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RB.L - Q1 2015 Reckitt Benckiser Group PLC Trading Statement Call

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OVERVIEW:

Co. provided 1Q15 trading update. Expects full-year 2015 like-for-like net revenue growth to be 4%.



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CORPORATE PARTICIPANTS

Rakesh Kapoor *Reckitt Benckiser Group Plc - CEO*

Adrian Hennah *Reckitt Benckiser Group Plc - CFO*

CONFERENCE CALL PARTICIPANTS

Erik Sjogren *Morgan Stanley - Analyst*

Martin Deboo *Jefferies & Co. - Analyst*

Toby McCullagh *Citi - Analyst*

Katherine Tait *Goldman Sachs - Analyst*

Charles Pick *Numis Securities - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Q1 2015 trading update conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Rakesh Kapoor. Please go ahead.

Rakesh Kapoor - Reckitt Benckiser Group Plc - CEO

Good morning, and welcome to RB's Q1 trading update conference call. I will take you through a summary of today's announcement; and then, Adrian Hennah, our CFO, and I will be pleased to take your questions. Remember, that this a trading update only, rather than a full set of results.

I have three key messages for you today. Firstly, our strategic focus on health and hygiene has delivered a good start to the year with a combined like-for-like growth of 7% in Q1.

Secondly, project supercharge is energizing our business and is helping us to become a more efficient Company.

Thirdly, with a strong start to the year, we are fully on track to deliver our full-year targets.

I want to share some key observations from the trading update. In ENA, we have seen strong performances from many of our healthcare brands, including Scholl; Durex; Nurofen; Strepsils; Move Free; and the Airborne. This has helped offset the headwinds from some of the large launches made during Q1 last year on Mucinex and MegaRed.

We have also benefited from two other factors during this quarter; a strong flu season, and softer than expected volume slowdown in Russia. So ENA has done really very well this quarter, even if this creates a strong comparator for next year.

In DvM, India continues to improve, but market and competitive conditions in Brazil remain challenging. We expect developing markets to remain mixed in the near term.

From a category perspective, I've already mentioned that a stronger flu season has benefited our consumer health brands. However, the underlying performance remains strong and reinforces why we value this category so highly, even if this double-digit growth trajectory may not be sustainable for the remainder of the year.



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In hygiene, our performance in developing markets was strong with growth coming from most brands, but particularly Dettol and Harpic, as we drive innovation and focus on penetration improvement programs. This strong growth was offset by weakness in Finish, in ENA. I'm confident about the underlying health of our brands in this category, and the opportunity to drive long-term growth.

After strong throughput in 2014, homes had slowed down in Q1. Air Wick experienced a tough start after the sell-in of our Life Scents innovation during Q4 of 2014.

The early in-market results are encouraging. Vanish continues to perform well behind innovation, such as Vanish Gold and Vanish Super Bar.

Finally, with respect to the outlook for the full year, our Q1 performance gives us the confidence to reiterate our full-year targets of plus 4% like-for-like net revenue growth, and moderate to nice adjusted operating margin expansion.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Erik Sjogren, Morgan Stanley.

Erik Sjogren - Morgan Stanley - Analyst

Two questions from me, please. Firstly, just on the home category, obviously slowed compared to the second half of last year. Apart from the changes in Air Wick with the sell-in, and so on, is there anything you feel has changed in the underlying market, competitive environment here, etc.?

Then secondly, on Supercharge, obviously, it's very early days, but are there any more details that you can share about how this initial part of the program are progressing? Thanks.

Rakesh Kapoor - Reckitt Benckiser Group Plc - CEO

Right, I don't think anything has changed in the home market. Home market, as such, is not as high growing as health and hygiene. We've said that on many occasions, and that remains the case. Home market is also -- has a very significant component of ENA, or developed markets.

Underlying, our home markets have always been tough for the last six, eight quarters. Our brands in home markets, however, have done overall better in the case of Vanish. And, in Air Wick, I would say we've worked very hard to bring some exciting innovation to the market. We introduced Life Scents, I would say, late last year, which we benefited from in Q4, and we are seeing early encouraging results.

But I don't think there's a fundamental change in the market conditions in competitive conditions in home. With the exception of, I would say, in Latin America, where Vanish is clearly having a significant competitive battle in the marketplace. But by and large, I don't see a major change in competitive conditions in home.

