



A BETTER HOUSE IN A GREAT NEIGHBOURHOOD

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Overview

In February 2020, we set out our strategy for rejuvenating sustainable growth at Reckitt, 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 operating margins in the mid 20's by the mid-20s, in turn driving earnings per share growth in the region of 7-9%.

Underpinning our expectations are five megatrends that drive market growth and a portfolio of trusted brands, with a strong heritage. Many of the fundamental capabilities were already in place: we have a good science and innovation, great people, a strong performance culture and great e-commerce capabilities. But there were areas which required improvement. Until 2020 our commercial execution had been deteriorating, our supply chain was not as resilient as it should have been, and we were letting customers down too frequently.

At the time, I described the business as a good house in a great neighbourhood. Since then, we've made record levels of investment, improved execution and customer service and have made good progress towards becoming a great house again.

Throughout 2020, we delivered a strong start to our plan by executing well against our strategic goals and responding successfully to rapidly changing market conditions. This has resulted in a very strong financial performance, well ahead of our original expectations. In addition, we have delivered a step-change in the scale and scope of our business. This has reinforced the strength our growth opportunities, and the relevance of the investments we are making to capture these.

2020 performance

We delivered very strong revenue performance in 2020, with nearly £14 billion of sales and 11.8% Like-for-Like growth. In Hygiene, we delivered excellent growth by increasing capacity to meet the strong demand for Lysol, while a number of other brands also saw significantly greater demand driven by 'nesting' behaviours. Our Health business saw some dynamic trading, led by sustained strong demand for Dettol, which showed similar trends to Lysol. Our Sexual

Wellbeing segment improved in the second half of the year as social distancing restrictions related to COVID-19 eased and we benefited from the launch of our new ultra-thin condom. This was offset to an extent by trading in over-the-counter medications, where market conditions were weaker due to the soft cough, cold and flu season towards the end of the year. Finally, our focus in Nutrition was on operational execution and maintaining market share, particularly in Greater China where market conditions were more challenging. This was in part offset by strong performances in our US business and our increased focus on vitamins, minerals and supplements, particularly immunity and senior nutrition which will support our longer-term ambitions for this business.

Step-change in our business

The global pandemic has reinforced the relationship between hygiene and health. A much greater awareness of the importance of day-to-day cleanliness and sanitation is now driving fundamental day-to-day behaviours. Around the world, this is leading to disinfectants and anti-bacterial cleaners selling in higher volumes, gaining more shelf space and penetrating new categories of cleaning. For example, growing into laundry sanitation, expanding in wider surface cleaning – with more wipes and sprays, and becoming the norm for hand sanitising. As a result, our leading global disinfectant brands – Dettol, Lysol and Sagrotan to name but a few – grew in aggregate by over 60% and have significant room to grow further.

Our teams have driven our success

Our teams have overcome significant hurdles to increase production of these, and other products, while staying safe and supporting their communities. I am humbled to see first-hand this 'can-do' attitude with which Reckitt is frequently associated. I had learned much about this prior to my joining the company around 18 months ago. I am immensely grateful to our teams around the world for their hard work and flexibility. Our purpose, to protect, heal and nurture in the relentless pursuit of a cleaner and healthier world, has been at the centre of our response and continues to be as relevant as ever.

Strategic progress in 2020

At the same time, we have invested a record £745m through the P&L back into the business to rebuild the long-term capabilities to improve customer service, to innovate and improve product quality and to grow purpose-led brands. Our investment in Centres of Excellence has already begun to yield results, particularly in the important area of customer service where we have meaningfully increased our ability to support customers – developing the relationship from being one of transaction, to a fuller commercial partnership. The annual Advantage survey of retailers shows that we have made a material improvement in this area, advancing 9

places, moving from the lowest tier to inside the top 10 of FMCG peers globally, with further improvements expected over time. Achieving this while delivering a step-change in capacity has been very pleasing but there is still much to do, particularly on our supply chain performance. On all fronts, we are targeting meaningful further improvements over the coming years.

