soaps, et cetera and personal care areas, where Lysol doesn't really play in most markets.

So there are actually some core consumer fundamentals in both brands. However, wherever there's a great idea to scale, we scale them up, we share. We are not stealing with pride anymore, now we're collaborating with pride, I would say. And that you see across, because ultimately we know we want to win better together. And we do, and we adjust at the beginning of a lot of those things which we are joining forces at the moment. But I think you see the organization really embracing that, because they all know together we are much more powerful than we were alone.

Laxman Narasimhan: One of the behaviors in our culture is this notion of joining forces to win bigger. And we put that in. Really important in terms of the, the kind of culture we're trying to build both internally, as well as externally with partners.

Kris, there was a third question there. Yeah. I apologize. I didn't catch every detail of it.

Laxman Narasimhan: So the question was, you mentioned the role of RX to OTC switch. The question was Reckitt hasn't really done that traditionally. What opportunities do you see in that space?

Kris Licht: Well look, let's maybe dis distinguish between large, very large blockbuster switches, and smaller initiatives like down scheduling and licensing opportunities through partnerships. So major switches, there aren't that many, as you know, and obviously it's always commercially interesting to participate in, but we're not hedging our bets or counting on anything like that to deliver our sustainable growth. Of course, it would be interesting.

In terms of down scheduling. I shared an example today in the UK of the Nuromol down scheduling. That's a very helpful way to generate more access for consumers. And there are many of those opportunities across our markets, and we're very actively looking and working at that.

Laxman Narasimhan: Great. I think we're going back from the one question from online to back in the room. Are there any questions in the room? Sounds like you have one there. Yes please.

David Hayes: So just two areas, as you can. So firstly on new brands. New brands. Well, you didn't really talk about that in hygiene. So the question is are new brands needed because they're not stretching as much as they used to? Has something changed in the market? Secondly, relate to that, is that not inefficient, arguably, in terms of marketing investment returns? And then why is there a difference between, or is there a difference between health and hygiene? Is it need in health, you don't need in hygiene, or you just not put it in the slide?

And then the second question was actually on the hygiene slide. You talked about penetration of households going to 30% as the target. I think if you looked at the average roughly of the brands that you outlined on the slide, it was about five. That's quite a big jump over five years. Is that coming from the current markets going to 15, 20, or is it new markets getting penetration. We're just trying to get a sense of the split as you get that big jump from global house or penetration. Thank you.

Laxman Narasimhan: I think just on your third on your final question, I think it was 2030 that you had that in. Do you want to answer that? Go ahead.

Volker Kuhn: Yeah, I can. Let me take that first maybe then, very straight. So obviously when you look at the individual penetration of each category, which I said is very low, which gives us big room for growth, which we are working on, both in the existing markets where we have massive growth, I talked about laundry sanitizers in the US being at 5% penetration. In Italy, Napisan is already at 25% penetration. However, the way we are looking at that is in how many household is at least one of our hygiene products? And right now we are 19%. Okay, so you may have in your house, or you live in the UK, you don't have Lysol, so you hopefully have Dettol, but you may have in your house ... Very good. So you may have in your house Harpic but no Finish. Your neighbor may have Finish, no Harpic so we can add those to up to the 19. This is basically the math underlying, and it's a combination of growing in the core, driving the penetration in our core markets, broadening the shoulders and really winning in the core as well as extending into new places.

So this is the logic in which we are operating. Obviously certain markets we expect to grow faster, with a faster growing middle class. So you'll see, therefore, our developing market footprint clearly strengthening over the next five and even 10 years, even more. So I hope that that answers your question.

