Reckitt Q3 Results Trading Update

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Q3 Trading Update

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Thank you, Gino and good morning to everyone dialled in. It was just a month ago that we presented to you at the launch of our investor seminar series. I will therefore keep my comments this morning brief and focused on trading.

Q3 Highlights

First, a few comments on the group performance. Today's results demonstrate the progress we are making as we continue to transform Reckitt. We've grown like-for-like revenue by 3.3% in the quarter. Importantly, this is on the top of last year's 15.3%, meaning we are over 18% on a two-year stack basis.

Broad-based growth

Growth has been broad-based across business units, across geographies and across brands. At the half-year, we told you that those brands less sensitive to COVID fluctuations and which represented around 70% of our revenue were growing mid-single digits on average. This growth has continued into this quarter.

In addition, and to give you a sense of the breadth of our strength by brand, nine of our 10 largest brands are up double digits in the quarter on a two-year stack basis. The other is up high single digits. Underlying growth across Reckitt is strong.

Balanced growth

We've also seen balanced growth, with both volume and price/mix improvements at a group level. Price/mix growth has been strong in developing markets and in Nutrition. And whilst price/mix plans are in place for other parts of the business, and a first round of pricing has been implemented in several markets, price/mix growth has been masked, particularly in our disinfection brands, by a more normal trading environment this year, as compared to very limited promotional activity at this point last year. We remain confident in the strength of our brands and our ability to use the various pricing levers to continue to drive our top line and to help mitigate ongoing cost pressures, allowing us to grow margins next year.

Positive momentum on market share

Finally, on the group picture, we will set out our market-share numbers more comprehensively with our full-year results in February, but I can confirm that we have seen continued positive momentum in our key performance indicator for share. That is the percentage of category market units holding or gaining, which continues to show sequential improvement over the strong performance that we highlighted at the half-year.

Supply chain challenges

A brief word on our supply chain, where aside from cost inflation, there are clearly market-wide operational and logistical challenges. We have proven our ability to rise to such challenges before, responding to the extreme demand fluctuations brought about by COVID last year, and the investment in improvements we have made in recent months also give me confidence in our continued resilience here.

So turning now to look briefly at each of the three business units.

Hygiene

Hygiene is up 2.9% on a like-for-like basis, which is on the back of 19.5% growth in the third quarter of 2020, through continued strong demand for our brands, better execution and white space expansion. We've seen growth in Finish and Air Wick, each up mid-single digits in the quarter. This comes on the top of double-digit growth they each saw in the third quarter of 2020. Lysol declined slightly in the quarter, given the increased demand in August and September, brought about by the spike in COVID cases in the US. You'll of course remember that the brand was up over 60% in the third quarter of 2020 and, as Volker Kuhn detailed at our investor seminar in September, Lysol continues to track well above pre-pandemic levels.

Health

We've seen a return to growth in Health, up 3.6% in this quarter on top of 12.6% growth in Q3 2020. This was fuelled principally by a sharp improvement in cold and flu sales trends, but it also reflects share gains across most major brands. Growth in Intimate Wellness has remained strong, despite lacking the launch of the PU condom and the opening of certain markets last year.

Dettol was down in the quarter, as anticipated, but has improved compared to Q2. We continue to see signs of stabilisation for Dettol well above 2019 levels, and it is particularly encouraging to see China, the first major market to be impacted by COVID, back in growth, having declined earlier in the year.

Biofreeze revenue, which is not yet included in our LFL calculations following its acquisition in July, is up double digits, as strong momentum in the business continues. As we work through the integration of the Biofreeze brand, we continue to develop plans for geographic expansion and to build the brand through leveraging the Reckitt sales, marketing and R&D platforms.

Nutrition

And finally, Nutrition has grown 3.8%, building on 10.8% growth in Q3 2020. IFCN US, now our single largest business within the GBU, has driven much of this, up high single digits in the quarter on a strong comparative period, which, as you may remember, was boosted by an inventory build. Here we have seen good share gains and an increase in birth rates and, as we showed in September, this is a business which has a long-run average growth approaching 5%. Elsewhere, ASEAN has returned to growth. There is more to be done to sustain this, but it's pleasing to see some signs of improvement as a result of the focus that has been placed on this business in recent months.

Finally, VMS declined slightly, as a reduction in Airborne revenue, again offsetting a strong comparative from last year, was offset by growth in Move Free and continued strength in Neuriva, which added around 100 basis points of growth to our Nutrition business.

Outlook

Turning now to the outlook, as we said this morning, we now expect like-for-like net revenue growth to be in the range of 1% to 3% for full-year 2021, reflecting the stronger-than-expected trading in Q3 and our confidence in the underlying momentum in the business. Despite the continued headwind from cost inflation, our margin guidance for this year remains unchanged. These cost pressures are likely to continue to next year, though we continue to expect margin improvement in 2022, due to the pricing actions and the productivity programmes we have in place, combined with a reduction in the finite-life transformation costs and a portfolio-mix benefit.

Our performance this quarter further reinforces our confidence in our medium-term outlook, returning the business to mid-single-digit LFL net revenue growth and mid-20s margins.

With that, I'll hand back to the operator, and Jeff and I will be happy to take your questions.