We also made the organisational changes necessary to deliver our strategy. In July, we established our three focused Global Business Units and have progressively strengthened our leadership teams throughout the year.

Furthermore, we have executed successfully against the drivers of growth: increasing penetration; optimising market share; entering new places and entering new spaces. Our market share performance was growing, led by Dettol, Lysol, Durex, Finish, our North American IFCN business and various OTC products, including Gaviscon. As a result, 70% of our core Hygiene category market units, and 85% in Health, held or gained market share in the year. Dettol and Lysol now generate over £3bn in combined revenue and are present in over 300 million homes globally. However, our growth in 2020 has been broad-based. Geographically, our ten largest markets grew by an average of 15%, and we've seen good growth across most of our categories. Finish has taken significant share, Airborne's revenue was up well over 100%, and we have driven good share gains in Durex where we launched our first polyurethane (ultra-thin) condom in China. Innovation and consumer insight continues to drive share gains in a number of our categories, and we continue to see strong opportunities for white space growth.

In e-commerce, our 'Be Big', 'Be Fast' and 'Be Bold' strategies have accelerated revenue growth to a record 56% in the year with online sales now representing c.12% of Group revenue. We are witnessing fundamental changes to consumer behaviour as consumers continue to move online.

Underpinning much of our investment in the business, our productivity programme is also well ahead of expectations, with savings of £407m achieved in 2020. As a result, we have increased this programme and are now targeting savings of £1.6bn over the period 2020-22, compared to the £1.3bn previously.

Strengthening our environmental and social ambitions

In addition, we are strengthening our environmental and social ambitions as our focus turns from mitigating our negative impacts to making a net positive contribution through understanding how we can make things better. Reflecting this, we announced in June 2020 our pledge to be carbon neutral by 2040. In addition, we are committed to powering our operations with 100% renewable electricity by 2030, with the ambition of net zero carbon emissions by 2040 – a decade ahead of the global climate action deadline of 2050 as stipulated in the Paris

Agreement. Equally, we were one of the first three global companies to sign up to The Climate Pledge, co-founded in 2019 by Amazon and Global Optimism. From a societal perspective, we established the Reckitt Fight for Access Fund during the year where we have committed to the equivalent annual investment of 1% of our Adjusted Operating Profit. This will help improve access globally by ensuring high-quality products, providing education and information and driving availability. Additionally, we established the Reckitt Global Hygiene Institute in July 2020, a global initiative to generate high-quality scientific research-based evidence to inform public health recommendations and promote behaviours that improve global hygiene.

Our business portfolio

When we established our strategy in February 2020, we said that we would be active managers of the portfolio, seeking to migrate the portfolio towards higher growth businesses. We have therefore taken decisive action to strengthen our portfolio, so that we are better positioned to take advantage of market growth as we recover from COVID-19, and in the long-term

Firstly, our infant nutrition business in China has been operating in challenging conditions, with declining birth rates, tougher regulations and increased local competition who have been investing heavily. Additionally, the pandemic has brought about the closure of the border with Hong Kong, preventing any meaningful cross-border trade. We do not expect the situation to improve materially in the near term and so are engaging in a strategic review of this business. No decision has yet been taken as to the overall outcome and we will provide further updates as appropriate.

Additionally, we announced the sale of Scholl, the footcare brand, after ten years of ownership and at the same time agreed to acquire Biofreeze, a leader in over-the-counter topical pain relief. The brand has a strong footprint in the North America retail and clinical channels and a growing international presence.

Looking forward

Overall, recent market developments continue to support our 4-6% medium-term growth expectations. In Hygiene, we should grow around 4-5% as we expect to outperform a larger and faster growing market for disinfection. Health should also outperform, with strong demand for sexual wellbeing products helping support 4-6% growth. Senior adult nutrition, and strong growth in VMS should also enable Nutrition to deliver 3-5% growth in the medium-term.

2020 was a turning point for Reckitt. Our performance is strong, we are building our capabilities, actively managing our portfolio and transforming our culture. We expect 2021 to be a year of further strategic progress and we remain confident that we will meet our medium-term targets.