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# EDITED TRANSCRIPT

**HALF YEAR 2025 RECKITT BENCKISER GROUP PLC EARNINGS CALL**

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## PRESENTATION

### **Nicholas Ashworth** *Reckitt Benckiser Group PLC - Head of Investor Relations*

Good morning, everybody, and thank you for joining us for Reckitt's Half Year 2025 results presentation. I'm Nick Ashworth, I am Head of Investor Relations here at Reckitt. And it's great to have you here in person. I know we've also got quite a few people online today as well. So before we start, can I draw your attention to the usual disclaimer in respect to forward-looking information.

So presenting today, we have our CEO, Kris Licht, and our CFO, Shannon Eisenhardt. Following the presentation, we'll do the usual Q&A session. So there's going to be three parts to it. So we'll take questions in the room first. We'll then open up the phone lines and take the questions that we have coming in that way.

So with that said, let's start the presentation. I'll hand over to Kris.

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### **Kris Licht** *Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director*

Thank you, Nick. Good morning, everyone, and welcome to those of you who have joined us online as well. A year ago, we announced a new strategy to reshape Reckitt into a world-class health and hygiene company. There is still a lot of work to do, but the progress we've made is testament to the strength of our Powerbrands, and the increased emphasis on delivery and execution right across the business.

Our performance in the first half reflects this momentum. And I'm going to start with some of the highlights before handing over to Shannon to take you through our financial performance in more detail. I will then come back and talk about how our strategy is working in practice and our confidence for the rest of the year and beyond. And after that, we'll both be happy to take your questions.

We delivered a strong first half with volumes improving quarter-on-quarter. Core Reckitt revenues grew 5.3% in Q2, and we were up by 4.2% for the half. We delivered another period of excellent growth across emerging markets, and we navigated a challenging consumer environment in our developed markets. We grew in three out of our four categories, the exception being Self Care, which was slightly down due to the Mucinex shelf reset in the US.

We are reaping the rewards of our simplified operating model, which has sharpened our focus and has enabled us to make further market share gains and increased volumes sequentially through the half. And our Fuel for Growth program is delivering ahead of plan, enhancing our efficiency and increasing our ability to invest behind our Powerbrands, further strengthening our platform for sustained top and bottom-line growth.

Turning to our performance in more detail. We've made progress against all our financial KPIs. Core Reckitt delivered 4.2% like-for-like net revenue in the first half with the Group growing at 1.2%. We delivered improved market share with 59% of CMUs in hold gain territory, broadly in line with our 60% target. Adjusted operating profit increased 7%, significantly ahead of revenue growth, reflecting improved efficiency and cost benefits from our Fuel for Growth program.

This has helped us deliver first half EPS growth of 4.4%. And we continue to deliver superior cash returns to shareholders, increasing the interim dividend by 5% and we're announcing our next GBP1 billion share buyback program. Alongside this strong momentum in core work we've done to reduce costs and sharpen our organisational structure last week, we announced an agreement to divest Essential Home.

This critical step in our strategy will unlock substantial value in our business. It is with us to focus on our core portfolio of high-growth, high-margin Powerbrands. In Mead Johnson Nutrition, the business continues to recover well from the impacts of the Mount Vernon tornado last year. We've delivered continued recovery in North American market share and good performance across our international markets.

Our stated intention for Mead Johnson remains unchanged, and we continue to consider all strategic options for the business. Overall, we've made significant progress so far this year and the journey to fundamentally reshape Reckitt into a more efficient, world-class health and hygiene company is now well underway.

While there is a long way to go, and we have much more work to do, our strategy is working, and we are delivering on the steps we set out 12 months ago.

More from me in a moment, but let me stop there and hand it over to Shannon.

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### **Shannon Eisenhardt *Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director***

Thanks, Kris, and good morning, everyone. We're pleased with the strong performance in the first half, which has been driven by the strategy we set out 12 months ago. Starting with key financials for the group. Like-for-like net revenue saw a sequential improvement quarter-on-quarter and grew 1.5% in the period. This was driven by Core Reckitt, which was up 4.2% in the half, ahead of expectations.

Group gross margin was 61% and expanded 40bps on the prior period, driven by pricing and productivity efficiencies and a more benign environment for cost inflation with Core Reckitt gross margin of 62%. Adjusted operating profit grew 7% at constant exchange rates and margin increased 110 basis points to 24.6%, with Core Reckitt adjusted operating profit margin at 25.9%, helped by a strong performance from our Fuel for Growth program, which I'll talk more about later.

Taken together, we delivered 168.4p of EPS up 4.4% on an adjusted diluted basis. Looking now at volumes, where we've achieved a sequential improvement across Core Reckitt through the half and continue to drive a more balanced volume price growth algorithm. Emerging markets continued to see strong volumes, up over 7% in Q2, driven by Dettol in India and China, Intimate Wellness in China and across Latin America as it lapped a softer comparative period.

In Europe, we saw sequential improvement in volumes, helped by Finish gaining market leadership positions across all its largest markets. In North America, while volumes declined in Q2, this was driven by the shelf reset for Mucinex PE-free sinus products ahead of the upcoming season. Double-clicking into Core Reckitt and the performance across each of our areas.

Like-for-like net revenue accelerated in Q2 to 5.3%, delivering 4.2% growth in the first half. Starting with emerging markets. The consumer is strong across all our categories and across all our regions, driving 12.8% like-for-like growth for the half year and up 14.9% in Q2 with a balanced volume and price mix algorithm. In Q2, emerging markets delivered double-digit revenue growth across all categories.

This was underpinned by sustained market leadership of Durex and continued strong online momentum of Intima. Dettol delivered strong growth in Germ Protection driven by innovations across home cleaning segments and extensions to antiseptic liquid such as Activ Botany, our plant-derived formula range. The VMS portfolio performed well, led by the ongoing success of Move Free and MegaRed in China.

And growth in Latin America was driven by Vanish and our surface cleaner brand, Veja in Brazil. Adjusted operating margin was 19.9%, up 270 basis points on the prior year, with gross margin expansion and delivery of cost savings more than offsetting our increased brand investments. Moving to developed markets, where we've seen our category growth stabilize post slowdowns at the beginning of the year.

Europe, saw 0.9% like-for-like decline for the front half of the year, improving to flat like-for-like net revenue in Q2. We made encouraging progress in the half with Finish gaining market leadership across all its large markets, driven by stronger operational execution, ensuring price and promo competitiveness every day. And Durex Intensity, our first nitrile condom, successfully launched across a number of European countries, driving both volume and value share gains.

This was offset by weaker seasonal Self Care performance. Adjusted operating margin was 30.7%, up 70 basis points on the prior year, with cost savings more than offsetting a decrease in gross margins. Turning to North America. Like-for-like net revenue declined 1.7% in the half with Q2 softer than Q1, as expected, strength in our e-commerce and club channels puts us in a good position heading into the second half of the year.

