Reckitt Full Year 2022 Results

Wednesday, 1st March 2023

Introduction

Richard Joyce

Head of Investor Relations, Reckitt

Welcome

Good morning, everyone, and welcome to Reckitt's Full Year 2022 Results Presentation. Before we start, I would like to just draw your attention to the usual disclaimer in respect to forward-looking statements.

We have five members of our Global Executive Committee presenting to you today, following which they will be happy to take any Q&As that you may have.

So, without any further ado, I would like to introduce our CEO, Nicandro Durante, to kick things off.

Key Messages and 2022 Highlights

Nicandro Durante

CEO, Reckitt

Welcome

Thank you, Richard, and welcome, everyone. Thank you for joining us. Three years ago, we started our journey to rejuvenate sustainable growth at Reckitt. We continue to make strong progress on this journey, and I look forward to sharing this update with you today.

Agenda

Today, I will start by running through some key messages. Jeff, our CFO, will then take you through our results, plus our 2023 targets. Then after a few brief insights from me, our three Global Business Unit presidents will talk to you about highlights from 2022 and our focus for 2023.

For those of you who might not have met yet, we have Volker Kuhn, our President for Hygiene; Kris Licht, our President for Health; and Pat Sly, our President for Nutrition. Once we have wrapped up, we will be delighted to take any questions you may have.

A year of delivery and momentum

A lot has happened over the last 12 months. There have been significant geopolitical events, and we have all faced inflationary conditions, unseen for many years. For Reckitt, specifically, we have also seen unprecedented demand for a number of our products, causing more pressure on our supply chain, normalisation of our disinfection business as we lap tough COVID comps, and of course, the departure of our CEO, Laxman Narasimhan.

I am therefore pleased that 2022 was a year of delivery and momentum for Reckitt. We delivered a year of strong revenue growth and profit delivery and free cash flow. And given the healthy state of our balance sheet, I am delighted that the Board has approved a 5% increase in our total dividend for 2022 with the aim of delivering sustainable dividend growth in future years.

Underpinning this financial delivery were further executional improvements across our supply chain. Whilst we delivered a strong 2022, it is important to reflect on the journey we have taken over the last three years following the announcement of our strategy to rejuvenate sustainable growth at Reckitt.

We have always operated in categories with a significant runway for long-term growth with trusted market-leading brands. An investment has been made to make Reckitt more competitive, more resilient and to strengthen our pipeline in science-backed, consumer-led innovations. As a result, Reckitt has delivered a best-in-class three-year like-for-like revenue CAGR.

But before we proceed any further, I know you are keen to understand more about the progress on the appointment of a longer-term CEO. Listen, this is an important process. It needs to be undertaken with due process and diligence as we find the best person to take this great company on the next stage of its journey. We continue to make good progress and expect to be able to provide some news during the first half of this year.

I will now provide you with a few highlights from 2022. Like-for-like revenue growth in Q4 was 6.2%. For the year, we delivered like-for-like revenue growth of 7.6% and adjusted operating margins of 23.8% or around 23.0% excluding the temporary mix and volume leverage benefit from the competitor supply issue in our US Nutrition business. This was a very stable and resilient performance in the face of very high inflationary pressures.

The revenue and margin delivery, combined with some FX tailwinds, enabled us to deliver adjusted EPS of 341.7p, growth of over 18%. And with a strong cash flow generation and healthy balance sheet, the Directors recommend a 5% increase in our total dividend. This results in a dividend per share of 183.3p for the year.

I will now hand over to Jeff to take you through our financials in more detail and our outlook for 2023.

Financial Review and Outlook

Jeff Carr

CFO, Reckitt

Group summary – continued positive momentum

Thank you, Nicandro. Well, good morning, ladies and gentlemen, and it is a pleasure to see so many of you in person. .

As you can see, total revenue at actual rates grew by 12.5% to £14.5 billion. Like-for-like net revenue grew 7.6% for the year, and this was a year, of course, weighted towards price growth due to the unprecedented input cost inflation. The impact of price and mix for the year was 9.8%, and volumes for the year were down 2.2%.

And as discussed during the course of this year, the negative volume has been largely a consequence of Lysol rebasing from the peak levels of 2021. Like-for-like net revenue growth in the quarter was 6.2% with improving trends in Hygiene, which returned to growth in the quarter, and a strong performance in Health and Nutrition. The price and mix effect at 12% was consistent with quarter three, and Group volumes were down 5.8%, similar to quarter three, but with weaker China Intimate Wellness and stronger comps in Health, which, as Nicandro mentioned, on Intimate Wellness, we expect to improve in 2023.

