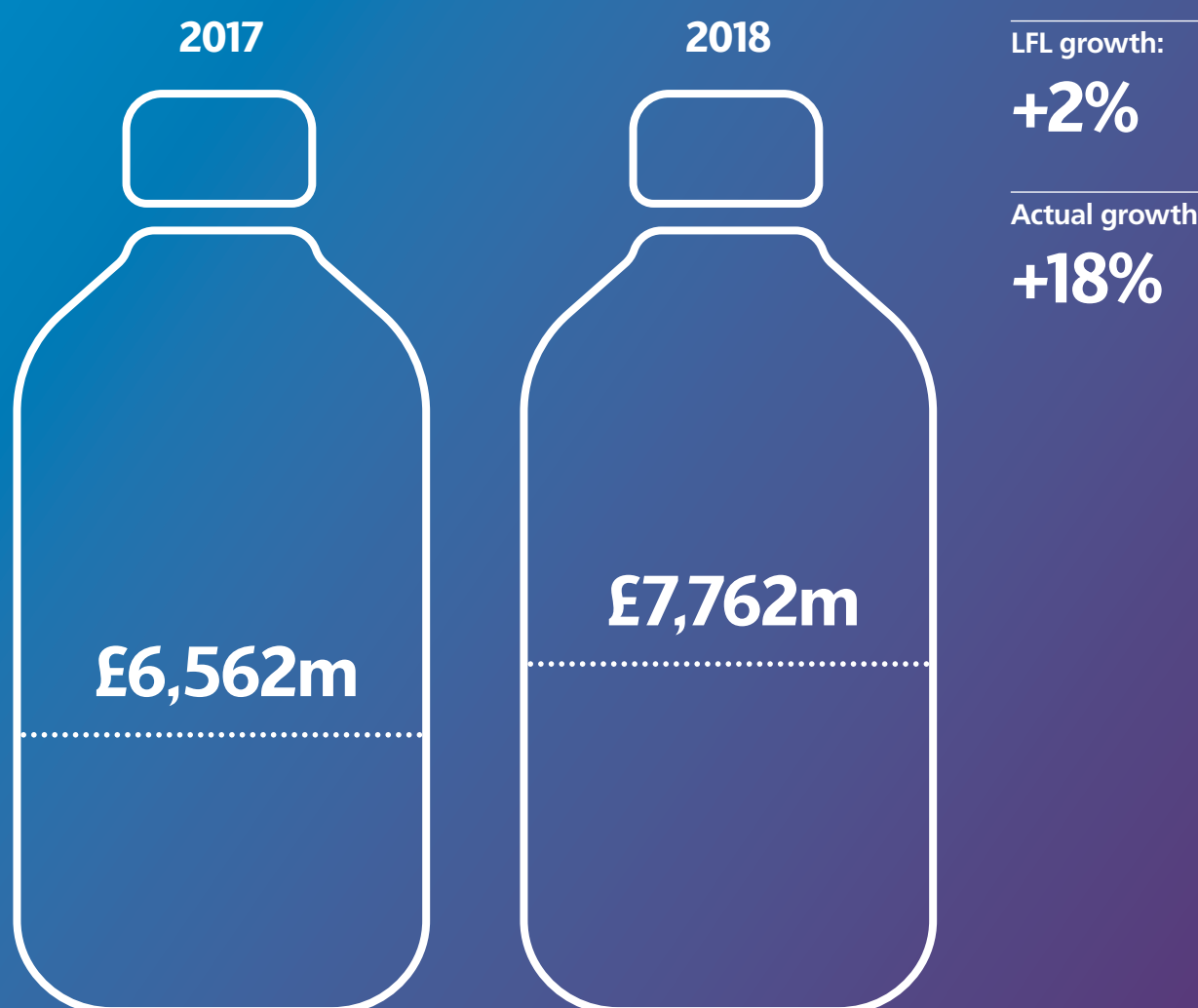


# Health

## Innovative solutions to put health in your hands

Our Health business unit has a unique and compelling portfolio including IFCN, health relief, health hygiene, health and wellness and VMS, spanning the whole of life's journey.