As we flagged back in April, Q2 like-for-likes were primarily driven by the resetting of shelf for Mucinex sinus products and this was partially offset by the strength of our VMS portfolio as well as the continued strong share growth of our Lysol Air and Lysol Laundry Sanitizer products. Adjusted operating margin was 29.6%, in line with prior year, with cost savings offsetting a decline in gross margin.

Moving now to our categories. All categories delivered like-for-like net revenue growth in Q2 with Self Care and Household Care moving into positive territory. Excluding seasonal OTC, all categories also delivered volume growth in the quarter. For self-care, while revenues declined 1.7% in the half, the performance of our nonseasonal business was strong with like-for-like growth of 4%, driven by mid-single growth of Gaviscon and double-digit growth in VMS with new product launches in both China and the United States.

For germ protection, net revenue increased 7.9% in the half, led by Dettol in India and China and Harpic delivering high single-digit growth in our emerging markets. For Household Care, net revenue increased 1.7% in the half where we continue to drive mix improvement with Finish thermoform tabs now accounting for over 75% of net revenue.

And finally, Intimate Wellness net revenue increased 13.5% in the half with broad-based double-digit growth across both Durex and Veet as well as continued strong growth in China from our Intima brand with continued innovation success on the back of a formula upgrade and a travel pack line extension. Looking at our market share data, 59% of Core Reckitt top CMUs were in gain hold territory through the first five months of the year.

This compares to 55% of CMUs across our health and hygiene GBUs that we reported at our full year results in March. We've driven continued sequential improvement as we progress towards reaching and exceeding our 60% target. Looking at our non-core businesses. Mead Johnson Nutrition like-for-like net revenue declined 3.3% in the half as we cycled private label outages from last year and as we rebuild market share in our core North America business, following last July's tornado.

We expect a strong Q3 reversing the post tornado decline we reported in Q3 of 2024. Essential Home saw some sequential improvement in Q2 over Q1, with like-for-like net revenue decline in the half of 6.5%. We continue to expect to see improved performance in the second half. Moving now to Group adjusted operating profit.

Consistent with our strategic ambition and in line with our guidance, we delivered profit growth ahead of net revenue at the Group level. Group adjusted operating profit was up 7% at constant currency, with margins up 110 basis points year-over-year at 24.6%. 40 basis points came from gross margin expansion. While marketing investment increased 120 basis points as we continue to invest in our brand equities ahead of net revenue growth.

This investment was made possible through continued reduction of our cost base through our Fuel for Growth program. Looking at Fuel for Growth in a little more detail. We're making very strong progress on optimising our cost structure. We achieved 190 basis point reduction in our fixed costs in the first half of the year versus prior period.

As expected, two of our four cost savings areas are driving these early reductions. The first is organizational simplification with a focus on reducing management layers from five to three. This is where a significant portion of the upfront cost savings have materialized as we stood up Core Reckitt in January. The second is around rightsizing legacy investments.

Embedding capabilities into our areas and reducing duplication between the center and our markets. These are the savings that we've been able to execute relatively quickly. Cost savings from automation and shared services and digital and Gen AI will take longer to deliver a significant impact. Take shared services as an example. We're making progress.

We've already harmonized and deployed HR services in many markets, supported by four global hubs. There's still a lot to do to set up a truly shared services capability that spans across functions and with a focus on end-to-end processes. It's important to remember that we will deliver these savings while also mitigating stranded costs as we continue to exit non-core businesses.

Looking at the numbers, as we set out last July, our target is to exit 2027 with a 300-basis point reduction in fixed costs, landing us at 19% versus 22% in 2023. And our goal has not changed with group fixed costs now at 20% of net revenue at the half year. Our results to date give us even greater confidence in achieving this target. For the whole year, we expect to deliver ahead of a linear cost savings trajectory.

And it's important to remember that we're lapping the insurance proceeds for Mount Vernon that was recorded as a 30-basis point offset to fixed costs in 2024. And the second half of the year historically has a higher cost weighting than the first. In terms of the cost to deliver our program, we continue to be around GBP1 billion, and for this to be around GBP500 million in 2025.

Turning now to EPS, which grew ahead of net revenue at 4.4% in the period to 168.4p. This was primarily driven by our 110 basis point improvement in adjusted operating margin and our ongoing share buyback program. Partially offset by higher net interest in the period as well as the strength of Sterling, our reporting currency. We delivered free cash flow of GBP623 million.

As expected, this was lower year-on-year, given the one-off costs of our Fuel for Growth program. We've increased our half-year dividend by 5%, and we continue to return excess cash to our shareholders. Having completed our last GBP1 billion share buyback program at the end of June we've announced a new GBP1 billion program this morning.

In aggregate, we've now announced or completed GBP3 billion of cumulative share buyback since we launched the program in 2023. We do this while maintaining a strong balance sheet with net debt to EBITDA at 2.1 times and consistent with our capital allocation framework, which remains unchanged. Finally, turning to our expectations for the rest of 2025.

Given our strong first half performance and continued confidence in the second half, we're now targeting over 4% like-for-like net revenue growth in Core Reckitt, up from 3% to 4% previously. This will continue to be led by emerging markets, although its growth should moderate as we start to lap strong quarters. We now expect low to mid-single-digit like-for-like growth for the year in Mead Johnson Nutrition and a reversal of last year's Q3 performance as it laps the impact of the tornado in 2024, July.

We expect continued sequential improvement in essential home and for it to deliver low single-digit like-for-like decline for the full year. Taking this together, we now expect to see Group net revenue like-for-like growth in the 3% to 4% range. We expect to drive adjusted operating profit ahead of net revenue growth with Fuel for Growth benefits, enabling us to continue to increase investment behind our brands and to sustainably increase margins.

With adjusted net finance expense of GBP350 million to GBP370 million and an effective tax rate of around 25%. We continue to expect to deliver another year of EPS growth.

I'll now hand it back to Kris to talk about our strategic priorities.

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### **Kris Licht *Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director***

Thank you, Shannon. Alongside our full year results in March, I outlined the key strengths driving performance across our three areas in Core Reckitt and our priorities going forward. Today, I want to spend a few minutes talking about the great things we've been doing in terms of innovation and in-market execution that aligns with our priorities.

I'll talk about why we believe our actions are strengthening our market positions. And I'll finish with some thoughts on where we are on the journey we laid out a year ago as we reshape Reckitt. Starting with emerging markets. which is our largest and fastest-

growing area. It's worth reminding you that we have a long-established track record of delivering sustainable growth across these markets, particularly in India, China and Brazil.