Q&A

Pinar Ergun (Morgan Stanley): Good morning. Thanks for taking my questions. The first one is about the guidance. The nine-month like-for-like growth at 3.6% is already well above the full-year guidance at 1% to 3%. Are you just being cautious here, or would you point out any specific reasons why we should expect a significant slowdown in Q4? And then the second one is on your outlook for margins. And look, I'm not looking for guidance here, but more about how you think about different moving parts. How much confidence and visibility do you have that Reckitt's EBIT margin is at an inflection point now? Can you please expand on the building blocks of margin expansion in 2022 please? Thank you.

Laxman Narasimhan: Maybe now I'll take the first one and I'll hand to Jeff for the second. On your first question, first of all, the guidance at the start of the year was 0% to 2%. We have now taken this up to 1% to 3% and it shows confidence in the business and it also reflects the trading we have seen in the first three quarters for this business. There's no question that as we look into Q4, you know, we're highly cognisant of the fact that 70% of our business, which, as I said earlier, is growing in mid-single-digits growth, is a business that we can look ahead and say with confidence that it is, you know, something that we expect will continue, obviously with comparatives, you know, baked into the calculation. For the rest, 30% of the business, this is the business that's impacted by COVID and by the cold and flu season, now clearly we're seeing very early signs in the cold and flu season of strength, so we feel good about that, and we are seeing of course, with the emergence of variants, we're seeing some strength as well in the disinfectant business. But at the same time, that part of the business does have some volatility. And so, reflecting that, we are being cautious. And so, 1% to 3% is an upgrade to our revenue guidance and it also reflects the caution, given that there's a part of our business that does have some trading volatility. So that's the answer to your first question. Let me hand this to Jeff in order to give you a sense of the building blocks in margin. Jeff?

Jeff Carr: No, thank you. Thanks, Laxman. Thanks, Pinar, for the question. Look, I'll reiterate a little bit what we said at the capital markets update in September, where the – we talked about the first-half margins at 21.6% and the fact that we saw this as a point of inflection, with margins improving sequentially in the second half and also showing a year-on-year improvement in 2022. Now, clearly we have significant cost inflation that we're facing with, but we haven't changed that perspective. We believe – you know, you asked for the building blocks. Obviously, pricing and productivity are two of the key tools that we have to manage the cost inflation. We have other tools in the armoury over time, also in looking at pack configuration and aspects like that, but specifically probably one of the most important aspects of the overall building blocks is the fact that we've dealt with IFCN China and this was operating at I guess on an ongoing basis very low margins, and the mix effect of that disposal will give us a benefit. The other mix impact is the fact that obviously we're returning to a normalised OTC outlook, and we had very low OTC businesses – business revenues in the first half of 2021 and obviously, as you're aware, OTC has a higher margin generally relative to the rest of our portfolio. And finally, you know, we've talked about finite-life transformation costs, which will be phased out during 2022, which will give also a tailwind. Now, you know, that sounds like an impressive set of opportunities, but the reality is we are facing, you know, probably once in a generation, sort of cost inflation that we have to deal with as well, so we have to be realistic, but we do see margin improvement continuing in 2022 on the way to our mid-term goal, which is 25% by 2025.

Pinar Ergun: Thank you.

Guillaume Delmas (UBS): Thank you. Good morning, Laxman and Jeff. Two questions –

Laxman Narasimhan: Good morning, Guillaume.

Guillaume Delmas: Good morning. Two questions from me as well, please. My first one is on US IFCN, where you grew some high-single-digit territory in the quarter, despite a tough basis of comparison. Now, what's interesting is your numbers seem to echo equally strong numbers reported by your main competitor last week, who also talked about share gains. So, just wondering here what were the drivers in the quarter that benefited the growth of the category above and beyond birth rate. Is it pricing? Some inventory build-up maybe? And as you face a much more favourable basis of comparison in Q4, any reasons as to why you wouldn't be reporting another strong quarter there? And then my second question is on Dettol. So, you mentioned the brand declined at a lower rate in Q3 than in Q2, which seems very consistent with the chart you showed us at your investor seminar in September. Based on this chart, it looks like you could actually report flattish like-for-like sales growth development in Q4 already. So, I'm wondering if you would agree with this and, more broadly I guess, if you think that from Q4 onwards, Dettol should be back into positive like-for-like sales-growth territory. Thank you.

Laxman Narasimhan: Let me take both those, Guillaume. On the US IFCN business, as you know that we've had – we've had a few factors that have clearly benefited us in terms of the overall growth and share gain that we have seen in that market. The first one is the birth rates. I think you can actually point to the vaccine announcement, you can point to the vaccine rollout, and you see birth rates that follow nine months after that, literally to the day. So clearly, that has had an impact on birth rates in the US. What we are seeing as a consequence of that is strong growth – I mean, that's a business, as you know, we are a very strong player in that business in North America more broadly and, you know, we are clearly benefiting from that. The other thing we are seeing of course is the growth rate that we're seeing in our Specialty business, which is a business that we have been working very hard to fix, and I think we're at the stage right now where the business is now beginning to benefit from the investments made and the corrections that we've had to make in terms of the go-to-market in that business. So, we feel good about that business and of course it's com – you know, it's – it's a comparable to what happened last year, where last year there was clearly an inventory build, just because of some of the panic that had emerged – again, secondary panic, one might argue, in terms of panic buying. So, we feel good about the business and the trends that it is in. I'm not going to get into specifics on, you know, whether this is going to therefore result in a strong quarter or not. Clearly, there's a lot of variety of other factors in there that one needs to think about, so I think we feel good about the overall guidance that we're giving. On your Dettol question, Guillaume, you know, what we're seeing with Dettol is we're seeing a slower rate of decline in Q3. We saw that in one of the lead markets, as I mentioned, China, the business get back to growth. These businesses are clearly impacted a bit by, you know – in the very short term by some of the sentiments as well as the emergence of certain variants. But just more broadly, the brand is very strong. You know, it is settling in about 40% pre-pandemic, as I said, in September, and as Kris Licht, you know, mentioned as well in September, it's a combination of category growth, it's a combination of share gains that we have had and it's a combination of how we're taking the brand and the strength in the equity that it has to broaden its shoulders. So, it's clearly, you know, further ahead than Lysol, but just more broadly put, you know, we feel good about the progress in that business. It did have a modest decline in Q3.