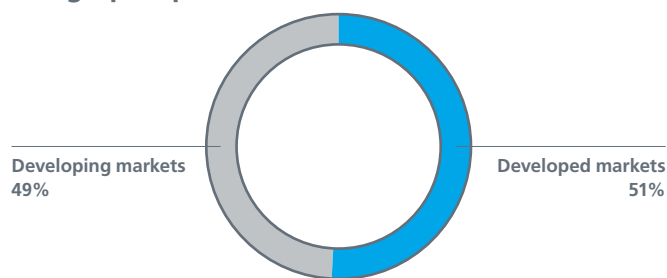
### Health Net Revenue



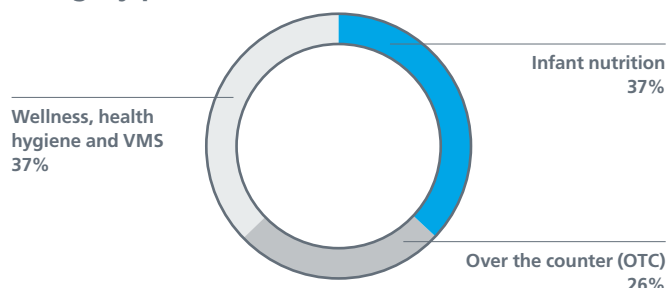
## Key Health brands



## Geographic profile



## Category profile



## Our priorities and aspirations

- ➔ **More innovative solutions** to enable people globally, to manage their own health, driving innovation in both global and local brands
- ➔ **Drive excellence in e-commerce** and digital, capitalising on our successful track record in China, and scaling globally
- ➔ **Grow infant nutrition category** creating value for consumers and the business
- ➔ **Reinforce our strong foundations** in safety, quality and regulatory compliance (SQRC) in support of our consumer healthcare goals
- ➔ **Active portfolio management** to focus on categories and brands that deliver margin accretion
- ➔ **Continue to invest** in our people, capabilities and resources, and our clinical pipeline while sustaining our best-in-class operating margins



**Our unique Health portfolio combines innovative self-cure and self-care solutions to help consumers live better, healthier lives.**

**Adi Sehgal**

Chief Operating Officer, Health



The consumer health category is shaped by powerful megatrends. Our product range covers a variety of needs, ages, life stages and socio-economic groups, delivered by a multitude of channels, both on-line and off-line.



**£400bn**

Total amount consumer health is worth, combining over the counter (£100bn) and consumer health, wellness and nutrition (£300bn).



**+3–5%**

category growth rates.

#### **We are all living longer**

Consumers are becoming more proactive about their health as they become more health literate and more inclined to self-medicate, with a focus on prevention rather than cure. Demographic trends are also driving demand for the products in our Health portfolio. Life expectancy, for example, is increasing worldwide, with the number of people aged over 60 set to increase from 900 million in 2015 to 1.4 billion in 2030 and 2.1 billion by 2050. This expanded ageing population increases demand for healthcare services and products. In developed markets, for example, ageing populations need solutions for problems associated with mobility, pain and nutrition. In the developing markets of Asia and Africa, families are seeking the best nutrition, family planning and personal hygiene. The rising incomes in many of these developing markets are providing scope for consumers to try our brands and to become loyal advocates over time.

#### **Prosperity and connectivity**

Rising prosperity is also driving demand for consumer health products, especially in developing markets where a growing middle class means more people will have a discretionary income after meeting their essential needs.

Rising connectivity is shaping the consumer healthcare marketplace too. Consumers can communicate with healthcare professionals instantly and learn more about health through

platforms such as Facebook, Google and WebMD. There are large and valuable datasets that allow companies to identify, track and respond to emerging consumer needs. Technology is helping consumers track data about their own bodies and other factors relevant to their health, such as air pollution. The fast pace of modern life is also encouraging consumers to use over-the-counter (OTC) health products and our Health portfolio is actively engaged with all these trends.

### Infant and Child Nutrition (IFCN)

The right nutrition during the first 1,000 days (a period from conception up to two years of age) has a critical impact on a child's ability to learn and thrive and provides the essential building blocks for brain development, healthy growth and a strong immune system. Nurturing the best start in life through our trusted brands, Enfamil and Nutramigen with LGG, is at the centre of what we do.

### RB 2.0 reorganisation

It was a transformational year in 2018 as we launched RB 2.0, built the RB Health organisation and integrated MJN. We have now created the platform that is going to lead us from solid performance to outperformance in future.