Our new organizational structure has given us even greater focus than under our prior GBU model and recent performance demonstrates this. In China, our online capabilities are a major contributor to our strength in the region, take our Intimate Wellness category as an example, where we have more than doubled sales in the last 12-months in Intima.

In India, we have significantly enhanced our presence and penetration utilizing digital capabilities to identify and target distribution expansion opportunities. This has increased our store coverage in India to more than 1 million outlets, and we have plans to roll out this technology in other markets. In Latin America, we're delivering stronger pharmacy channel execution across our OTC power brands and local heroes, backed by regulatory expertise and medical endorsement from key opinion leaders.

With the deep understanding of the consumers we serve and the customers we partner with, we're bringing best-in-class execution to these markets, and we're capitalizing on the significant growth opportunities that we see. As an example, and as we demonstrated in May, our focus on consumer obsession and the unique power of the equity in a brand like Dettol has given us the oxygen to bring new category creation quickly to the market.

In China, we've significantly expanded the range of Dettol hygiene segments from three in 2019 to nine today. And our plant-based Activ Botany extension to our iconic antiseptic liquid is the latest successful launch here. When we bring innovation like these, we invest behind them. Educating consumers is essential, and our capabilities here are a real differentiator.

The combination of our brand strength and market execution has delivered very strong growth and margin enhancement for Dettol in China, and we see opportunities to drive future growth. We're really excited to show you more about what we're doing across emerging markets. On December 4, Nitish and the team will present in our second Reckitt Focus On session.

They will explain how our organization is capturing opportunities across the region. What is unique to the Reckitt playbook and what underpins our confidence to continue delivering industry-leading growth in this area? Europe is Core Reckitt's second biggest area, and it sees a greater proportion of net revenue coming from self-care and Household Care.

While the environment in Europe remains more challenging, we have a distinct competitive edge with our Powerbrands, all holding number one or two market positions. The strength of our brand equities and our innovation platforms allows for both new category creation and continuous advancement of our technologies as we demonstrated in our May event.

Across Household Care, we see the benefits very clearly as consumers move up the premiumization ladder. An example of this is thermoforming and Finish where we now see more than 80% of sales in these premium formats. With deep consumer knowledge and data, we're also now able to harness the benefits of generative AI to make our marketing concepts both more effective, but also more cost efficient.

As we showed with Finish at our Focus On session earlier in the year. Our Self-Care brands, Nurofen, Gaviscon and Strepsils all play key roles in bridging the treatment gap for consumers. And the critical relationships we have with retailers across channels as well as health care professionals, positions Reckitt to make a real difference with health care systems under more and more pressure.

Given these insights and relationships, Europe has often the launch market for our groundbreaking first-to-world innovation. Take Durex Intensity, for example, the first ever condom made out of Nitrile, which we launched in Europe earlier this year. This product really highlights two of our key strengths, our science-led innovation and our consumer obsession.

When we activate an innovation like Durex Intensity, our economic model allows us to fully invest in promotion and marketing, and it delivers results. We've launched in France, Germany and Spain, and we've already achieved 3% share across these markets and Durex Intensity is already in the top 10 best-selling condoms on Amazon.

We're very encouraged by the early performance and have now begun rolling out Durex Intensity to more markets. Finally, North America. In March, I explained that we see so much opportunity in this market, but execution has been our main issue. Now just over six-months into our new organizational structure, we're really starting to see improvements across the area.

Operationally, we've invested in our supply chain to enhance resilience and increased domestic production volume. This includes our brand-new OTC manufacturing site in Wilson, North Carolina, which will bring US domestic Mucinex production above 80% when fully operational. Excluding seasonal OTC, we're seeing good growth, particularly in our VMS portfolio as we perform strongly in the club channel.



And as we talked about in May, we continue to see mix benefits within Finish as we move consumers up the premiumization ladder. We've improved our performance across all our retailers, particularly with those partners that have been beneficiaries of changing consumer behaviour such as the e-commerce and club channels.

In 2025, to date, we've increased our point of sale across the club channel by mid-single digit and in e-commerce by more than 20%. An example of where we have been working closely with retail partners is on the Mucinex sinus shelf reset. This long-planned action combines a number of our key strengths. First, our innovation and R&D platform, combining the reformulation of ingredients to remove phenylephrine and enhance the attributes and claims of our consumer-loved Mucinex sinus products.

Second, in terms of market execution, we have chosen to reset at the right time outside of peak cold and flu season and working very closely with our retail partners to ensure a smooth transition, minimizing the impact on us and on them. And third, as we launch the new reformulated SKUs, we are investing into the marketing line with refreshed architecture and branding.

All of this ensures that we're in the best position possible to educate our consumers about our full range of Mucinex products ahead of the peak season. Another strong area of collaboration with retailers in the last few years has been our launches of Lysol's broadened portfolio, Lysol Laundry Sanitizer and Lysol Air Sanitizer.

These relatively new categories are maintaining very strong adoption rates, highlighting how our innovation have multiyear impact and create long runways for growth, both for us and for our retail partners. Lysol Air Sanitizer continues to shape the category with over 700 basis points of share gains through the first half and Lysol Laundry Sanitizer saw nearly 500 basis points of share growth with both contributing to Lysol's household penetration in North America.

Given all of this work, we look forward to a more positive result in North America in the second half. Of course, all our progress is dependent on and driven by our portfolio. And at the heart of Core Reckitt is a truly world-class portfolio of Powerbrands that can perform regardless of the consumer backdrop. We have a proven winning playbook.

We build and grow iconic brands that don't just spend categories but create new ones. We know how to engage with consumers, driven by our consumer obsession and how to deliver superior innovation. We've shown that when we get this right, people are willing to pay a premium for our products. Our new organizational structure is enabling us to execute with excellence in a more consistent manner.

Our first half results demonstrate this. As I said at the beginning, it's been a year since we announced our new strategy to fundamentally reshape Reckitt and get this business back to delivering at its full potential. I'm pleased with the progress that we've made, standing up Core Reckitt, agreeing a sale of Essential Home, executing our Fuel for Growth program and delivering operating margin and earnings growth.

Getting to this point reflects the big effort that our teams have put in over the last 12-months, and we are only just getting started. We are still early in our journey, and there is a lot more work to do. Our brands have so much potential, and I know they can deliver even more. The results we're seeing reinforce my confidence in our ability to deliver sustained growth of 4% to 5% on over the medium term.

And they also strengthened my conviction that Reckitt is becoming a world-class consumer health and hygiene company with one of the strongest growth and margin profiles in the industry.

Thank you for listening. Shannon and I will now happily take your questions. Thank you.