Versus 2019, the three-year like-for-like net revenue growth was 28%, with volume and price driving this growth, not just price. And as Nicandro stated, we are now a bigger, stronger business and will continue to grow from this expanded base. I am very pleased that adjusted operating profit reached £3.4 billion, up 9.2% versus last year at constant currency with a margin of 23.8%, up 90 basis points versus 2021. And with cost inflation running at 17% for the year, this is really a truly commendable performance.

Group margins – multiple levers offset cost of goods inflation

Now I would like to look at the breakdown of group margins in a little bit more detail. As I have mentioned, cost of goods inflation impacted gross margin, which was down 70 basis points to 57.8%. There are a lot of moving parts here. But in summary, our pricing action, favourable mix, especially due to stronger OTC sales, and our excellent productivity initiatives meant we recovered some 90% of the cost of goods inflation during the course of the year.

And with pricing actions stronger in the second half of the year, this really positions us favourably as we look to 2023.

Brand equity investments were up 5.7% at actual rates and essentially flat at constant currency. And BEI as a percentage of net revenue was down 80 basis points. Now this was due to reduced investment in Russia and the fact we did not increase our BEI spend in proportion to net revenue growth in two key areas: US Nutrition and for our cold and flu products. Elsewhere, BEI was generally in line with 2021 as a percentage of net revenue.

Fixed costs or other costs, as we show here, were up 4.7% at constant exchange rates to £3.2 billion. The leverage impact from the stronger top line growth meant that, as a percentage of net revenue, fixed costs were 80 basis points lower than last year at 22.2%, all of this flowing down to adjusted operating margins of 23.8%.

Now separately, let me just refer to the situation in the US related to the infant formula market. This had a significant impact on top line growth and on our adjusted operating profit margins. Breaking this out, we believe the benefit on like-for-like net revenue growth was approximately 2.5% in the year, and the impact on adjusted operating profit margins in 2022 was approximately 80 basis points.

Hygiene – returning to growth in Q4

Now I would like to go through each of our three Global Business Units in turn, starting with Hygiene. Hygiene net revenue was £6.0 billion for the year, with like-for-like net revenue down 3.1%. And as you are aware, this includes a decline of around 25% in the year for Lysol. The remainder of the portfolio grew 5.1% in the year.

And as you can see from the chart that we are showing here, the sequential improvement in the quarterly year-on-year Lysol performance has resulted in an improvement in Hygiene business unit such that we saw a return to growth in the fourth quarter with 1.3% like-for-like net revenue growth.

Now importantly, Lysol net revenue is around 45% higher in 2022 than 2019. And we expect a stable performance in 2023 versus 2022, eliminating the recent COVID volatility that many of you have commented on. Cost of goods inflation had a more significant impact on Hygiene than our other two business units, consequently, despite pricing and a strong productivity performance; adjusted operating profit at £1.2 billion was down 18% at constant exchange rates, with a margin of 20.4%, down 330 basis points.

Health – strong broad-based growth

So, turning to Health. Again, net revenue was £6.0 billion, coincidentally. Like-for-like growth for the year was 14.7% and 6.7% for the quarter with much stronger comps in the fourth quarter of last year. Volume growth was strong, up 6.5% for the year, with the impact of price and mix of 8.2% for the year, of course, benefiting from favourable sales mix from OTC, which grew over 35% in the year.

Growth was broad-based. Intimate Wellness was up mid-single digits, VMS up high single digits, and Dettol sales were broadly flat in 2022 versus 2021.

With respect to our Biofreeze acquisition, due to increased discount rates resulting from the current macroeconomic conditions and the short-term category slowdown, we have recognised this year an impairment charge of £152 million. However, we remain excited by the growth opportunity with Biofreeze. And after a slow start in the first half of 2022, we have seen sustained growth and market share gains in both H2 of last year and at the beginning of this year, and our growth plans remain in line with our original expectations.

Adjusted operating profit of £1.6 billion was up 24.3% on a constant currency basis, and margins at 27.5% were up 290 basis points, again, reflecting the benefit of the positive OTC mix.