Guillaume Delmas: Thank you very much.

Celine Pannuti (JP Morgan): Yes, and good morning, Laxman and Jeff.

Laxman Narasimhan: Good morning, Celine.

Celine Pannuti: My first question is on pricing in Hygiene. So, you talked about the normalisation of the trade promotional spending. Can you talk about outside of this category the rest of Hygiene, how is the pricing environment and, you know, where are you in terms of your negotiation and what kind of pricing are you already seeing maybe that we couldn't see in Q3's number? I just wonder in terms of the normalisation also of this trade promotion, is it going to continue to impact in Q4 and the beginning of next year? And you know, does that mean that too much capacity in this category makes pricing more difficult in antiseptic? And my second question is on the 70% of the business that is less impacted by COVID. You talked about mid-single-digit growth. Can you flesh out, you know, broadly the category growth – I know it's a mix of different brands, but category growth, market-share gain, white space, and why is it that you feel, yeah, like, yeah, that you are confident about this mid-single digit? Thank you.

Laxman Narasimhan: Well, thank you, Celine. The second one is obviously quite an extensive question, because it responds to the whole portfolio, so we'll try to do what we can in order to address that. Let me start with the first one. Just on Hygiene, and specifically your question is do we expect the trade promotions environment to carry on in Q4. The answer is yes. And I don't think this is a reflection just of the capacity, because, you know, it's a reflection of the normalisation of what we are seeing relative to where we were last year, where we basically had no promotions at all. In terms of the pricing environment, as you will see in the numbers, I think the area where we have contracts and where the pricing is, you know, currently going through its round of negotiations is actually in Europe, so we've already taken a first round of pricing in several of the other geographies, but Europe is going through its, you know, negotiations cycle with the major retailers. And you know, we're seeing positive signs, just in terms of the conversations, but it's clearly something that needs to, you know, come through. In terms of your 70%, you know, just – the way I'd answer this is if I look just more broadly at market share, we're seeing market share increase, we're seeing, you know, as I said earlier in the statement, the category market units of hold and gain are increasing as well. But if you go across the board, if you look at Hygiene, you know, we're seeing, you know, clearly areas where there's competition, but also we're holding our own in many of these areas in terms of overall share and share gain. It's similarly true in the case of Health, where actually as we've seen the OTC business return, you know, we're seeing both category growth but also our share gains relative to major competitors in the OTC business is one example, you know, clearly showing up. Dettol continues to have good share. Share gains as in Nutrition – sorry, Intimate Wellness also sees good share gains there. And in the Nutrition business overall, we see share gain in North America. We've seen a reversal in, you know, the share declines we are seeing in ASEAN, and flattening earlier. We've now begun to share gain in ASEAN as well. So, my sense is there's a broad-based share recovery across the three businesses and so we feel good about that, and we feel good about the fact that the business overall is beginning to show momentum, that the innovations that we're putting in the market are, you know, finding their feet and, you know, early returns are actually quite good. For example, in the OTC business, some of the innovations we've put in place in the cold and flu season are showing early and good promise. So, that's the way I would answer your broader question, just around the overall portfolio.

Celine Pannuti: Excellent. Thank you.

Laxman Narasimhan: No problem. Good morning, David.

David Hayes (Societe Generale): Thank you. Good morning. Thank you. Good morning also. There's two questions from me: one on the supply chain and one on portfolio management I guess. On the supply chain, you mentioned some of the disruption. So, just a broader question. Did you see any areas where you weren't able to satisfy demand? So was there kind of a headwind in this, I guess the other side of that, was there any kind of stocking up in any of the categories or markets where there's some of the retailers perhaps were anxious about getting their supply? And I guess related to that, just in terms of OTC as we're coming into kind of peak season, are you seeing the pharma channel happy to build inventory at the moment because of some of the recent trends in cold and flu? Is that coming through in the last few weeks? And then on portfolio management, you talked about ASEAN and LatAm doing a bit better, but it still feels that that's the one area that is not doing so well. Do you still think you're the optimal owner of that business? And I guess the broader question, we've not seen anything on portfolio management for a few months now. Is there still a review going on on some businesses? Is that something we should still think about as part of the strategy moving forward? Thanks so much.