## QUESTIONS AND ANSWERS

### **Nicholas Ashworth *Reckitt Benckiser Group PLC - Head of Investor Relations***

All right. Thank you, Kris. So as I said, we're going to do this in three parts. We'll open up and have questions in the room. I know we've already got some questions coming through on the phone. So if you want to raise your hand there, we'll come to you afterwards we've done the room. (Operator Instructions) So let's start with the room. There are microphones. So who wants to go first? Callum.

### **Callum Elliott Bernstein - Analyst**

Callum Elliott, Bernstein. Can I start by asking you about the brand investment? It's obviously a very big increase for the half. And you highlighted in your presentation, Kris, how you're now at 59% of CMUs holding or gaining share, which is basically at your target now. So my question is, should we infer that reinvestment will slow or maybe even cease from here given that you're at that target?

Or could there maybe be an opportunity to raise the bar on the target. I think I drew some parallels to P&G at your focus on events a couple of months ago. And I think P&G, as an example, hit 80% of CMUs holding gaining share at the sort of the peak of their power. So are we at the end of the reinvestment or can we raise the bar?

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### **Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

It's a good question. I mean, first, I'd highlight that the movement we're seeing in the P&L, the freeing up of fixed costs and the ability to reinvest in the brand is exactly the formula that we're aiming for. So I'm pleased that we're really seeing that come through the business. I would like to see that continue. I think both Shannon and I would like to grow our marketing investment.

That's definitely the plan. And I don't think that we have hit a ceiling on what we should be investing. We've also said before that the way we make these decisions is not in the aggregate, but it's at the detail level. Where do we have innovations that we want to support, where do we think that incremental investment drives a high ROI.

So we're always going to make those decisions as we go. And based on the operating performance of each of the businesses and the opportunities that we see. But I don't think we're done. We're obviously going to free up more of our fixed cost. We're going to create more oxygen to invest and I think that's actually a formula that we'll be enduring.

I don't see a need to deviate from that idea for a long time. In terms of market share, it's good that we're effectively around where we need to be. We know that our portfolio historically has also been above 60. So we know we can do that. We've set the goal of 60 because we think it's both a good one and a realistic one, an achievable one.

But for the foreseeable future, I think we'll stick with it. If we start to just routinely cruise higher than that, maybe we should have a conversation about that. But that would be a good problem to have. And so far, I'd like to keep it where it is for the time being.

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### **Callum Elliott Bernstein - Analyst**

Okay. And I have a follow-up on emerging markets specifically, if that's okay. So as Shannon highlighted in her presentation, the 270-basis point margin increase that you saw in emerging Markets in the first half. I wonder if Shannon, maybe you could walk us through some of the drivers of that in 270-basis points between the volume leverage, pricing benefits, the mix from all the premiumization that we've been hearing about, the Fuel for Growth savings, and sort of second part of the question how do you think about the balance of reinvesting those margin benefits versus letting it flow to the bottom-line, given it's obviously been incredible growth that you've been seeing in those regions?

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### **Shannon Eisenhardt Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director**

Sure. Happy to do that. Obviously, we're very pleased with the results we saw in emerging markets in both Q1 and Q2. And it's always easier to expand profit margins when you're having such strong top line growth, which is why it's also important to the earlier question that we continue to invest behind the brands. The specifics I'd call out for you on emerging markets would be the strong volume growth.

Price growth was driven in a really healthy manner as well. So I think the things I'd call out are the price growth in emerging markets is really the shift we're seeing from a channel shift standpoint where that business continues to move out of brick-and-mortar and more into online, particularly, we've talked about that dynamic in China.

And that allows us to drive higher full price sell-through, so less investment in promo, which is a nice benefit to see. We obviously continue to be focused on positive mix and driving premiumization across emerging markets, and we believe there's a long runway of growth for us in that and then Fuel for Growth has been a big benefit to us in the half. To your second question around how we think about that reinvestment, we've been pretty consistent discussing if you looked at last year's results.

And now if you're looking at this year's, we called the program Fuel for Growth because we don't want that full benefit to be flowing through to the bottom line. We think it's important that it's a substantive driver to increase brand investment. And so we've been



seeing sort of roughly half of those savings going into the BEI, we don't have to Kris' point, any sort of strict rule or internal guideline on that.

But I would expect to see that continue over the coming years where we'll be taking those optimizations of our fixed cost flowing a significant portion of that through to brand investment.

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### **Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

Maybe just a build on what Shannon said about mix, but a longer-term view. So historically, I think many have had a tendency, and we have also in the company had a tendency to look at emerging markets and assume that somehow the margin structure is lower than developed markets. But now that we're growing our intimate wellness business and our OTC businesses, and other health businesses strongly in emerging markets, that changes that equation.

And I think we're seeing line of sight to emerging markets not being margin dilutive in any fashion. And actually, the categories that are growing very fast in emerging markets now have very high gross margins. So I think that's encouraging in terms of the long-term outlook.

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### **Nicholas Ashworth Reckitt Benckiser Group PLC - Head of Investor Relations**

Celine?

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### **Celine Pannuti JPMorgan Chase & Co - Analyst**

Celine Pannuti, JPMorgan. So my first question is on Europe, where we saw that growth flattened in the second half with pricing decelerating. Can you comment about what do you see in terms of the market demand environment in Europe? What are your expectation and as well market share performance in that region? My second question referred to the announcement last week of the EH disposal.

It would be helpful -- I mean, obviously, I think the realization probably in terms of the value was a bit lower than what the market expected and there is a deferred payment component. So if you could talk us through what do you need to hit goal post you need to hit in order to get those GBP1.3 billion. And how should we be looking at fiscal year '26 given the stranded cost, and you did say that the Fuel for Growth would help, but if you could help us understand how we model for those different parts, that will be helpful.

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### **Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

Thank you, Celine. I count maybe four questions here. So I will try to tackle the first three. And then Shannon, maybe you want to talk about stranded costs and so forth. Okay. So Europe, the environment. Part of why we're sitting here today and feeling perhaps a bit more comfortable about the outlook and why we're raising guidance is because at the beginning of the year, it was very unclear where Europe and North America was going to go.

I think now we have a little more visibility to what's happening. And obviously, we're getting a little better understanding of tariffs and the impact of tariffs on prices and other things. In Europe, we have seen a slowdown through the course of the first half in demand across our categories. But I wouldn't say that it is alarming. It's stabilizing.

Actually, in Q2, we're seeing trends that are sort of encouraging in terms of finding a floor and it's not -- there's not much growth to be had at the moment, but in terms of the category demand, but it is stabilizing at a low and positive level. So that's a good thing. And our sellout has broadly followed that. As you know, in Q1, our sell-out and sell-in were not fully synced up.

We're seeing that also come together. So that's why we're expecting as we move into the second half, a gradual improvement in Europe, and we expect to return to growth in Europe. So I would say it's a tough environment. There's still a lot of uncertainty about what will happen with the consumer. We still don't have full clarity on tariffs and all the impacts of tariffs.