Nutrition – growth across all regions

So, moving on now to Nutrition. Net revenue for the year at £2.5 billion was up 19.4% on a like-for-like basis in the quarter and 22.9% for the year, with the US being up around 40% in the year. Importantly, our developing market business, unaffected by the US market disruption, grew mid-single digits in the year with market share improvements across all key markets.

Excluding the benefit from the competitor supply issues in the US, like-for-like net revenue would have grown by around 5% in the year.

The impact of price and mix was 14.8%, which reflects also a mix benefit from a higher proportion of non-WIC sales in the US compared to WIC sales. Gross pricing actions across all regions for Nutrition in the year was around 8%. And as previously communicated, we did not proceed with planned price increases in the US once we learned of the competitor recall in February 2022.

Adjusted operating profit margin at 23.1% was up 710 basis points, and this reflects our turnaround and improvement in our earnings model in the developing markets, plus the positive leverage benefit from the US Nutrition impact during the year. The impact, as I mentioned, of which was 80 basis points on Group adjusted operating margins.

Productivity - £2bn target delivered a year early

Now very quickly, it would be wrong not to mention our productivity programme, and you have seen the benefit of that truly coming through in our gross margins this year. Our best-in-class programme continues to deliver with efficiencies of £800 million during the year, enabling us to achieve our target of £2 billion of efficiencies by the end of 2022, a year earlier than our original target.

Our productivity muscle remains firmly embedded within the DNA of Reckitt and will continue to drive our earnings model in the future. And in 2023, we expect to deliver efficiencies of over £500 million.

Adjusted EPS – underpinned by growth in operating profit

So let me move on now to EPS. EPS has grown 18.4% from 288.5p to 341.7p, with significant contribution coming from the strong earnings delivery this year. And we also benefit, of course, from a positive foreign exchange rate due to the relative strengthening of the US dollar.

Strong free cash flow generation

I am very proud and very pleased to say the free cash flow improved year-on-year by £773 million to £2.0 billion in the year, primarily, of course, driven by our strong operating performance. Cash conversion was 83%, a significant improvement on the prior year.

Now COVID caused some volatility in our cash flows. But I now feel we have returned to a more normalised position with working capital at a sustainable level of around minus 11% of net revenue, and we are confident of delivering strong future cash flows and high cash conversion in the coming years.

Leverage reduced

Overall, it has been a strong performance across the board in 2022, but I am very pleased that our balance sheet also continues to strengthen with net debt improving from £8.4 billion to just under £8.0 billion, and that is despite a negative £500 million movement due to foreign exchange rate movements, specifically with the US dollar. This improvement in net debt, underpinned by strong free cash flow, has enabled us to deleverage to 2.1 times adjusted EBITDA from 2.6 times.

Capital allocation priorities

So turning to our view on capital allocation. We are maintaining our position in terms of the priorities that we previously communicated, with the exception of dividends.

After a few years of holding the dividend flat, we are now proposing to increase our total dividend by 5% this year with the intention to sustainably grow dividends in future years, subject to any significant internal or external factors. And this reflects the strength of our balance sheet and our confidence in the cash generating potential of our business as we look to the future.

2023 outlook and guidance – continued momentum

So finally, let us turn to the outlook for the year. For net revenue, we target continued momentum with mid-single-digit like-for-like growth for the Group, excluding the impact of the competitive supply issue in our Nutrition business in 2022, which, as I mentioned, was approximately 2.5% on 2022 like-for-like net revenue performance.

Our targets include a return to growth in our disinfection portfolio from the current performance of around 40% larger base versus pre-pandemic levels. We expect Reckitt cost inflation in 2023 to moderate with single-digit increases, and we have the benefit of the heavy lifting on pricing already implemented with significant carryover now into 2023. Therefore, we expect adjusted operating margins to be in line or slightly above 2022 levels when excluding the one-off benefit of circa 80 basis points related to US Nutrition.

Within the guidance, we expect to significantly increase BEI to support our exciting innovation programme. In the medium term, we expect adjusted operating profit to grow ahead of net revenue, and this means we remain on track to achieve mid-20s margins by the mid-20s.

Thank you. And now I am going to hand back to Nicandro.

CEO Overview

Nicandro Durante

CEO, Reckitt

+8.2% LFL net revenue CAGR vs 2019

Thank you, Jeff. I have long admired Reckitt's single-minded focus on categories with a strong runway for long-term growth. It is also the quality of the categories in which we operate, which underpins the high growth margin structure of our business and which is key to a strong earnings model.