We made excellent progress in strengthening our e-commerce capabilities. We have tripled the number of people in e-commerce in RB Health between 2017 and 2019 from just over 300 to over 1,000 full-time employees. We also made other major investments, such as the £100 million R&D Centre in Hull in the United Kingdom that comes on stream in mid-2019. We've more than tripled our clinical spend, doubled our external partnerships and we've re-engineered how we engage with external partners.



### FOCUS ON FUNDING THE FIGHT AGAINST AIDS

## (Durex)<sup>RED</sup> – Have Sex, Save Lives

Durex joined forces with (RED) to fight AIDS in South Africa, where it is estimated that around 7.2 million people are currently living with HIV or AIDS. Together with the Global Fund, it pledged to raise awareness and money that will empower young women and girls to live a happy, healthy life.

Durex created the special edition (DUREX)<sup>RED</sup> condom making it the first global (RED) product that directly helps to protect against HIV and other STIs, making this partnership particularly powerful. Funds raised from the sales of this special-edition condom will go towards helping fight HIV and AIDS, so for the first time, as the campaign suggests, people can #HaveSexSaveLives.

RB and Durex have committed \$5 million to support (RED)'s mission over three years, and the Bill & Melinda Gates Foundation will match this taking the commitment to \$10 million minimum to fight AIDS.

100% of the money donated through the (DUREX)<sup>RED</sup> partnership will go to a programme in South Africa. The Keeping Girls in School programme aims to reduce new HIV infections and pregnancies among young women, improve access to sexual and reproductive health services and encourage more girls to stay in education.

The #HaveSexSaveLives campaign was highlighted in South Africa on World AIDS Day on 1 December 2018, when the (DUREX)<sup>RED</sup> bus travelled around the townships and gathered over 200,000 pledges to practice safe sex.



# 1 billion

people reached through (DUREX)<sup>RED</sup>  
campaign Have Sex, Save Lives.



### FOCUS ON PARTNERSHIP

## Working in partnership for the Best Start in Life

For millions of children around the world, the issue of early malnutrition has long-term consequences, the most prevalent being stunting, restricting their height, weight and brain development. At RB we recognise that we have the ability to provide help and support to those who need it most, and that's why we have taken the opportunity to launch Best Start in Life, a new £5 million social-impact initiative, partnering with the China Children and Teenagers' Fund (CCTF) – one of China's leading non-profit organisations. The scheme will focus on improving children's well-being and preventing stunting and malnutrition in poor rural areas.

Adelaide Gu, Vice President, Health Greater China, says: "We're excited and proud to be working on this important initiative. We believe good nutrition in the first 1,000 days supports lifelong health. Through nutrition intervention and education," she continues, "this project will directly bring a meaningful and positive change to 10,000 pregnant women and their 10,000-plus babies in poverty-stricken areas in China. And it will give a chance for tens of millions of Chinese families to ensure the best start for the next generation."

Overall, the aim of the partnership, which is initially being rolled out in the remote western regions of China, is to reduce the prevalence of stunting by 50-80% by 2022. This will be achieved, in part, by providing vital advice and nutrition packs for pregnant mothers, monitoring their health, working with rural hospitals and training up to 5,000 professionals in local maternal and child healthcare centres, and encouraging exclusive breastfeeding for the first six months of a baby's life.

### Innovation for 2019

We are also emphasising our innovation pipeline and have many new products for 2019. Neuriva is the first brand that offers a holistic ecosystem that supports brain performance. Following our success with NeuroPro, we are now rolling out the benefits of our breakthrough MFGM (Milk Fat Globular Membrane) to our entire range in the United States. We are relaunching our Dettol brand along with our portfolio of personal wash products, starting with South East Asia. We are launching a new Dettol multi-surface wipe made from 100% biodegradable plant fibres. For Durex, we have started a global multi-year partnership with RED. For our Scholl brand, we have launched an orthotic insole range, a fungal nail product and a cream for athlete's foot. Our Nurofen plaster innovation performed better than we expected during 2018, so we will be rolling it out across all of Europe in 2019. Finally, we have launched several local innovations such as our Lemlift supplement.