So we're watching this very carefully. And it's certainly true that we have to remain competitive in this environment. I think that's -- we're really back to a normal sort of competitive environment where promo matters, price points matter, which has always been the case, but we're sort of back in that one normal state. And we're very focused on competing there.

And so your second question on market share, one of the things that we really wanted to change was the market share performance in Finish. And so we have done that. We're now market leaders in all of our large markets in Europe, that's really important. This is Finish -- I mean, Finish is the number one market leader in Europe, and we should be in that position, and I'm very happy that we are.

And some of that is because we've gotten really sharp on our competitive price points, our promo activity. So that's working well. So we are gaining share in Europe. And I'm encouraged by that, but that has to sustain itself from here on out. On the EH disposal, I'll say a couple of things. The first thing is we're very pleased that we got to the sale agreement that we got to with the Advent.

Not only do we think this is a really important step in unlocking the full and fair valuation of Core Reckitt. But we also think that it is a good way to tackle what are inherent turnaround issues in that business. That business is a good business, has good brands in it. It's cash generative. It's relatively high margin. But as you can see in our first half, it's not performing to its potential.

And so we think it needs work. We think Advent is a great partner to do that work with. That's why we're also very comfortable being a minority investor in this. We think ultimately, this business will do better. We think this investment will generate a good return. And so we're pleased to participate in the upside of essential home's journey from here.

In terms of value, look, I -- you have to consider when you look at value all your options, you have to consider all the consequences of the different options. That's what we did. I think we're satisfied with the value we achieved. You also have to remember that in a situation of a carve-out like this, the multiple that we consider on a business that exists inside our company, is not the same as a buyer would consider.

Because stand-alone essential home won't generate the same EBIT that it does when it benefits from the scale of Reckitt. But all of that being said, I think the most important thing is it's a key step in achieving the biggest thing we can do for shareholders, which is getting Core Reckitt to its full potential and get -- and achieving a full and fair valuation over time.

And then I'll hand it to you on stranded costs.

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### **Shannon Eisenhardt *Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director***

Okay. I think you also Celine, had a question around the contingent payout. And so there is a portion that we shared that's related to 2025 performance. I think what I'd say on that is, first of all, it's based on a sliding scale. So just I think it's helpful for folks to understand that that's not a binary earn-out. To Kris' point, we know we have a complicated separation ahead.

We're confident that we have the right team in place to deliver that separation. And at this point, we're really focused on driving the business in the back half, obviously, to maximize that potential value lever. And then on stranded costs, I'd start with Fuel for Growth. So when we announced the program, what we talked about was this 300bps opportunity to reduce our fixed costs. We delivered 60bps of progress in 2024.

And so as we headed into this we talked about having a remaining 240. We've said -- I had said that would be relatively linear delivery. I think we're getting a bit more early on than anticipated. But we've said all along that, that program encompasses dealing with stranded costs from any transactions. And so as you're modeling '26, I would think about, again, relatively linear delivery of the balance of savings to go.

That will also managed through any stranded costs we see from essential home. We haven't and don't plan to share exact figures on that.

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### **Nicholas Ashworth *Reckitt Benckiser Group PLC - Head of Investor Relations***

So let's do Rashad and we can go to Edward and then we'll come to James.

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### **Rashad Kawan *Morgan Stanley - Analyst***

Rashad Kawan, Morgan Stanley. A couple from me. If I can go back to emerging markets. If I look back at your Q1 guide and then Q2 guide, you had mid- to high single digit on both and obviously, much stronger delivery than that. I guess taking a step back, how do you think about the longer-term trajectory of emerging markets from a growth perspective?

How should we think about that? You talked about all the opportunities there. And then from a margin perspective, Shannon, you talked about the earlier delivery than expected on Fuel for Growth, has that really driven more BEI spend than you had anticipated in the first half of the year? And then as we think about the second half, you talked about the nutrition headwind.

Anything else that we should think about on margins in the back half that can be a potential headwind versus what you delivered in the first half of the year?

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### **Kris Licht *Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director***

Okay. Great. I'll speak to emerging markets first. We're seeing excellent performance in emerging markets. As I mentioned, it's very much outstanding performance in China. Very, very good performance in India. But it's broader based than that. We have a number of markets that have had a great first half in emerging markets. Brazil did well. Colombia did well. Indonesia did well. Malaysia did well.

So it's broader based than that. I think emerging markets will be the growth engine for the company going forward and we're good at operating in these markets, and we have the right portfolio to be successful. But we have to put it all together and execute at a very high-level day in, day out. And when we do that, we get this kind of result.

We wouldn't guide to double-digit growth in emerging markets. I think that just feels unrealistic and maybe not wise. But we're certainly very pleased that we've outperformed now for several quarters in a row at this level of double-digit growth, I think, over three quarters now. So now we expect it to perhaps moderate a bit as we start lapping some of those really high growth quarters.

But we are looking for high single-digit growth out of this area in a very consistent fashion. And we also know that we have the ability to beat that when it all comes together, as you can see. So I'd probably say high single digits and feeling good about our ability to operate in these markets.

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### **Shannon Eisenhardt *Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director***

So then Fuel for Growth and whether the savings coming from Fuel for Growth drove a significant increase in BEI. I'd say no, not really. I mean we've -- we have a clear principle that we want to be investing in BEI at a higher rate than our net revenues growing. So that percent of BEI will be expanding over time. And so we're very focused as we have innovations to support and launches to make sure that we're appropriately funding those to ensure their success.

And then we're obviously focused on maintaining sort of base BEI spend because we know it's one of the most important levers to drive top line growth. And so that materialized in the front half and it's our expectation that we'll be able to grow that going forward as well. And then I didn't fully catch your nutrition margin question. Can you just repeat it?

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### **Rashad Kawan *Morgan Stanley - Analyst***

Yes, it was just on the margins in the second half, as you think about the Fuel for Growth benefits in the second half of the year. You talked about the tornado impact, obviously, will have a bit of a headwind in the second half. Are there any other kind of structural headwinds in the second half?

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### **Shannon Eisenhardt *Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director***

No. I mean I think structurally, we tend to see a bit of a higher cost base in the second half. So I would probably say that will be a bit of a headwind. We do have the insurance proceeds that we're comping. And so that would be the second one.

And then aside from that, we tried to explain just the fact that as we continue to move forward in time, we get past some of these earlier savings and move into savings related to more structural changes such as standing up GBS and Gen AI. And so we do expect that to have a bit of a phasing impact.