Over the last three years, Reckitt has grown at an average of 8.2% on a like-for-like net revenue basis or 7.4%, excluding the benefit from a temporary competitor supplies issue in the US Nutrition business, and this is a best-in-class performance.

A lot of this has to do with being in the right categories. But this performance is also underpinned by innovation, penetration building programmes, taking our brands into adjacent categories and new geographies, growing distribution and gaining market share.

As we look to 2023, we are well-positioned to sustain this momentum from a larger, stronger base.

Transformation to delivery

While we still have much to do, we continue to make progress operationally. Our in-market competitiveness remains strong with around 62% of our core CMUs holding or gaining share during the year, and we increased our share of total distribution points.

We further improved our service to consumers and customers, recognised in both the Advantage survey scores, by Kantar in the United States and through some specific customer awards. We are not yet where we want to be, but I am pleased that the company continues to make progress with such important stakeholders.

2022 was particularly tough for our supply chain team who had to cope with some very strong demand in both our OTC and Nutrition business. They showed great agility by significantly increasing the volume of products we have been able to ship to our customers. And with a full rollout of our Reckitt Production System across our factories, we have been able to increase efficiencies across core sites in 2022 by around 20%.

On digital, whilst we still have more work to do, we have made some very good progress. For example, we have more than doubled the size of our e-commerce platform over the last three years. Our e-commerce business represents 13% of our total net revenue, and we have plans to further increase this percentage in the coming years. And we have also increased by

25% the numbers of consumer first-party data records, which provide us valuable direct connection with our consumers.

Pursuing our sustainability ambitions

And we continue to embed our sustainability ambitions within our business through our brands, in our supply chains, and in communities where we work.

We have continued our sustainable product innovation programme. Our net revenue from more sustainable products was 24.4% for the year. This compared to 24.9% in 2021 with a slight decline coming from a negative mix impact as Nutrition has a lower ratio but has delivered strong growth during the year.

Our carbon reduction programme continues to achieve our 2030 target, achieving a 66% reduction in carbon emissions since 2015.

Our work to enable fairer society begins with our teams, strengthening inclusion throughout our business. Half of all managers at Reckitt are women and a third of all senior leaders. So we have work to do here, but continue to make progress.

Our Fight for Access Fund has invested over £30 million in programmes supporting water and sanitation, maternal and child health, and promoting sexual health and well-being.

Our continued focus on these areas have enabled ongoing ESG performance against key ratings such as MSCI, Sustainalytics, and ongoing FTSE4Good presence.

Engaged owners running the business

Moving on to our people. It is pleasing to see our people leading our cultural values and bringing their true service to work each day. I have been to many markets since I started as CEO, and it has been a delight to see the engagement and the energy of our teams around the world exhibited every day, day in, day out, making Reckitt a great place to work. We are being recognised externally as a top employer in many markets. But what is important to me is our internal pulse surveys, where we ask for and receive direct feedback from employees on working at Reckitt.

And as I said before, we still can do better, but I am pleased to see improvements on many fronts. And ownership remains very central to our culture with almost 50% of employees choosing to be shareholders in Reckitt.

I will now pass you over to Volker, who runs our Hygiene business.

HYGIENE GBU 2022 Review and 2023 Priorities

Volker Kuhn

President Hygiene, Reckitt

Hygiene at a glance – strong portfolio in attractive underpenetrated categories

Thank you, Nicandro. Good morning, everyone. Our GBU ambition is anchored in Reckitt's purpose to relentlessly pursue a cleaner and healthier world with purpose-led superior brands.

We have a strong global presence. We focus on six core categories. They account for about 90% of our revenues and an even bigger part of AOP.

They offer attractive growth opportunities as their global penetration is low, yet growing. And they offer an attractive margin profile. We have a leading position in each category with our well-trusted brands. Over the last three years, we delivered 7.6% net revenue CAGR. We added £1.1 billion in revenues. Our growth is broad-based in all categories and all geographies, and we are earning industry-leading margins.

Hygiene highlights

Now as Nicandro and Jeff mentioned, 2022 was an extraordinarily challenging year. It put the resilience and grit of our teams to test, and they have risen to the challenges, as our people do.