Laxman Narasimhan: Great. On your supply chain question, I think that it is fair to say that there are certain pockets where we may not have delivered timely, but over a period of time, you know, the deliveries do happen and the retailers are pleased with what they have overall. But just more broadly, I think the supply chain has shown a remarkable amount of agility in dealing with shortages and dealing with constraints and bottlenecks in the system and I think it just goes to what is core to the DNA of this company, which is moving at pace and particularly responding to several of the challenges that do exist outside, and I think you saw that happen in the case of the COVID pandemic itself last year, and I think it's repeating itself now. On the inventory question, we feel good overall with the level of inventory, and I think I'm going to link it a bit to your cold and flu question. There's nothing we see here that tells us that the inventory in cold and flu at the retailer end is at odds with what we're seeing with the sell-out. In fact, you might argue that it's actually, you know, it's below perhaps what it was, you know, even a few years ago in terms of the overall levels of inventory that we have. And we've been very cautious about that. But you know, I feel good about the levels of inventory that we have. I think the retailers are clearly very much in touch with consumer sentiment, just around germs and germ sensitivity, and I think that's reflected in some of their behaviour, particularly around disinfectants and what they carry. But overall, what I would tell is that again it's nothing that we see that is inconsistent with the sell-out trends that we are seeing.

Jeff Carr: Portfolio management?

Laxman Narasimhan: Oh, and portfolio management. David, I think fair to say that we've had a fairly busy year on portfolio management. You know, we have divested the business in China, the infant formula business in China where we knew there were structural challenges, and we've got a got a great partner who owns the business and is obviously, you know, driving it, you know, to good success I'm sure over time. You know, we divested Scholl and we closed that transaction, including the separation of the business, and we acquired Biofreeze, and we've integrated that business into our company. I think you might argue that perhaps we have been quite busy on portfolio management. So, I think if you haven't heard anything for the last couple of months, I think it reflects the fact that we've been busy closing these deals. We closed the infant China business from the date of closure to – so from the date we announced the deal to the day we closed it in, sort of less than 100 days. And so, that was quite an extensive exercise that, you know, the functions have to go through in order to make that happen. And so, it was quite intense for the business, and I think what it's given the management team now time to do is we're now focused on businesses like ASEAN and LatAm to ensure that, you know, we're bringing, well, all the mind-share and discipline in order to ensure that those businesses as well grow. And overall, we feel good about the performance of the infant business at about 3.8% growth.

David Hayes: Thank you.

Iain Simpson (Barclays): Thanks. Good morning, everyone. A couple from me, please. Firstly, how do you feel about the innovation pipeline across your business and how should we expect to see that trend? So, can you give us any idea as to how much of a growth contribution from recent launches you had in this quarter versus, say, I don't know, a year ago, and what you'd hope for a year from now? I'm just trying to get a sense of how far on that curve of improving innovation hitting the market we are. Secondly, on margins, can you help us out with how you're likely to respond to future shocks? Clearly, visibility is limited, but if, say, you were to get a margin windfall from a strong cough, cold, flu season over the coming months, would you be minded to reinvest that or drop it through? Likewise, how would you like to respond to a further wave of input-cost inflation? I'm not asking you to predict the future – just give us a sense as to how you might react to those scenarios. Thank you.

Laxman Narasimhan: Well, thank you for that. Let me just take the first one on – and I'll be brief on that one, Iain, because I think a lot of what we discussed in the September investor seminar was about our innovation pipeline. We will report next year the contribution of growth that has come from the innovation pipeline. We feel good about it and I think we said that there's been a step-up in the overall pipeline itself. I think we'd said it was a 50% increase in the overall pipeline. The plans are in place and they have been in place for a while in order for them to hit not just this year but also next year. So we feel good about the overall innovation pipeline, the investment that we've been making in R&D. On the margin question, Jeff?

Jeff Carr: Yeah. No, thank you. Look, Iain, let me just be very clear on margins. We talked about an inflection point. So, we see margins improving in 2022 for the various reasons that are laid out. Now, that improvement will be both on a pro forma basis, excluding IFC China, so on a like-for-like basis, but also would be even stronger margin improvement if you include IFCN China in the base. In terms of how we will manage margins going forward, we've given very clear mid-term targets and we'll manage those mid-term targets and we believe we have the levers and the mechanisms to pull to make sure that we make good progress towards those, even in this really high inflationary environment. And as far as the investments are concerned, we've been through a heavy investment period. We talked about almost £1 billion of investments that we've made over the last 18 months, and we've made substantial headway in the investments we needed to make in areas such as R&D to build the muscle that we need to continue to drive growth over the next year. So, we've been through a heavy re-investment phase. We're now looking at managing our margins and re-growing our margins to the mid-20s, in line with our mid-term targets.

Iain Simpson: Thank you.

Tom Sykes (Deutsche Bank): Yeah. Good morning, everybody. I wondered –

Laxman Narasimhan: Good morning, Tom.

Tom Sykes: Morning. I wonder if you could just help us understand the degree of trade investment headwind in Lysol and Dettol, because the scanner data in the US would suggest, you know, a normal percentage of product on promotions is 30% to 40% in sort of aerosols and a bit higher in wipes, and that obviously went to 0%, and that's not necessarily the level of promotion, but just could you try and help us understand the degree of headwind that you have had this year so we can try and understand – disaggregate the head – that headwind from the volume? And then, are you able to confirm at all now whether you're getting gross margin expansion due to mix benefits and price slightly more than offsetting the COGs headwind that you're seeing please?