On Supercharge, I think, Erik, as you just said, it is early days. All I would say is it has been embraced by the organization with energy, with enthusiasm. It's the kind of thing Reckitt Benckiser likes to do, which is take a new challenge on, climb the new mountain, and look for a completely new thing to do.



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And I think the whole Company is at it right now, that's what I would say, it's at it. It's early days to tell you what the financial impacts for this quarter on the next quarter will be, but I think I would just say that it's a really nice momentum for RB to energize our people.

Erik Sjogren - *Morgan Stanley - Analyst*

Great. Thank you very much.

Operator

Martin Deboo, Jefferies.

Martin Deboo - *Jefferies & Co. - Analyst*

It's a very technical one, probably for Adrian. Adrian, FX outlook for the year, I think you said 1% headwind at Q4. FX at Q1 looked a little bit worse than certainly I was thinking. Do you want to say anything new about full-year FX guidance?

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Well, thank you, Martin. Yes, if you were to take the -- we quoted the January 31, rates when we did our full-year numbers, if they were to have lasted for the full year what would the effect on exchange be?

If you were to take the March 31, rates for the full year, there would be a headwind of about minus 1% to minus 2% on net revenue, which is pretty much in line with what we said for the full year at the January 31, rates. And we expect a slightly higher headwind on profit, mainly due to the widely divergent movement in the euro and the dollar, and where we earn our profit.

So pretty much the same position as when we did the full-year numbers, Martin. Obviously, through the year it varied a bit, because you've got to look at the past year, but that's the full-year guidance.

Martin Deboo - *Jefferies & Co. - Analyst*

Okay, that's really helpful. Thank you.

Operator

Toby McCullagh, Citi.

Toby McCullagh - *Citi - Analyst*

Two questions on health, if I can. I guess, the first is there's a lot of moving parts in the health business this quarter, including strong flu season; the tough sell-in comps; I think, also, the re-entry of private label Mucinex, etc. And as you've alluded to, certainly, a 13% or double-digit isn't really probably going to be the run rate on growth for the rest of the year.

And whilst I appreciate it's difficult to include or exclude specific things, but ex all of the seasonal or timing-related issues, what do you see your underlying rate of growth in the health division is, at the moment?



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And then separately, but also on health, in terms of M&A, I guess it's been fairly quiet for a year or so now, yet you talk about being a consolidator of a very fragmented market. Is this down -- is the quietness down to a lack of availability, or price? Or what's going on there, please?

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Right, Toby, thank you for the questions. I think the first one is clearly about the short term, and the other one is quite a medium-term and long-term question.

So let's just take the first one. I would say that the growth rate in the first quarter on health is a broad-based growth rate. And not to call out a strong flu season would also not be right. There is a flu season impact; there is an impact from last year's strong sell-in on Mucinex, we call all things out.

But I think the underlying story on health remains a strong story. We have done really well on healthcare brands. It's a broad-based performance. We've done well across our seasonal and non-seasonal brands, like Durex and Nurofen, and non-seasonal brands. And we have done well on non-seasonal brands, but we have also done well on the seasonal brands.

So I would say that without quoting, and without really also being that brilliantly financial about what exactly is the benefit of flu versus non-flu, which is never a perfect one anyway, I think the main story for us is to say that our healthcare focus is the right focus. We are outperforming the healthcare growth by a wide margin, actually.

And we continue to focus very strongly on both innovating in this market, but also in solidifying our entry into new markets, like we have done in the case of Scholl by expanding its presence in the US, in Latin America, in China.

When you come to the larger question of M&A, we have been quiet for a year. I think the last M&A we did was on the K-Y brand, which still hasn't had its first anniversary, I think. But it's clear that we haven't done anything from K-Y.

And I think we are not in a hurry to write the next check here. I think the important thing is to keep focusing on doing the right M&A, and to look at the right opportunity from both strategic, but also from a value creation point of view.

We believe that the opportunity for M&A in health, because of the very nature of the market, of the fragmentation in this market, will continue to be available. The question for us is which one we want to participate in, and what is the right value opportunity for those that come through?

I don't believe that the market has dried up. We continue to look at many M&As. The question for us is always will we make -- will we do better for our shareholders with the opportunity we want to go for, and at what price?

And these opportunities will keep coming our way, and we will keep asking ourselves this question, and then making the right calls as we get them. But I don't think you should, for yourselves, go away with the idea that somehow the opportunity has dried up, just because we haven't done one for eight months, or whatever.