We delivered broad-based mid-single-digit growth across our portfolio, except for Lysol. Growth was driven by a very strong progress in Auto Dish, Fabric Additives and Lavatory Care. Our transformation is bearing fruits. Since 2019, all core categories have delivered mid-single to double-digit revenue CAGRs.

Going into 2022, we anticipated that our Lysol business would shrink given the high COVID-related comps, which impacted our volumes significantly. However, the rest of our portfolio was only down mid-single digits in volumes. As expected, Lysol's trends improved throughout the year. Importantly, POS remained well above pre-pandemic levels, and we exited quarter four with POS in the high 40s above 2019.

The biggest, extraordinary impact was the unprecedented cost inflation that hit us. We partially mitigated this pressure by accelerating our best-in-class productivity programme and by executing several rounds of pricing. This led to a gross margin stabilisation in Q4.

We gained or held share in most of our core categories. And after a dip in Q3 due to pricing-related customer issues in Western Europe, which has now been fully resolved, our shares are improving month-on-month.

All in all, our teams have dealt with the challenges very well. We delivered high single-digit to double-digit growth in all geographies in 2022, except for the heavily Lysol impacted areas of North America and ASEAN.

As explained in the Capital Markets Day in 2021, we are refocusing on our historic strengths:

- One, to grow categories by driving penetration and premiumisation with innovation and by creating new segments;
- Two, to delight our consumers with preferred product and packaging experiences delivered by brands they love and trust; and
- Three, to execute with speed and rigour;
- Four, to fuel growth and deliver shareholder returns with our best-in-class earnings model powered by world-class productivity, very strong innovation, and leading premium brands with pricing power; and
- Five, this is all executed by a capable organisation that is focused on outperforming with grit.

I will explain with some examples how this is working.

Harpic's purpose is to improve toilet sanitation, which aligns with the UN SDG Goal Six. As we grow, especially in developing markets, we are promoting good sanitation practice through education and economic support. Harpic's largest market is India, where we have a 78% market share. For Indian consumers, Harpic is synonymous with toilet hygiene. We have reached 32% household penetration, and we are growing revenues by double-digits. Last year alone, by more than 20%, driven by increased go-to-market coverage, strengthened brand building, and our new premium 10x line.

Another example is Vanish, the number one global stain removal. A perfect example of our win, win, win, win model:

- A win for our consumers, they enjoy better results as Vanish gets the tough jobs done and hence keeps clothes looking like new for longer;
- A win for our customers. They enjoy significantly higher POS and margins per load than detergents alone;
- A win for sustainability. Less clothes go into landfill and consumers can get results at much lower temperatures; and
- A win for us for growing mid to high-single digits.

That is our model, the model we operate with all our brands.

Now as you know, we made important investments and capabilities in all critical areas. Let me give you a flavour on how this is working with just two examples. One, our supply chain resilience program led to a good recovery of our pack fill rate to 96%, a significant advancement versus previous years. We also made very good progress regionalising our supply chain. We are now close to 90% regionally sourced.

Two, thanks to our strengthened go-to-market capabilities, more and more customers are recognising us as a top-tier supplier. Our retail customers highly value our improved sales capabilities, our stronger category growth contribution by our consumer preferred brands, and our better customer service.

Consumer-anchored innovation driving category growth

Now I am going to dive a little bit deeper into how we are growing our three biggest categories that all generate well above £1 billion in retail sales.

Auto dish is our biggest category. We are the global market leader. We delivered double-digit three-year CAGR, and we keep growing at that pace. Now let me explain why.

Five years ago, 100% of our detergent revenue was generated by hard press tabs. Since then, we have introduced different tiers of premium-priced thermoformed tablets. Now we generate almost 60% of our revenues with these new formats.

This year, we are launching our best-performing detergent in Europe with our patented cycle-sync technology. Cycle-sync doses consecutively, delivering better results in a more sustainable way as we use 20% fewer chemicals.

Auto dish has enormous penetration upside. The global dishwashing machine penetration is below 15%. With a growing middle class in developing markets, families are starting to switch from hand washing to using a dishwasher. Right now, in markets like Brazil, China, India, the penetration is less than 2%. So therefore, we are actively partnering with leading dishwashing machine brands to drive consumer conversion to Auto Dish.

Moving to Air care. Air Wick is the global leader in air care devices, and we are creating new segments here, too. A few years ago, we introduced Essential Mist diffusers in the US, by now a $100 million POS segment, and our share is above 90%, and this segment keeps growing.