### Financial performance

FY 2018 total Net Revenue was £7,762 million, with pro-forma growth of +3% and LFL growth of +2%. Pro-forma growth comprised +1% volume and +2% price/mix, with IFCN volumes negatively impacted in H2 from the temporary manufacturing disruption communicated in our Q3 trading update. Category growth is within our medium-term expectations of +3-5%. From a channel perspective, we continue to make strong progress in e-commerce as we meet consumers' changing shopping habits. E-commerce now contributes 9% of total Health Net Revenue, led by IFCN, VMS and our Sexual Wellbeing brands. Adjusted Operating Profit was £2,207 million, a 28.4% margin and -130bps (reported) versus the prior year. This was due to -160bps arithmetic impact of consolidating the MJN business into the Health business unit. On a pro-forma basis, the operating margin increased by +30bps due to MJN synergies, offset by additional business unit infrastructure costs.

### IFCN

We have now owned the MJN business for 18 months, delivering a strong turnaround in the business with +3% pro-forma growth over this time compared to two years of Net Revenue decline previously. Our actions include significant focus on innovation such as Enfamil NeuroPro, and on e-commerce and specialist channels in China and the US.



**All regions for IFCN grew in 2018, delivering a strong turnaround after two years of Net Revenue decline.**

### Adi Sehgal

Chief Operating Officer, Health



We have also delivered our planned synergies at an accelerated rate versus our ongoing expectations, whilst continuing to invest in enhancing and improving supply chain capacity and capabilities. There is more to be done in 2019.

The market in China continues to see good growth behind both volume and premiumisation, albeit at slowing trends as the recent decline in birth rates caused both stages 1 and 2 segments to be in volume decline. Revenue in our IFCN business in China was flat in Q4 due principally to constrained capacity. We also saw some loss in demand following on-shelf availability shortages, and we were able to achieve only modest restocking of channels following our temporary manufacturing disruption in Q3.

Our North American business had a strong year following the successful launch of Enfamil NeuroPro during the year in the mainstream IFCN category, and strong growth in the specialist allergy segment which is both a faster-growing segment, and one where our key brand Nutramigen is gaining market share behind innovation in both our Enfamil and Nutramigen brands, and improved execution.

Other IFCN markets were mixed but we saw good Q4 growth in Latin America and ASEAN, where we are lapping a weak comparator.

### Health relief

Our over-the-counter (OTC) brands delivered strong growth and outperformance in 2018 of +5% LFL, compared to market growth, which was at the lower end of our long-term expectations. This result was delivered despite a small decline in Mucinex sales for the year as it experienced both the re-entry of private label variants during the year, and lower-than-normal incidence of cold and flu during Q4.

Gaviscon, Nurofen and Strepsils all delivered mid-single digit growth behind a combination of recent innovations – Nurofen medicated plaster, Nurofen Meltlets and Nurofen for Children soft chews, Strepsils Flurbiprofen sprays and strong base products – Nurofen Express liquid capsules, and Gaviscon Advance and Double Action formats.

Mucinex continued to build on its strong equity as the market-leading brand in the US. This was led by innovation, with the launch of our new Fast-Max Maximum Strength 'All In One' Cold & Flu product, and targeted advertising across both digital and TV mediums. Mucinex did, however, cede some market share during the year due to the re-entry of private label variants in the 12-hour cough and congestion segment. We expect this share loss to continue to impact the brand into 2019.

Local brands performed well, with good growth from Lemsip (cold and flu UK), Luftal (GI Brazil), Moov (analgesics India) and Tempra (analgesics Mexico).



There have been some notable successes in the year, especially from our branded VMS business that delivered double-digit growth across the US and China.

Q4 saw a slowdown to +2% LFL behind lower-than-normal incidence of cold and flu across the US and many parts of Europe. We continue to see materially lower incidence of cold and flu into the start of 2019.

### Wellness, health hygiene and VMS

Our Other Health category grew by +1% in 2018. We saw improving trends throughout the year with +4% growth in Q4 as we seek to return to growth and outperformance.

There have been some notable successes in the year, especially from our branded VMS business that delivered double-digit growth across the US and China. In China our VMS brands have been launched exclusively in e-commerce channels and Move Free is now one of the market leaders in joint care.

Durex had a strong year in developing markets but was slow in Europe as we saw some pharmacy destocking across the Russian pharmacy channel throughout the year. Dettol saw strong growth in India and improving but still weak macro conditions in the Middle East.

Scholl was a significant drag in the year, particularly in H1 as we faced high comparative gadget sales. The brand was also weak in H2, but to a lesser extent than H1. Our improvement plan is multi-faceted, involving innovation across all of our footcare sub-segments, and better on-pack identity and claims to enable easier consumer navigation on shelf.