Jeff Carr: Let me take those on, Tom. I think in terms of trade investments, all I would say is yes, last year we saw all suppliers struggling to keep product on shelf because demand was outstripping supply and we saw that with competitors and to some degree with ourselves, although I think we performed better than most of our competitors and had significant share gains. But clearly, the promotional spend during last year was significantly down and what we're returning to – call it headwind, but we're returning to normalised levels, just normalised levels of trade activity. So, it's not that we are having to promote more heavily this year. I wouldn't get into quantifying that in terms of the impact on price, but clearly, you see the Hygiene price/mix suppressed in this quarter because of that activity. And if you go back to our Q1 numbers, you saw the opposite effect, where the price/mix for our Hygiene business was very strong in Q1, because we weren't promoting in Q1 of 2021 and we had normal promotional levels in Q1 of 2020. So you can see the opposite effect going forward in Q1 of last year – of this year. And on a year-to-date basis, you know, we see the price/mix at a more normalised level of 2.8%, so I think if you look at the year-to-date business, it evens out the impact, and I think that year-to-date number of 2.8% is a more recognisable number if you're looking for the true price/mix flow-through on an underlying basis. On gross margins, I'm not going to give forecasts at the gross margin level. What we've said is we'll see operating – underlying operating margins improve, and part of that is that we need to see our gross margins improve, which were depressed in Q1, and they were depressed for that precise reason, that we had pretty much no OTC – well, no cold and flu sales in the first half, sorry. So, margins were – gross margins were down in the first half and clearly as part of our guidance in terms of operating margins I expect to see them recover in the second half.

Tom Sykes: Okay, thank you.

Laxman Narasimhan: Good morning, Jeremy.

Jeremy Fialko (HSBC): Hi. Good morning. A few questions for me around the costs and pricing. So, one of your competitors talked about the high double-digit cost inflation in the second half of 2021. Can you give any sort of ballpark numbers in terms of the kind of absolute or percentage increase in your COGS basket that you're seeing at the moment? And then the other thing related to that is to what extent do you think that the inflation in 2022 will be kind of comparable, sort of greater than – a lot greater than what you're seeing in 2021? And then the sort of final thing relating to this is what do you think about your – kind of your own selling prices and the cost inflation that you're seeing? At what point do you think you will have got the prices sort of in the right place, given your current projections on cost inflation, such that the gross – the absolute gross margin is restored? Thanks.

Jeff Carr: Let me answer the first half on cost and pass over to talk – Laxman will cover the pricing. So Jeremy, we're seeing double digit – we said 10% is the current run rate in terms of our cost of goods inflation, and that's across all commodities. You know, it's obviously we've seen some acceleration more recently in areas like tin plate, which obviously affects aerosol cans. And we've seen some continued increase in areas like ocean freight. So we're currently running at around 10% cost of goods inflation. For 2022, I'm planning at similar levels. Perhaps it could be slightly higher. And certainly as I look to 2022, we're not expecting to see a reduction in cost of goods inflation. That's how we're managing the business in terms of pricing and productivity and the various activities we have to do to deliver on our margin commitments. In terms of pricing, Laxman, do you want to comment on that?

Laxman Narasimhan: Sure. I think we're looking at multiple ways of dealing with the commodity cost inflation. Clearly productivity is a big area and I think, as we have said before, you know, we had a target of £1.6 billion and we're seeing very good progress. In fact, we're ahead of plan on that. So, we feel good about that, and in September, as you know, we've added a year, which doesn't impact, you know, the near term at all, but they've added a year and taken the number up to £2 billion, but does not impact the near term. But clearly, productivity is a very important lever for us and the team's been working very hard in order to ensure we can offset some of the commodity cost inflation with that. Beyond that, on pricing, you know, we're looking first at, you know, three levers around what the price should be. Price pack, which is quite an opportunity – you know, we're – particularly as you look at elasticities across channels, and we're looking to see opportunities that we have around price pack, you know, accounts, volumes and so on, and we are altering the mix in order to make that happen. That does take a bit of time, but clearly it is worth going into that and we believe it's a big play for us. The second one is mix, and mix I think Jeff already talked about the category mix shift we will see hopefully in the early part of next year, but also what we're seeing in the back half of this year as some of the higher-margin OTC products come back in terms of being a more normalised representation of what they normally have been. So that's a second area, but there's also mix within Hygiene and also mix within our Nutrition business. The third area is promotions effectiveness, and I think this is an area where, you know, frankly we have lots of opportunity. And I think we've been investing behind this and we're working to make it even better. So, three areas just around sort of how we think about, you know, what the price should be from a consumer standpoint. Beyond that, you know, in terms of how we get the price, particularly working with the retailers, the areas of list price to create investment are areas that we look at as well, just in terms of, you know, how we go about making it happen. And again, there are areas in here where we see some linkages, where we see an opportunity to work collaboratively with the retailers in order to make these better, and so we're working pretty hard at all of this. Naturally, it's dependent on, you know, how we see inflation work, and you know, we've already got a first round of pricing through in many markets. Not Europe yet, because – although in some markets – in some parts of Europe we do, but in others we don't fully yet, because we have to work through the, you know, the contracting cycle in Europe, but in many of the other places we actually have pricing already through, particularly in higher inflation markets we've actually got them through already. We fully expect another round of pricing to happen, you know, next year as well. So, we're working through these plans, as Jeff said, just around how we expect these costs to play themselves out, and we have a set of levers in here that we can deploy that will help us offset some of this, recognising fully on, we have an earnings model, we care about the earnings model a lot and want to be sure that, you know, that we manage that as we go through, you know, what is obviously, you know, quite high inflation, as our competitors and others have also mentioned.