On the right here, you see two innovations that we are launching as we speak. Our new Vibrant range delivers an improved scent experience using more essential oils and anti-fade technology. The other example is 24/7 Active Fresh. It is our first aerosol-free auto spray, and it delights with a new range of natural fragrances that consumers prefer.

Both innovations are designed to grow the category as they deliver superior consumer delight at a premium pricing per dose.

Lysol – positioned for future growth

Onto the Surface and Disinfection category. We are the market leader with our brands. Now let me zoom into the US, by far Lysol's biggest market. Lysol is an outstanding brand. It is the second most trusted brand by US consumers of all brands in all categories.

As mentioned, and anticipated, 2022 was a very tough year for Lysol, simply due to the high COVID comps. We are now in the last quarter of very tough comps with Omicron in the base period. However, Lysol is much stronger now than pre-pandemic.

Over the last three years, we added 16 million new households to our franchise globally. And we extended our market share by 300 basis points, and we have grown revenues by double-digit CAGR.

During the Capital Markets Day in September 2021, I told you that we gained 5% penetration with our Lysol laundry sanitisers. Since then, we doubled it to 10%. We are now generating around $200 million of POS in the US alone.

We have a strong, category-focused innovation pipeline, and we have much more headroom to grow penetration like on laundry sanitisers.

Hygiene key messages

Now let me sum up why we are excited about the future of our Hygiene business.

- First, we have world-class brands in each of the attractive categories we play in;
- Second, we have a clear and consistent consumer category growth model in place. Our DNA is to create and grow categories through consumer-preferred innovation and growing penetration. And we have an exciting innovation pipeline for the years to come;
- Third, we continue to strengthen our capabilities everywhere. We are not satisfied with our status quo as we always aim to raise the bar. Importantly, we keep improving how we leverage data, technologies, partnerships and our scale; and
- Fourth, we earn industry-leading margins, thanks to the strength of our brands, our category growth focus and our best-in-class productivity programmes.

This is why we are excited about our future and confident about our Hygiene growth outlook.

I will now hand over to Kris, who will talk to you about the great progress on Health.

HEALTH GBU 2022 Review and 2023 Priorities

Kris Licht

President Health & Chief Customer Officer, Reckitt

Health at a glance – strong portfolio of brands in attractive categories

Good morning, everyone. For those of you I have not yet met, I am Kris Licht, I am the President of our Health business and our Chief Customer Officer.

Geographically, our Health business is well-balanced across developed and developing markets. We have a strong presence in developing markets with our Disinfection business, Intimate Wellness brands and a fast-growing smaller VMS and OTC business. In developed markets, we are more weighted to our OTC portfolio. That is all in Europe, and VMS in North America.

From a category perspective, we have a very significant OTC portfolio with Intimate Wellness and Germ Protection making other meaningful contributions. And taken together, these three categories currently make up over 80% of our portfolio.

We have strong, trusted, market-leading brands across the categories we compete in. And I am pleased to say that we have created a business over the last three years, which is £1.4 billion larger than it was in 2019.

Health Highlights

In 2022, we delivered a strong performance of nearly 15% like-for-like growth. It was led by our OTC portfolio, where we both drove strong market share gains across the majority of our brands and benefited from a long, strong cold and flu season.

But I was pleased with our broad-based growth in 2022, with all our Health regions in growth for the year, including those without a large OTC business. Intimate Wellness had a strong year despite weakness in China due to the extended COVID-related lockdowns. Outside of China, Intimate Wellness grew 10%.

And our Germ Protection portfolio had a stable year, as expected, maintaining around 40% higher demand levels than pre-pandemic. Dettol grew net revenues two out of the four quarters of the year, including in Q4.

As Volker said earlier, an important driver of both our growth and category growth is innovation. In China, we identified an opportunity to leverage Dettol's strong position in the laundry sanitiser segment with the laundry pod differentiated with Dettol's strong germ protection.

In one of our fastest ever innovation cycles, we launched these pods in June 2022, following an innovation cycle of just eight months from idea to launch, and quickly achieved a 6% value share within the category.

In OTC, we know that overuse of antibiotics today is a leading concern. Since sore throats are usually caused by viruses and not bacterial infection, antibiotics are, in many cases, ineffective.