Toby McCullagh - *Citi - Analyst*

Great. Thanks.

Operator

Katherine Tait, Goldman Sachs.



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Katherine Tait - *Goldman Sachs - Analyst*

Most of mine have been answered, but perhaps you could give a couple of comments on pricing. I think you guys have illustrated pretty strong pricing power with your brands and innovations, but are you seeing any additional pressure in any of your segments, or geographies, or any extra particular change in trajectory there?

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

Well, on pricing, what we can say is that, overall, the growth was split -- was [first of all, we saw book] price and volume growth in the quarter. And the split was roughly 75% volume to 25% price, and slightly higher price growth in developing markets proportionally to ENA.

In terms of trend changes in pricing, no, we haven't. Lots of speculation that with commodity price tailwinds and so on around would we see changes in competitive behavior in different parts of the world? No, we haven't really, to be honest. At the moment, I would say the pricing dynamic is [aggregate]. And clearly it varies in different places, specifically, but in aggregate it's pretty much the same.

Katherine Tait - *Goldman Sachs - Analyst*

Okay, thanks very much.

Operator

(Operator Instructions). Charles Pick, Numis.

Charles Pick - *Numis Securities - Analyst*

I wonder, with the hygiene operations, whether you could split out the Finish pipeline full effect, in terms of how that held the like for like back in Q1 of this year?

And wonder, too, if you could say a little bit more, please, about Russia and Brazil; what your experiences have been there. And also, how you're progressing with the sale of that Russian hospital supplies business?

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

I think the first question was on hygiene and what was the year-on-year effect of launches. We're not going to quantify it for you, Charles. We did note that there was a material launch of Power & Pure in the first quarter last year, which has had a little bit effect on the year-on-year growth rate. But frankly, there's not any more detail we can give you on that.

I think you asked then about Russia and Brazil. Yes, Russia, we pointed out that in quarter 4 of last year there was a very big sale in Russia, affected by expectations of price increases and a lot of [stocking] by the trade, and, indeed, by consumers in Russia, and that we'd expected a much softer volume in the first quarter. That didn't really happen.

We have been surprised by how well volumes held up in the first quarter of the year in Russia, along with significant price increases taken by the whole trade, and including ourselves. We do point out, in the trading update, that that's not a reason to extrapolate from that. For the full year, there clearly are a number of volatilities in Russia. But certainly, in the first quarter we were pleasantly surprised by how volume held up.

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You highlight Brazil. Again, we call that out in the trading update, both in the sense that the market is weak. We're seeing that, we're seeing others reporting the same thing. And as Rakesh highlighted in an answer to an earlier question, there are some particular competitive issues in Brazil at the moment. So Brazil and LatAm, in general, is one of the slightly weaker parts of our geographies.

And I've forgotten what your last question was.

Charles Pick - *Numis Securities - Analyst*

It was to do with the Russian hospital supplies business; how you're progressing with the sale of that.

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

We're on track. We're working on it. Obviously, we're not going to say anything specific around it, though, until it's done.

Charles Pick - *Numis Securities - Analyst*

Okay. Thank you very much. It's not possible to say what the Russian volume growth came down to, is it, in Q1?

Adrian Hennah - *Reckitt Benckiser Group Plc - CFO*

No, we're not going to split out Russia between volume and price, I'm sorry.

Charles Pick - *Numis Securities - Analyst*

Okay.

Rakesh Kapoor - *Reckitt Benckiser Group Plc - CEO*

Can I just add one thing to what Adrian just said? I think we did expect some softness in volume in Russia because of pricing, but I think there are two other factors that I think it's helpful to remember. First of all, we have a material business, a healthcare business in Russia. And that business is doing well, as well as the season has been good.

The other thing to remember is that we did put some go-to-market changes about 12-odd months ago with the integration of the erstwhile Medcom consumer business with RB business. And I must say that the new go-to-market machine that we have in Russia is now being very well oiled, as a result of which our underlying brand performances and our business performance in Russia remains a good business performance.

So while we are happy about the fact that volumes have held up relatively well, but I think there are some other factors, too. A, our business performance has been a good performance. Our go-to-market integration has done well for the business and all goes well. And, of course, there has been a good healthcare season, together with good healthcare brand performances. So, all in all, Russia was a good number.

It would appear there are no other questions. Thank you very much for joining our call today. And we wrap up now. Thank you.

Operator

Thank you. That should conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.



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