Jeremy Fialko: Okay, very useful. Thank you very much.

Bruno Monteyne (Bernstein): Hi. Good morning. Just a small one from me as a follow-up. You've raised the growth guidance. You've left the margin intact. Is that just for similar reasons of sort of abundant caution and, you know, there's a lot of volatility, or is there any good reasons why the margin guidance wouldn't have gone up in line with the sales growth guidance? Thank you.

Jeff Carr: Yeah, I'd say there's good reasons not to raise margin guidance in the current environment, Bruno. It's just not realistic. If you look at the challenges that all of our peers and ourselves are facing in terms of commodity prices, in terms of distribution and supply chain, you look at the UK, you look at the trucking situation in the US, it's just not realistic to raise margins under the current environment. So I think it's – I wouldn't call it prudent, I just think it's sensible that we maintain our margin guidance, that we are seeing benefits coming through in terms of the top line is a testament to the transformation programme we're delivering on, and it's a broad-based growth which includes volume growth across, as Laxman said earlier, nine of our 10 top brands are growing double digits, if you look at the stacked growth over the last two years. So I think in terms of margin, I think it's just realistic to not be in a situation with this type of inflationary environment to expect margins to grow.

Bruno Monteyne: Okay. Thank you, Jeff.

Laxman Narasimhan: Morning, Chris.

Chris Pitcher (Redburne): Morning. Good morning. A couple from me, first of all on Intimate Wellness. Encouraged to see the growth in the quarter, considering you were cycling the launch of the PU condom. Assuming there was some stock-build ahead of the launch, what's the real underlying growth rate in Intimate Wellness? And then secondly, could you – on that topic, can you give us a feel for where you are in terms of rolling out the PU condom, distribution gains to be taken? And specific on innovation, can you reassure us that the innovation pipeline for Intimate Wellness means you'll get back into a sort of leadership position on technological innovation? And then a clarification, Jeff. I think you said you were budgeting on the same levels of commodities next year. Did you mean price levels or inflation, i.e. 10% up next year or the same price levels holding? Just to be clear on that.

Laxman Narasimhan: Let me take the Intimate Wellness question on. As we said in September, we have the largest portfolio of brands in this space and we expect this space to be a high-single-digits growth business for us over time. We are – at this point in time, we have actually made significant investments in the technology, to answer your question, Chris. And we feel very good about the fact that we have what's in place, both from the standpoint of technology as well as regulatory, in order to roll the PU condom out into a variety of markets, and plans are in place in order to make that happen. Clearly, it was launched in China first, but we fully expect to see that being rolled out to a variety of other markets and I think you'll see that over time as we fundamentally re-stage Durex and we fundamentally re-stage as well what we have with our other portfolio brands. To your question on innovation, I think if you look at the portfolio brands we currently have and some we haven't fully announced yet, what we do have is a portfolio that really looks at the entire demand space of Intimate Wellness, and I think you'll see us, you know, move in a variety of different directions in order to justify in how we think about this high single-digits growth for this business. We have the science platforms built and invested in in order for us to make that happen and I think over the course of the back half of this year, the early part of the year, you will see our expansion plans for Queen V, you know, basically be announced. You will see a couple of other things we're doing with the Durex brand more broadly, both in terms of distribution, the availability in a variety of markets. I mean, there's a significant headroom just in terms of distribution and distribution availability, and the focus for both me and the team is to ensure that we maximise availability and presence, including availability for immediate consumption, which is part of the big play that we have. We've also been working hard on ensuring that the product portfolio matches the consumer needs of various markets. I don't think we had done as great a job on that, but I think what you will see us do is the product mix that we have will in fact more closely reflect the type of demand we are seeing in every single one of the markets, particularly for a brand like Durex. So, given all of that, we feel very good about what is to come and that the business is set up to grow at high single digits, and I think over time you will see us make those launch announcements as we go. Jeff, on the second question?

Jeff Carr: Yeah, no, thanks, on inflation. Yeah, just to be clear, we don't expect to see an incremental 10% on inflation next year. We've seen inflation levels currently run at 10% year-on-year and we expect these levels in terms of the absolute pricing levels to continue through 2022. And if you think, what we said at the half-year is we have 8% to 9% for the full year, which implies we had lower inflation in the first half of this year. So, we'll see that annualised in 2022, so the pricing – commodity pricing will stay at these levels, which doesn't mean we see a 10% increase next year. It'll stay at these levels. There'll be more modest inflation, and next year, albeit at these elevated levels, and that's what we need to price through in the current pricing and future pricing. And that will give us, as I mentioned, margin expansion in 2022. When I answered Bruno's question and said there'll be no margin growth that—I meant there'd be no margin expansion on the current guidance for 2021. So I hope that's very clear. Thank you.

