

Chief Executive Officer's Statement

STRONG GROWTH WITH A STRENGTHENED PORTFOLIO

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Chief Executive Officer



Our journey to rejuvenate sustainable growth is well on track.

OVERVIEW

In February 2020, we set out our strategy for rejuvenating sustainable growth and outlined our medium-term financial targets. Our objective is to rebuild like-for-like revenue growth to the mid-single-digit range, and to deliver adjusted operating margins in the mid-20s by the mid-2020s.

This strategy recognises that Reckitt plays a significant role in solving four of the world's largest problems: How can hygiene be the foundation for health? How do we enable consumers to self-care at a time when health systems are under massive pressure? How do we support intimate wellness and eradicate the menace of sexually transmitted diseases? How do we provide enhanced nutrition for infants and for the increasing number of seniors in society?

And as part of this, we capitalise on two major shifts: digital and sustainability. Namely, how can digital enable us to win at a time when technology is transforming consumer behaviour and business more broadly? And how do we turn sustainability into an advantage to realise new opportunities, while making the world better?

Guiding us is our Purpose. We exist to protect, heal and nurture in the relentless pursuit of a cleaner and healthier world. Our Fight is to make access to the highest quality hygiene, wellness and nourishment a right not a privilege. That means the highest quality products, availability and information that drives behaviour change. Our Compass guides us to do the right thing: put consumers and people first, seek out new opportunities, strive for excellence and build shared success. Our behaviours shape us and our culture: we Own, we Create, we Deliver and we Care.

STRONG TOP-LINE MOMENTUM THROUGHOUT 2021

Against this backdrop, we are seeking out new opportunities, leveraging our Purpose, Compass, Fight and Leadership Behaviours. And in 2021, we made good progress against our ambitions. Group net revenue of £13.2 billion grew by 3.5% on a LFL basis in 2021, resulting in a two-year stacked LFL net revenue growth of 17.4%.

Our in-market competitiveness remains strong. 62% of our core Category Market Units (CMUs), excluding IFCN China, held or gained share.

During the year, COVID-19 continued to impact net revenue. Around 70% of our portfolio, representing brands less sensitive to COVID-19 dynamics, grew mid-single digits on a LFL basis. The remaining 30% of our portfolio, which includes Lysol, Dettol and our cold and flu brands (Mucinex, Strepsils and Lemsip), was more volatile, reflecting fluctuations in COVID-19-related demand.

E-commerce net revenue¹, excluding IFCN China, grew by 17% in 2021 and now accounts for 12% of Group net revenue. The two-year stacked growth is over 85%.

EXECUTING WITH EXCELLENCE

We are a performance-driven company, and the significant step-up in investment in foundational capabilities over the past two years has further improved our execution and competitiveness.

In 2021, we were named Walmart's Supplier of the Year for consumables, reflecting the improvements in sales excellence capabilities. Based on the independent Advantage Group 2021 survey of retailers, 46% of our markets, weighted by revenue, are now considered 'top-tier' for customer service – an increase of 20 percentage points compared to 2020.

Our innovation pipeline is stronger, up 50% in 2022 compared to 2021, and it is also more innovative, with patent filings up 30%. At the same time, and in the face of significant input cost pressures, our supply chain continued to improve, and our commitment to quality in supply was a contributing factor in Reckitt's readmission to the Dow Jones Sustainability Index.

Underpinning the investment associated with these improvements, our productivity programme continues to deliver, with cumulative savings since the beginning of 2020 of £1.1 billion.

17.4%

LFL net revenue growth¹
(two-year stacked)

c.50%

employee share ownership

AA

upgraded MSCI ESG rating

1. Adjusted and other non-GAAP measures, definitions and terms are defined on page 81

WE ARE EVOLVING OUR ALREADY STRONG CULTURE

Alongside the investment in these foundational capabilities is the work to evolve our culture, building on the success of our past. In particular, setting out the Leadership Behaviours that we each sign up to: Own, Create, Deliver and Care.

Reckitt has always had a strong culture. We are a company of owners; around 50% of employees own shares in the company and we see this as a differentiator.