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### **Edward Lewis *Redburn Atlantic - Analyst***

Edward Lewis, Rothschild & Co. Redburn. Just first question, just wanting to look at sort of I guess, global class growth. I mean, you've started the year with 4% in the first half. And clearly, you're gaining share. If I listen to one of your competitors back in June, global competitors, they were talking about being skeptical about categories being able to return to kind of 3% to 4% growth over the next 12-months to 18-months.

So clearly, you have different portfolio to that company. But in terms of sort of underlying category growth, what you're seeing? And I guess, specifically on North America, how that's faring because it sounds like business was effectively flat, but it doesn't sound as though there's much of an underlying improvement coming through in the second half aside from the specific points you call out.

And then I guess just bigger picture as well. You're six-months into this reorganization, if I look across the global peer group, when other companies have undertaken similar changes, there's been actually more of an unlock earlier than -- or more than people have anticipated. So what should we read into the first six-months getting these better-than-expected results. Is this more opportunity? Or is it just sort of the low-hanging fruit that you get first up from the change?

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### **Kris Licht *Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director***

Great question. So on global category, I would say, as you rightly point out, really depends on your geographic mix and your category mix, right? We happen to have exposure to emerging markets in a significant way. At this moment, that's clearly helping us deliver very good growth. Category exposure matters too, right, Intimate Wellness is a big growth driver for us.

Not that many people play at scale in that category, as an example. So -- but we are seeing reasonable category growth at a global level and then we see those differences. North America is clearly subdued, although stabilizing. Europe is stabilizing too and a bit subdued. And then we see a lot of consumer demand and interest and engagement in emerging markets, broadly speaking, and certainly in some of the markets that I mentioned, we're really seeing a lot of traction.

It's also important to think about categories from a lens of health and wellness. So we have had this broad health and wellness trend. I think it's safe to say it was exacerbated by COVID and sort of the global experience of COVID but that has not stopped. We're seeing a very high level of engagement in health and wellness categories.

And we're still seeing a high level of hygiene awareness and the role that hygiene plays as the foundation for health. So I think we are probably in the right neighbourhood, if you will, in terms of those categories. It's clear that there are some macro trends that are fuelling interest there. And so some of the other parts of the staples landscape might be facing very different dynamics than we are.

So I'm not so negative on the category growth outlook as what you quoted. I think it will be fairly good. And obviously, it will skew to emerging markets. But for us, that's okay. We're there. We're positioned to benefit from that. I don't know where the North America category picture is going to go, to be honest with you. I mean, it depends so much on economic policy on the strength of the consumer, how the consumer feels about what's going on.

It's clear we saw a very sharp reaction in consumer confidence and behavior in the early part of the year. I think we're seeing that normalize. I'm seeing some of the trends that we see in discretionary spending categories, and it seems like we're making progress, and it's getting a little more benign. But I think it's a very uncertain environment, and it's too early to call it. But we'll keep a close eye. And like I said, I think we have the brands to perform even in a tough environment.

In terms of the organizational change, we have actually been working on it for 12-months. So -- and the good news is we have worked swiftly. So our organization has transitioned. Our new leaders are in place, they're leading their businesses. And I take a lot of comfort in the fact that we could achieve this organizational change, which was not small and seeing improved execution right alongside that and good commercial results.

That doesn't always happen that way. Sometimes you have a blip when you do a big change. We haven't seen that. We've seen sustained improvement. I'm very, very happy with that, and it's a testament to a lot of great work by our teams. And I think the strength of our culture is coming through. I don't think we've seen the full benefit of the restructuring that we've done. It would almost be too soon.

We are seeing some early wins. I think our organization is simpler. We're making decisions faster. That, I think, is pleasing to everyone that works in our company. But I don't think we have realized the full potential yet. We're still embedding our operating model and making sure that we have good discipline around it. So I think we'll see more benefits from that as we go.

**Nicholas Ashworth Reckitt Benckiser Group PLC - Head of Investor Relations**

Next, James?

**James Edwardes Jones RBC Capital Markets Inc - Analyst**

James Edward Jones, RBC. At least judging by the share price reaction today feels like a fairly significant data point and maybe people, investors, analysts are starting to believe in the strategy that you've been outlining for quite a while now. So I guess my question is, is the trajectory very much as you expected? Or has it taken longer to get here than you expected?

**Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

That's your only question? Because there are so many questions. Thank you for that question. I think that's important. I would think about today as a moment where we demonstrate what Core Reckitt can do. I will tell you that is not a surprise to me. It's not a surprise to the team. We know how good these brands are. We know how good our people are. We know what we're capable of doing.

But I think it is maybe one of those moments where everyone can see it and -- or begin to see it. And I think that's good. That's the intent. That's why we're doing the disposals. That's why we're focusing the company and simplifying the company. Because at its core, there's something genuinely excellent. And we just have to demonstrate performance like we have in this first half and keep doing that.

And then I think that will all come together quite well. I would say that there's obviously other factors that impact where we are. We have not exited Mead Johnson. We are still defending ourselves in a big litigation that you all know a lot about now. And I think that still is something that we have to deal with and resolve, and I'm sure that we will.

I take a lot of comfort in the fact that we're seeing our team deliver the way they are and as quickly as they are, given all the change, they've also had to navigate and execute given a tough macro. But we're not celebrating yet. We have a lot more work to do. And I genuinely mean that, we can be much better but it's a good step.

**Nicholas Ashworth Reckitt Benckiser Group PLC - Head of Investor Relations**

Okay. We've got a few coming in on the phone, and then we've got a few webcast as well. So let's mix it up. So can we go to the phone, I think we'll start with Warren at Barclays and then we'll go to Vika at Bank of America.

**Warren Ackerman Barclays Services Corp - Equity Analyst**

Hopefully, you can hear me, Kris, Shannon, it's Warren here at Barclays. I've got a couple as well. Kris, can you dig a bit more into the operating environment in the US? I know you talked about it and it's uncertain. But how do you feel about execution and dealing with the channel shift that we're seeing drugstore pressure, strong outperformance in Walmart, Costco, Amazon.

And like what do you think the US can do in the back half? Is destocking still the thing? Or are we starting to see some stabilization, retail inventories better placed? Just interested to get your kind of on the ground feeling for how the business is operating in the US? And then the second one is just for Shannon. On fixed costs, Shannon, very impressive in the first half, 190 basis points.

I think you said the fixed cost is not a linear trajectory for H2. I think that's the way you phrased it. I'm just trying to sort of figure out what that means in terms of actually what you're trying to tell us for the second half specifically, given the 2027 target is unchanged? Is it kind of a pull forward, what should we be modeling for fixed costs in the back half?

**Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

Great. We'll take one of those in turn. So I'll start with the operating environment in the US. There is some channel shifting going on as you say. There's some channels and retailers that are really winning at the moment and some that are having a harder time. That

doesn't represent a headache for us, because we are already quite successful and have great partnership with some of these winning retailers.