Chris Pitcher: Yes, very much so. Thank you.

Martin Deboo (Jefferies): Yeah, morning everybody. It's Martin Deboo at Jefferies. I want to ask just one question about the –

Laxman Narasimhan: Morning, Martin.

Martin Deboo: Hi. Hello. I just want to ask one question about the disinfection business. I want to just try and take a step back from the trading noise and look at it strategically. Where is that business now? And I'm defining it as Dettol, Lysol, Sagrotan, et cetera. Where is it now in terms of percentage of sales of the group? And what is the recent like-for-like growth rate at that portfolio? But more importantly, can you sort of unpack it for me in terms of where it is on the sort of three dimensions of where do you think core markets are and how would you characterise the level of hygiene consciousness, germaphobia, call it what you will, in those core markets? You know, are people still apprehensive post-COVID or getting more relaxed? And then the other two limbs, as you know, are geographic white space – how's that going? – and professional hygiene – how's that going?

Laxman Narasimhan: So, Jeff in – do you want to take the first part in terms of the percentage of the overall…?

Jeff Carr: Yeah. I'd say it's disinfection, if I've got that right, is probably running at around 20% of the group at the moment. Obviously, that's up significantly over a two-year stack. We've talked before about Dettol being up something like 40% and Lysol is still up significantly higher than that, more like 70% over a two-year stack, so it's currently running at around 20% – just over 20% of the group.

Laxman Narasimhan: Martin, let me just start first with the definition of these brands, because I think that these brands are actually playing in spaces beyond just disinfection. So, Dettol as a brand isn't just a disinfection brand. It is also playing in Personal Care and it plays as well in areas where germ-sensitivity does have an impact, like for example in laundry sanitisers. If you look at the Lysol business, it is a business that is not just disinfection, but is also more broadly because of the strength of the brand, playing like Sagrotan is or like Napisan in Italy is, in areas like laundry disinfection, which is a sort of the eighth step of laundry and laundry cleaning. So, I think in a lot of ways one has to look at these not just as a – you know, as a hand sanitiser or as a surface cleaner, but they're actually playing in broader spaces and clearly benefiting from the strength of the equity in germ-kill, which has strengthened significantly over the last many years. To get into your question on the consumer, just some facts that might be of interest. 78% of people globally are still concerned about germs and that number is a bit down but not hugely down from the start of the year. It's a few basis – it's a few hundred basis points down. If you look at the – at the US as an example, where we have data, it doesn't matter whether you're vaccinated or not, actually, the concern levels that you have are actually fairly similar. If you look at the behaviours and if you break these down literally segment by segment, in which germ-kill as opposed to just disinfect, germ-kill overall plays a role, you do see the fact that in certain sub-segments there is absolutely no change, but in others, like an example would be hand sanitisers, you might see a drop, but if there's a variant you actually see it come back. Now, our business is clearly not just about, you know, working in a hand sanitiser business or surface cleaning, but it's really about how we take the strength of the brand and expand its shoulders, and that's been part of the play in new places and new spaces. To get into your question on expansion – and by that reflects in the share gains that we've had across the board globally, relative even to our competitors, our major competitors – we still by the way have opportunities in distribution. If I look at where we currently stand versus where we were pre-pandemic, as we have, you know, streamlined SKUs and where we were, we still have upside in distribution in our – in a few markets, given the full range hasn't fully shown up as it had in the past. But just beyond that, I think what you see is that in the expansion markets as we've seen it, we've had some real successes and we've had some learnings. And I think there's several markets that I would say that would qualify into our tier two level of markets, so they'll never be as big as the US or India or China but they clearly would be great candidates for tier-two markets. Where we've seen the brand launched, we've seen share gains in a segment that we play in of up to 10% in one year, and there are others where, you know, where we are actually looking at what we have been able to do, and we are re-tooling some of the things we have done. There's no question that in some of these markets there is in fact a play. So, it's certainly helped. On the professional side, or what we call Global Business Solutions, we don't play in the entire professional market. Some of those areas require feet in the street. We've chosen not to be part of those parts of the business, given the earnings model there. And there are certain sub-segments from a customer standpoint at the business level that require products that are specific to that customer segment that have a regulatory timeline associated with it and, you know, we're not really in there. So we're basically making use of our brands, we're making use of, you know, the product range that we have, and what we are finding in some of these sub-segments, that we've actually achieved market leadership in very short periods of time. And what it has proven to us is that our brands are in fact consumer preferred and they actually do help with regard to, you know, creating a sense of confidence as people begin to move or as people begin to go to offices and the like. Just to give you a sense of brand equity, the brand equity in these brands have gone up significantly over the course of the last two years. Not only are they more relevant, they're also much stronger and it's reflective of the investments we have made. So if you look at things like purchase frequency, you look at spend, you look at units per transaction of the trips and you look at our brands versus some of the others, you will see that our brands actually do a lot better than some of those. So, loyalty is very strong, and I think you're seeing that in some of the other places. Like you look at in the UK, you know, with what we've been able to achieve with Dettol and Tru Clean, which is our botanical range where Dettol plays in, you know, we've had some, you know, leading competitors who've entered the market, but obviously, if you look at our share gains relative to some of those competitors you will find that our share gains are much stronger and it does reflect the strength of the brand and the ability of the brand to expand its shoulders into new places and new spaces.