US consumers now have a new way to treat sore throats with the launch of Mucinex InstaSoothe. We mentioned this to you last year when we initially launched the product. And I am pleased to say that the combination of Mucinex's strong equity and the numbing powerful relief delivered by InstaSoothe has led to 6% category penetration in the US sore throat category in just 18 months since we launched.

Our strong performance in 2022 and solid plans for 2023 would not be possible without being able to deliver for our customers and our consumers. Our agile and resilient supply chain increased output by 30% on average across our OTC portfolio to help us meet the strong demand for our products.

Another building block was the improvement in our business in the area of sales execution. For example, in India, we started the year with a goal to increase our direct reach to customers by around 50%. In a carefully planned effort, we integrated our sales organisations across Health and Hygiene to create a more unified and larger field force.

We made changes to our distribution network, we upgraded our sales force technology and we undertook extensive training of the sales force. We are now seeing the returns on this investment. As an example, Durex in India is now in 300,000 more stores than it was a year ago, which has been a major contributor to growth of Durex in the year of over 45%.

OTC – positioned to win

Moving to OTC. We have delivered a double-digit CAGR over the last three years and now have a business which is 40% larger than pre-pandemic. With the symptoms of COVID becoming more flu-like over time, the lines are blurring between the two.

This has led to strong category growth over the last three years. And it is too early to call this a rebasing of the category, but it certainly looks to us to be stabilising well above pre-pandemic levels.

But just relying on category growth is not enough. Our OTC team have worked hard to broaden the shoulders of our trusted market-leading brands through innovation, entering adjacent categories and even entering some new geographies, like in Germany, with our adult Nurofen proposition.

For those of you that have followed us for a while, you will know that we entered the pain category here a number of years ago with our product, Nurofen for Children, in order to create the Nurofen equity in the market. We now have a meaningful presence in the German pain segment and a strong adult offering, which is delivering very good growth there in 2022.

Dettol – positioned for future growth

Moving to our Dettol portfolio. At our Capital Markets Day in September 2021, we made the bold assertion that Dettol has stabilised and that we expect it to sustainably grow the business and deliver at around 40% above pre-pandemic levels. I am pleased to say that we have done so. This is a consequence of our drive for greater household penetration, which Dettol led to outperformance in the category by landing differentiated innovation like our

Dettol four-in-one pods in China and Dettol Botanicals, trusted germ protection now with 100% plant-derived actives.

Over the past three years, we have increased household penetration by 10%, grown market share by over 180 bps, and achieved a good balance of growth between price and volume. I am excited about the significant opportunities ahead for Dettol in the future, and we are well-positioned to grow the business in 2023 and beyond.

Health key messages

To summarise, we delivered a year of very strong growth in 2022 and remain well-positioned to grow by mid-single digits in 2023. It would not be easy to comp this strong performance, but we are up for the task.

We will continue to focus on capacity and agility within our supply chain and ensure that we keep delivering for both our customers and consumers.

We will continue to grow distribution for our brands, as we land our strengthened innovation pipeline. And we will continue to strengthen the capabilities and the talent in our organisation.

The Health GBU has a very attractive earnings model, underpinned by strong top line growth, high gross margins from the select categories and segments in which we operate with our market-leading brands. It is these high gross margins, which fund investment to support our innovation pipeline, whilst delivering industry-leading operating margins in our segment. Continuing to drive this great earnings model remains a core priority for me and my team.

And with that, I will hand over to Pat to talk about our excellent Nutrition business.

NUTRITION GBU 2022 Review and 2023 Priorities

Pat Sly

President Nutrition, Reckitt

Nutrition at a glance

Good morning, everyone. For those of you I have not had the chance to meet, my name is Pat Sly. I am the President of the Nutrition business for Reckitt, and I have been working in the industry for over 20 years. I am delighted to be meeting with all of you today.

It has certainly been an interesting year for our business in 2022. And the exciting times we have ahead of us are something that I really look forward to in the future.

Our Nutrition business is a £2.5 billion business based primarily in five markets where we have strong market shares of greater than 20%, established infrastructure, and leading go-to-market capabilities. The United States is the largest market and makes up around half of our global business.

From a portfolio perspective, we have our core Infant Formula & Child portfolio led by our Enfa family of brands, and we are particularly strong in the fastest-growing segment within this portfolio, products that improve digestion. We also have a meaningful presence in the fast-growing specialty segment, comprising mainly of products that address allergies, led by our Nutramigen brand.