We Create. That's always been a strength, but we've refocused in certain areas, fuelled by our investments in capabilities. Our science platforms combined with our push to broaden our thinking about consumer-demand spaces have resulted in a larger pipeline.

We Deliver in a way only Reckitt can and evidenced by the agility and the tireless effort made by our teams in the last two years, during the pandemic.

And in addition to these three behaviours we have added a fourth: Care. Care for our consumers, customers, communities and the environment. We will always be a highly commercial, performance-driven company: it's in our DNA. But we are striving to do better than that, broadening the basis on which we are judged.

RELENTLESS PURSUIT FOR A CLEANER, HEALTHIER WORLD

A key part of Care is our care for the environment and our communities.

In this regard, we continue to make strong progress against our sustainability targets which were set out in April 2021. Our MSCI Sustainability score is now AA – having been upgraded from A in April – and our Sustainalytics score is 22.9, ranking us in the top 15% amongst our peers. We are committed to operating according to the Paris Agreement, and we are therefore pleased that the modelling by MSCI demonstrates our climate plans translate into a temperature increase of 1.38 degrees – better than many in our industry.

At the same time, we are better connected with our communities through our Fight for Access Fund, to which we contributed £38 million in 2021.

An example of how we are aligning commercial interests with doing business in the right way is our work at the COP26 summit in Glasgow in November 2021 – which was billed as the last best chance to implement the goals of the Paris Agreement and the UN Framework Convention on Climate Change.

As the event's official hygiene partner, and led by our Global Business Solutions and R&D teams, we saw our Dettol brand entrusted with keeping more than 30,000 delegates from over 190 countries safe from COVID-19. This was a key opportunity for us to demonstrate our Purpose in action. We showed how we're helping build awareness of the connection between planetary health and public health, how our brands can encourage pro-environmental behaviours and how Hull – where Reckitt has its roots – is working to become the UK's first net-zero city.

Around the event itself, we worked with stakeholders globally, demonstrating the important connection between climate change and people's health, and the way we can help influence consumers to adopt behaviours that help tackle climate change. We engaged with governments around the world: in Milan, we profiled our Finish purpose commitment at a round-table event focusing on scarce water resources; in the US, we hosted a COP26 round-table with the Biden administration's Deputy Special Envoy for Climate; and in Mexico City, the UK Embassy showcased Reckitt as a trusted partner for health, hygiene and climate ambitions.

CREATING VALUE FOR SHAREHOLDERS

My Group Executive Committee and I are committed to maximising value for our shareholders. Our interests are fundamentally aligned. Reckitt has natural advantages, with the strength of our brands, which play in attractive categories underpinned by favourable trends. And the improvements we have made to our foundational capabilities and to our culture, we believe, will see the business return to sustainable mid-single-digit revenue growth with mid-20s margins.

In addition, we will continue to be active managers of the portfolio. During the year, we sold our footcare brand, Scholl, to Yellow Wood Partners, and sold our IFCN business in China to Primavera Capital Group. These two transactions have reduced our exposure to low-growth or declining categories. The sale of IFCN China is a good example of Reckitt's well-known agility, as our central functions of Digital, Finance, R&D, HR, Legal and Supply, came together, along with our China team, to separate the business and close the deal in just 96 days from the announcement of the transaction.

We also announced an important strategic move into the world's largest pain management market of the US, with the acquisition of Biofreeze – a leading and fast-growing analgesic brand. Here, we see exciting potential for geographic expansion and innovation, building on the brand's existing strong track record for growth.

Towards the end of the year, we announced the disposal of E45. As with Scholl, we saw less fit with our broader portfolio and the disposal allows us to focus resources elsewhere.

Finally, with significant hires into the Executive team over the past two years, I am delighted with how well the team has been functioning, particularly given the unusual and challenging environment. I deeply appreciate the leadership that they have shown and the positive changes they and their teams have brought about.

LOOKING FORWARD

We have a unique portfolio of trusted, market-leading brands in structurally attractive categories with significant headroom for growth. This, combined with our progress to date, gives me the confidence in both our near term and medium-term prospects.