So hopefully that gives you a bit of a sense of how those brands play. It isn't just the hand sanitiser business. It's isn't just the surface-cleaning business. It is a broader business.

Martin Deboo: Thank you. Thanks.

John Ennis (Goldman Sachs): Thanks for squeezing me in. My first question's on the savings and productivity delivery so far year-to-date. Can you give us the savings figure so far at the nine-month stage and maybe your latest thoughts for the full-year contribution relative to the £2 billion four-year plan? That's the first question. Then my second question's on the OTC segment. Can you give us the exit rate for September or, better still, if you do have any kind of sense of it so far, October? Because you mention in the release that sales accelerated throughout the quarter to deliver that 20% OTC growth in 3Q, so any kind of exit rate colour would be helpful. Thank you.

Jeff Carr: Hey, John. I'll give you some rough numbers on productivity. I'd say we're probably around – we're looking to deliver close to £700 million this year, which is a significant increase on last year, as we started the programme and have stepped up and we've had more ability as COVID isolation and COVID rules have loosened a little bit, we've been able to accelerate the programme. So we should be able to deliver something in the region of £700 million this year, and we're probably running at a run rate of around £500 million through nine months, and obviously, as a lot of that has gone into the various investments that we talked about at the half-year.

John Ennis: On OTC?

Jeff Carr: You know, I think – I think OTC, the key season on OTC is – on cold and flu is Quarter 4, Quarter 1, so we're pleased with the exit rates in terms of if you look at point-of-sales data in Europe and in the US, they remain ahead of 2019 levels, they remain strong, so we're – you know, we're cautiously optimistic that we'll continue to see a strong season as we go through the rest of the year. But as said, still relatively early days.

Laxman Narasimhan: I do want to add one thing, if I could. Our OTC business is beyond just cold and flu. We've Gaviscon that's growing double digits, we have a range of local brands across a variety of markets that are actually growing really strong, and I think we mentioned earlier about Biofreeze and, you know, how we see it growing, and I think the innovation plans for Biofreeze are strong and, you know, we expect next year to be even stronger for us, you know, given what we see coming in. I think one other comment I would make, as you know, last year we did have the issue with ibuprofen and what the French Minister said with regard to ibuprofen sales, and I think what you're seeing now is pretty much every market except a couple, we're back to where we were, you know, prior to that statement, and you see strong share gains across the board. So, I think in a nutshell, the OTC business and both the level of innovation and the level of execution that we're seeing in the markets is much stronger and I think that reflects in the growth rates that we have beyond just cold flu.

John Ennis: That's great.

Jeff Carr: And Biofreeze will – Biofreeze will contribute to the like-for-like, as of the second half of next year, which will lead further strength in the like-for-like performance.

John Ennis: Okay, understood. Thank you both.

Karel Zoete (Kepler Cheuvreux): Taking the question. I've two questions. The first one is on, yeah, price elasticity or demand plus elasticity, because you aim to raise prices further whereas you also sell quite premium products. Which part of the portfolio could potentially be vulnerable here and which parts where you expect very little demand elasticity? And the second question is on regional rollout or a geographic expansion, and particularly in relation to your VMS business. I heard that's quite narrowly focused geographically. What are your plans to broaden that business for the Nurofen and some of your other brands? Thank you.

Laxman Narasimhan: So just on the elasticity question, I think it's a good question – it's one that we look at quite closely. Our first round of price increases, we've seen very little volume impact, and I think part of it is just the environment that we're in as well as, you know, more broadly what the consumer's seeing not just in our category but across all categories. And we're acutely sensitive to it and we do watch it very closely. On your second question, on the VMS business, our business is not just a US business, even though it may appear so. We actually do have a strong VMS business in China, which is growing and doing very well. Your – and the point you were saying is absolutely correct, which is there is further opportunity for us to take our brands in VMS and, you know, take them into more markets globally. Clearly, there's regulatory work that needs to be done, particularly on ingredients and products and claims, which work is still going on in that, but you are appropriate in saying that there is an opportunity for us to take some of our VMS businesses more broadly globally.

Karel Zoete: Thank you.

Laxman Narasimhan: Great. Thank you all for joining us this morning. As I mentioned at the beginning of this call, we are pleased with the quarter, delivering broad-based growth with a balance of volume and price/mix across the portfolio. We're not complacent, however. There is more to do and the trading environment is dynamic, but we remain confident in the outlook, both for 2021 and in the medium term. Just one comment on portfolio. As we have demonstrated over the course of this year, we are active managers of our portfolio. I think you've seen what we have done with regard to the divestment of our business in China in infant formula, the divestment of the Scholl brand, as well as the acquisition of the Biofreeze brand. What you see now is a portfolio that is much stronger and we will continue to look for opportunities to further strengthen our portfolio as active managers of our portfolio. Before we wrap up, a quick word on our investor seminar series, which I know many of you attended in September. We are planning for the next of these sessions to take place in March or April of next year and a focus on sustainability, a topic central to everything that we do here at Reckitt. This will mark the anniversary of the publication of our 2030 Sustainability Targets and the team will give you an update on the progress we are making against these targets and provide some insights to the journey that we are on. With that, I would like to thank you all for joining the call and I look forward to speaking to you again soon.

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