Laxman Narasimhan: I think on the question of new brands and hygiene, I thought you did talk about Botanica. Do you want-

Volker Kuhn: Yeah. Cheers. So first of all, I think our core brands that we have still have massive room for growth. So we don't need necessarily new brands to grow, because we have massive potential of our core brands. That's one of the reasons why I joined. I love those brands and I think those brands have massive room to grow. Sometimes we see areas where it's easier to come with something new, if you want to jump to massive price points. Let me give you an example, Airwick is stuck at a certain level of pricing. If you want to go into air care where you see products ... Taking Airwick, which is very strong in the US, where you see products retailing instead of the Airwick range, which probably ends at $20, you have a lot of products retailing $50 to $100. Stretching Airwick veg in that range may not make sense. So that's why we have something like Botanica.

So we are looking carefully where it's needed, but this is that we believe we can't grow our brands. The vast majority of our future growth will be coming from our core brands. But more importantly, I think the point I want to make here is we really want to go away from a brand centric approach to a category approach, because that really widens the lens for our brands to grow, and that's where there's super exciting potential for us to grow.

Laxman Narasimhan: Kris, do you want to comment on the fact that there are some new brands in your-

Kris Licht: Sure. So I agree. The same thing holds true that Volker just said for hygiene holds true for health. It's our first priority to grow our large brands, and they have plenty of runway. That being said, I shared with you think about demand spaces in a new way. What that helps you to see is different specific spaces and what the credentials of a brand needs to be for it to be successful there. And so it actually allows us to say, "We can stretch here with this brand, but not here," because the codes of that space are just different. Sometimes it might be a younger consumer cohort. Maybe they want something that fits their lifestyle, their culture, their values. Sometimes it's more about being more design driven. Sometimes it's about being digitally native.

So there's a lot of different reasons why sometimes we need a smaller brand and it's faster. And to your point about efficiency, it's kind of fortunate that many of those spaces don't rely as heavily on a traditional TV driven advertising model. So many of them actually rely more on earned media, more efficient, digital media, even word of mouth, sort of grassroots marketing. So it's actually oftentimes, not always, but oftentimes, a different demand model that's less costly.

Volker Kuhn: And you can actually scale it in your other platforms, be it science or technology or your production platform. So there is a lot of scale that we have and which you can leverage for in brands too.

Laxman Narasimhan: If I could just add one more thing, the demand space view of the world, and as we put all these different brands into it, in some markets we have multiple brands playing in a particular category, or we might call it that. What we have done also is go back in and spread these brands so there's little overlap. Because sometimes you actually have brands overlapping on top of each other and so you promote one, the other one loses, and vice versa. So those are being spread as well as we go, so that we will optimally balance the portfolio. Let's go back into the room. There's a question here, please. Thank you.

Chris Pitcher: Hi there. A couple ...

Laxman Narasimhan: And your name-

Chris Pitcher: Oh, sorry. Chris Pitcher, Redburn. I was struck by the fact that Biofreeze accelerated after your acquisition of it, that quite often the acquired brands slow. Could you give us a bit more color on that? Is that like for like, is that distribution, change sales incentives? And then secondly, you haven't talked much about the global business services business. Is that back on track? You said you're covering costs, but is that still delivering, and has demand picked up as people are traveling more and staying in hotels? Thanks.

Laxman Narasimhan: So the first thing is is one month. So I think we should get ahead of ourselves really, but clearly we have a great plan to maximize value. You want to just talk about Biofreeze and how we think about it?

Kris Licht: Sure. Biofreeze has been growing very steadily at a very accelerated rate for a long time, and really driving value and growth in the category. It's a very strong brand. It has huge headroom in terms of awareness, and that's one of the things we can look to drive almost right away to further step change the growth. Biofreeze is also a brand that lends itself to expansion. And once consumers get to know the brand, they're very keen on sharing that with others. The word of mouth effect with Biofreeze is significant, and we are also investing in, I think, an exciting innovation pipeline, consistent with some of the other investments we've made that we can share maybe at a later date.

Laxman Narasimhan: Your second question's really about global business services. Volker, do you want to touch on this question?