We mentioned some of the sell-out results that we've seen at club and e-commerce. They're very, very strong and we feel we can compete very effectively there. We've had a long-standing relationship with the club channel and several of our brands have actually been built in that channel over the years. So, we feel very comfortable with that.

And e-commerce is also a place that we operate very effectively. Walmart is a very important retailer for us, of course. And we have a great relationship at Walmart and drive the business there effectively too, and we're very much focused on the same thing as they are. So, I think the channel shift does not necessarily represent a problem for us. Obviously, it's easier if retailers are doing well.

And it creates certain trouble if retailers are really having a hard time because then they have to make different operating decisions. And that could create some less even ordering patterns and inventory levels and so forth. But so far, that's not really a factor. I mean it's something that we can manage. I don't expect more destocking to happen.

That was really a phenomenon we saw earlier in the half -- in the first half in the OTC business primarily. And I think some of that had to do with the unique shape of the season, and it created an opportunity maybe for people to come out of the season with less inventory and they could hold it at a lower level for a bit longer. So I'm not seeing anything right now as it pertains to the sell-in and shipments coming for the next season. I'm not seeing anything that concerns me there about inventory levels.

I think I would also say we have a fair amount of empathy with what our retail partners are navigating, right? They are obviously looking to provide good value to a consumer that's broadly speaking, value-seeking. And they're seeing some costs go up and some complexities from tariffs and things like that. They're doing the best they can.

And I think we, as a team, are well aware that this is not exactly a normal operating environment for them. And we get that. So I think we also understand if there's a few bumps in the road for them in the back half that may happen. And we can work with them to navigate that, and we will.

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### **Shannon Eisenhardt *Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director***

Okay. Then on the Fuel for Growth question around how to think about that. I mean, I think I'd start by going back to when we headed the year, we knew we still had 240bps that we wanted to deliver. I talked about that relatively linear. I think, obviously, we're seeing that come in a bit ahead of a relatively linear trajectory. Called out a couple of things that might moderate some of that delivery in the back half around comping insurance as well as just the natural flow of our overhead expenses.

I think what's important to remember as we are delivering a bit faster than planned, is it doesn't necessarily -- and we don't want it to flow through down to profit margin and so our focus is, again, reinvesting Fuel for Growth behind our brands as we deliver those savings and our focus is on delivering sustainable profit margin expansion.

And so as we see those fixed cost savings continue to land and we expect them to, we will focus on balancing between flowing that through to drive sustainable margin expansion and flowing through investments to continue to drive top line performance.

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### **Nicholas Ashworth *Reckitt Benckiser Group PLC - Head of Investor Relations***

If we can move on to Vika, and then we'll get on to Guillaume at UBS, but Vika.

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### **Victoria Petrova *Bank of America - Analyst***

Congratulations on good results. You have delivered quite impressive price of 7.6% in emerging markets, 2.1% for the group in the second quarter, and you report mix together with pricing. Could you give us a rough idea how we should think about the split in the first half in the quarter and going forward? And then my second question is on competitive environment with two aspects to that.

What's your core competitor is doing in North America in terms of promotional activity? Are you feeling additional pressure? Do you see it easing anyhow? And also, even more importantly, in emerging markets, especially in China and India, your two largest emerging markets where you were taking market share from your core competitors, including obviously Unilever's Hindustan in Dettol specifically, which is a big category for you in India.



How should we think about it kind of -- could you help us split the underlying category growth and the outperformance of emerging markets versus your market share dynamics and opportunities?

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**Kris Licht *Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director***

Okay. There's quite a lot to unpack there. So price, volume and mix in emerging markets. Look, I think what you're seeing is a fairly balanced delivery. I think we just talked about the fact that there's a whole range of reasons for that. Obviously, there's always some pricing that we take, especially in markets like this. There's also premiumization that we're driving.

And importantly, our fastest growth is coming in higher margin categories, and all these things help us improve our structural economics. There is the dynamic that Shannon mentioned that the more we sell in some of the fastest-growing online channels, the less trade promo we spend. We spend a bit more marketing, but we spend less on trade to stimulate demand.

And so that has an impact on the price line. Overall, what I would say is we want a balanced algorithm. I mean we're seeing a balanced algorithm, and we want that to continue. But we also are navigating some very competitive marketplaces. So we'll make choices depending on the circumstance we're in, the dynamic we see in a given market. But I think it's reasonable to expect a balanced algorithm going forward.

I think the exciting thing is the amount of volume growth we're seeing. And that's off the back of category creation. That's off the back of new innovation that's landing in the market. And that's the thing I'm really focused on is that volume growth that makes this a really attractive place to do business, and we'll build our business over time.

In terms of competitive pressure, it's a little bit to that. So these are competitive markets they are. When we create new categories, it's less competitive. And that's why in China, we're seeing a lot of traction and we're growing very fast in places where we are the ones creating the category. We also face off against entrenched competitors.

And as you say, we are gaining share, and they are very strong companies too, and they have good brands. So that's a daily fight that probably won't stop. But yes, we're executing at a high level, and we're gaining market share in these markets at the moment. And I'm very pleased with that. And that's what we'll aim to continue doing. India is competitive.

But if you look at Dettol, I think we showed you this in May at the category event. If you look at Dettol over time, I mean, Dettol is a winning brand. Dettol resonates with consumers. Dettol can expand into new categories. Dettol is highly trusted. So, I like the forward trajectory for Dettol. I think we'll do well. And what did I miss? North America? What was the question on North America, I'm sorry.

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**Shannon Eisenhardt *Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director***

Promo levels, competitive.

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**Kris Licht *Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director***

Yes. So I would tell you, if we go back a year, we saw very elevated promo investment and advertising investment from some of our principal competitors. Frankly, at levels that we couldn't quite match. We didn't really want to match either we couldn't quite get there. That's not the case now. What we're seeing now is a pretty normal environment. Our share of voice is broadly where it should be.

We're promo competitive, we're not seeing any, I would say, behaviour that isn't rational. I think it's a fine operating environment for us to compete in at the moment. We'll obviously keep an eye on that, but it's quite a bit better than it was 12-months ago.

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**Nicholas Ashworth *Reckitt Benckiser Group PLC - Head of Investor Relations***

I've got two more on the phone and just keeping one eye on the time. So Guillaume, and then we'll go to Tom. Guillaume, UBS.

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**Guillaume Delmas *UBS AG - Analyst***

Two questions from me. One on gross margin and one on the Mead Johnson. So on the gross margin outlook, I mean, as I look at the back half of the year, you'll have a stronger growth in self-care. That's good for mix. A very nice rebound at Mead, probably also at Essential Home. So that's probably good for operational leverage.