Volker Kuhn: Yeah. First of all, obviously our global services business is young, but has grown tremendously fast and where we play, we have already achieved market leadership. As I said, for example, in the US wipes business. Secondly, we have managed our tremendous brand power to sign a lot of partnerships. You heard about British airways today with their toll, we have Delta airlines in the US. We have Hilton hotels, we have Avis, to name a few. Now some of them obviously are not yet at the levels where we were expecting them when we started the whole journey, because we didn't have COVID in mind when the whole venture started. On the other hand, some areas accelerated much faster than expected thanks to COVID. Now our entire office business is not yet there where we are, but we have the partnerships there in terms of distribution, to grow fast when those things open more.

So all in all, I think we are super happy with the progress we are making, because we are outperforming the market and that's the core measure for us. And we are using actually the time and the scale we gain to really increase our coverage, deepen our customer engagements and most importantly, really increasing our innovation pipeline to go into new sectors in the future. As I said in my remote before, we are only playing a very limited part of the hygiene professional market, but our brands allow us to play in a much wider market in the future. And we have really exciting things in the pipeline coming on, including partnerships, but it's a bit early to announce those. But yes, we feel very confident that will be coming even more growth pillar, and not only growth pillar, but pillar for our business going forward in hygiene.

Laxman Narasimhan: What is this your question about the economics of the business? Jeff, do you want to just comment?

Jeff Carr: Yeah. Let me ... GBS is more than covering its cost. It covered its cost very quickly, which is what I was trying to point out. I hope ... I'll go back and check the transcript, but it's more than covering its cost currently, and it's really contributing to the bottom line. So it was a quick return in GBS, and we're very pleased not just with the top line performance, albeit it's not quite where we wanted it to be at the beginning this year, but we're still very pleased not just with the top line performance, but also with the margin it contributes.

Laxman Narasimhan: Great. Thank you. I don't any more questions. Oh, I see one last question in the room. And so as we wrap up, Pinar, go ahead.

Pinar: Thank you. It's Pinar Ergun from Morgan Stanley again. I have a question on R&D. How do you stay competitive in nutrition, in relation to your larger peers who've been doing nutrition business for decades?

Angela Naef: Yeah. So thank you for the question. So Mead Johnson is over 100 years old, so it has incredible legacy in terms of where it comes from. And as an innovation, actually a genesis of many different things have come through that part of the business over many, many years. I think as we look across the different types of products that the Mead Johnson family of products is, it's really amazing. You've got the Enfacore brand, which really is delivering that base nutrition for that early start, soul nutrition, sole source of nutrition. Nutramigen and PurAmino are really differentiated in terms of their ability to deal with premature and allergies in specific. So from an ongoing innovation perspective, there is, I think, a lot of legs in terms of making sure that we're really focused on those targeted need states that infants have in those early stages of life. And you're right, there is tremendous innovation that is happening in other parts of our industry, which I think are also compelling.

We talk a little bit about the microbiome today in terms of the baby biome and the infant microbiome, and there's a lot of headroom still yet to make in terms of whether it be HMOs or probiotics and other types of ingredients that can really help enable that healthy early microbiome.

Laxman Narasimhan: Well, thank you very much for joining us. Both all of you who have dialed in, as well as all of you who have joined us here are in person.

I hope you take away four key messages from what we have said. One is we're a company of owners, with shareholder value central to our being. Second, we have a fundamentally stronger business that we've built over the last 18 months. Third, we are at an inflection point, particularly on margins as we play what happens through the course of the next while, this year, as well as the years to come. And forth, we feel confident in our ability to achieve our medium term goals. I want to thank all my colleagues here who have joined us in our answering your questions. I want to thank all of you for being here, and for those of you on the phone, thank you for joining us. For those of you in person, we have some drinks and coffee downstairs. Would be pleased to take any further questions you might have over a cup of coffee or over a drink. Thank you again, and we appreciate you joining this first seminar that we are doing with investors.

END OF TRANSCRIPT