So all-in-all, would it be fair to assume further gross margin expansion in the back half of the year after that 40basis points already reported for the first half? That's my first question. And then similarly on Mead, Q2 seems to have been quite soft with minus 6% like-for-like yet you raised your guidance for the year. So simply wondering what gives you more confidence in Mead performance for this year?

Is it the first half being a bit better than anticipated or are you seeing some early signs of improvement in some key countries?

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### **Shannon Eisenhardt *Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director***

Great. I'll do gross margin, and then Kris will handle Nutrition. So from a gross margin standpoint, again, at the event in May, I think we had a nice chart that showed our gross margins we're at the high end of the sector and have been for many, many years. And so pleased to continue to have gross margins in the low 60s. I think we've talked a lot around the fact that we're not looking to expand our gross margins further.

We think we have a lot of opportunities to make really smart investments around our supply chain resilience investments to ensure we can meet consumer demand in some of our most attractive brands. And so the way I would think about the 40bps expansion in the front half, I would not model further expansion in the back half.

In fact, if you think of tariffs, that's certainly a headwind that based on what we know today, which changes regularly. We do expect there to be some negative implications from tariffs that we'll face in the back half, and we're very committed to mitigating that. But it's certainly, even with those tailwinds that you called out, Guillaume, it doesn't lead me to a place that I would think we should be talking about further gross margin expansion in the back half.

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### **Kris Licht *Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director***

And on Mead, I would say, I mean, we've discussed I think the lapping effect of the tornado. On top of that, we're seeing really good sustained share gains across the business recovering from the tornado. So there's both the lapping effect in Q3, which is very significant. And then there's the share impact, and we're probably doing a little bit better on share than we thought early on.

And then in international markets in nutrition are really recovering and showing share gain and showing good performance ahead of what we expected. And so you put all that together, and we feel pretty good about that guide. And as you model it, I think you'll see, I mean, a really big impact here is that lapping effect. I don't know if everyone has fully modelled in what it looks like, but Q3 is a very big growth number for that reason.

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### **Nicholas Ashworth *Reckitt Benckiser Group PLC - Head of Investor Relations***

Thank you very much. And then I can go to Tom, at Deutsche.

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### **Tom Sykes *Deutsche Bank AG - Analyst***

Just firstly, on the North American margin. I think your H1 revenues are down four-ish percent reported and you're importing a lot of products into North America, but your margin is flat. So just trying to understand the degree of hedging in the North American margin and whether any unwind of that is a headwind either to H2 margin or H1 next year?

Then just on your D&A number, I think in the back, you say D&A is been -- were essentially down a little over the last 12 months, but are you expecting the D&A number to remain relatively sequentially flat now? And then just another one on emerging markets was just -- was China, the front side, I didn't quite understand was China the fastest-growing market in the EM business or were there other parts of the business, nondisclosed ex China, ex India that were growing more quickly than EMs overall, please?

**Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

Do you want to -- which one do you want? Go ahead, pick one.

**Shannon Eisenhardt Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director**

I can do the first two, hedging in G&A. And then if you want to hit emerging market growth?

**Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

That's exactly what I was thinking.

**Shannon Eisenhardt Reckitt Benckiser Group PLC - Chief Financial Officer, Executive Director**

Okay. Perfect. All right. So if I start with hedging and your question around North America, and I think you were getting at whether there's a risk to gross margin delivery, given foreign exchange impacts. I would comment there not in the back half of this year. So obviously, we actively hedge exposures. And at this point, we have roughly broad strokes, sort of 80% of that exposure managed.

So I'm not looking at that as a risk in the back half for North America from a pure hedging standpoint. I do think we currently expect, as I mentioned, to have some negative tariff impacts, which we're working to mitigate across the group. If I move into then D&A, I don't expect to see a significant change in back half D&A versus what you're seeing come through in the front half.

And then I'll let Kris take emerging market growth.

**Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

Yes. So we did see the strongest growth in China and India. That's why we've talked about it. But as I mentioned before, we did see high single-digit and double-digit growth in a number of other markets, I mentioned, Brazil, Colombia, Indonesia and Malaysia. And so it is broader based than just those two markets. But obviously, because those two markets are growing fast and they are large, they do account for the majority of the absolute growth.

**Tom Sykes Deutsche Bank AG - Analyst**

Yes. And that was just the absolute growth. Is China, the fastest percentage growth?

**Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

Yes, China was the fastest growing.

**Nicholas Ashworth Reckitt Benckiser Group PLC - Head of Investor Relations**

And then in the last couple of minutes, let's just see if we can through these ones online. I think we've answered most of them. So the first one is from Jeff Stent at BNP and it's Jeff's question, it's not mine. The Essential Home and deferred and contingent consideration is up to \$1.3 billion. If things do not go to plan, how low could this number go?

**Kris Licht Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director**

I mean it depends on what things not go to plan. I think, -- I mean it's a sliding scale. So if things go extremely far off plan, that could be a very low number, but they would have to go extremely far off plan. We feel good about those contingencies. We think this is

going to be a good investment we think Advent is a good partner, and we think we will generate a nice return on the investment. So that's probably how we would answer that.

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**Nicholas Ashworth *Reckitt Benckiser Group PLC - Head of Investor Relations***

Okay. Jeremy, from HSBC, two questions. I think we've answered both of these, please can you talk about H2 gross margin trends in Core Reckitt, which I think we've done. And then do you have any more detail on stranded costs post Essential Home and how this might affect margins in 2026, which I think we're good on that as well. And so the last one then from David Hayes at Jefferies.

For Core Reckitt growth guide, is the assumption of normalized cold and flu demand how much of getting to the four-plus in the full year, is that? And also from lapping peak destocking by retailers at the end of last year?

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**Kris Licht *Reckitt Benckiser Group PLC - Chief Executive Officer, Executive Director***

So I would say that it is a normal season because that's how we always plan. That's our planning assumption. We also built inventories slightly ahead of that in the event it's a higher season that we're ready. And in terms of the lapping effect, I mean, you will remember that the season was unusual in a couple of different ways, the one we're going to be lapping. It was very slow to get started in Q4.

So it's quite a benign lap in Q4. And then it peaked very quickly into this year, and then it actually tapered off more quickly than it normally does. So it's quite an unusual shape. We didn't feel a lot of destocking impacts in Q4. We felt that more in Q1. So that will be more of a lapping effect, I think, in '26. But that's probably what we can say about that.

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**Nicholas Ashworth *Reckitt Benckiser Group PLC - Head of Investor Relations***

Okay. Perfect. Look, thank you very much for taking the time. Thank you very much, everyone, for the questions and interest. As I said, there are more questions than I'm around all day. The team is around all day. Please do feel free to get in touch, and we look forward to seeing you over the summer. Thank you.

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