The business has delivered an 8.1% compound annual growth rate over the last three years or about 3% excluding the temporary benefit from the US competitor supply issue in 2022, as our developing markets business had been in decline since 2017 until 2022, where we turned these businesses around and which I will talk about in a bit more detail in just a minute.

Nutrition highlights

Let me start with some key highlights in 2022. Firstly, we grew our North American business by around 40% in the year. This has historically been a consistent mid-single-digit growth business, but was impacted significantly by the well-documented competitor supply issue last year.

While the numbers look good, they do not do justice to the incredible work done by the team to quickly react to the national crisis that took place in order to provide significantly more safe, high-quality formula to parents across the country. The work the team did across our supply chain and with all key stakeholders, including the US administration, was exceptional.

Our developing markets team also did a great job in 2022, turning around our business during the year and into growth for the very first time under Reckitt's ownership. And the results speak for themselves with 100% of our core CMUs now holding or gaining share. As a result of this great progress in 2022, I am proud to highlight to you today a summary of some of the key strengths of our Nutrition business as we enter 2023.

In North America, we are now the number one infant formula manufacturer in both the United States as well as Canada. Enfamil is now the number one most trusted brand, both by parents and healthcare professionals. And our allergy brand, Nutramigen, is the number one selling allergy brand in North America.

In the United States, our market share of non-WIC, i.e., the formula which parents choose and pay for themselves, is just under 50%, up from around 38% at the beginning of 2022.

In developing markets, we strengthened our reputation with health care professionals, or HCPs, during the year. Having the trust of HCPs is critical as it is the HCPs who interact with parents and help them make the choice of the right formula for their babies. This improvement in our go-to-market capability is delivering results with market share gains in Mexico and Thailand and a significant turnaround in our Philippines business throughout the year. We have more work to do here, but I am very encouraged by the progress that we are making.

A larger, stronger business

I am aware that the events of 2022 have created a lack of visibility for 2023. So I just wanted to provide you with some high-level data points and our views on how we believe things may play out. Please bear in mind, things are still fluid, and we do not have a crystal ball either.

If we break out our total GBU growth in 2022, our underlying business grew around 5%. This is perhaps lower than what we would have achieved because we delayed some planned pricing increases in North America during the year, as it was not the right thing to do during a national crisis. We saw a circa 18% uplift due to the competitor supply issue. Of this, 9% came from WIC consumers in states where our competitor holds the WIC contract.

Due to the shortage of available formula, the government allowed parents to purchase formula from manufacturers who did not hold the WIC contract in that state. With the product shortage now broadly resolved, as of the end of February, the WIC programme has normalised. So this additional revenue stream to WIC will be zero from March onwards.

And in fact, it has been relatively immaterial in the past months anyways as shelves became more stocked with competitive product. The remaining 9% uplift has come from parents outside of the WIC programme, who increasingly have chosen our brands. And this has increased our market share of the non-WIC formula market from 38% at the beginning of 2022 to almost 50% in December. It is difficult to know exactly how much of this increased share we will retain.

I think it will be relatively sticky in the short term, as parents do not tend to switch brands when they are happy with their baby's formula. However, there is no doubt the market will become more competitive in 2023. But I can assure you that with our leading brands and stronger reputation with health care professionals, including being the number one recommended brand by paediatrician in the US, we will be fighting hard for every new parent who enters the category in 2023 and beyond.

Driving growth through innovation

We also have a strong innovation programme for 2023. Some of our key launches include the following. The enhancement of our Enfa brand range with the continued addition of HMOs or human milk oligosaccharides that help support immunity. With this innovation, Enfa becomes the only product with MFGM, expert-recommended levels of DHA, and HMOs delivering on the benefits that parents want most, better mental development, digestion, and immunity.

We continue to expand our offering for the management of cow's milk allergy with the only hypoallergenic formula with the probiotic LGG, now also tailored to toddlers and available in more markets. And we are beginning to build out our Adult Nutrition portfolio by leveraging the strong Sustagen brand equities with a new Senior range, scientifically designed to meet the nutritional needs of the 50-year plus consumer.

Finally, we will be entering into the fast-growing medical rehydration solution market. This new product provides clinically proven hydration that allows electrolytes to be absorbed faster, thanks to our proprietary blend of amino acids.

Nutrition key messages

So, to summarise, 2022 was a very unusual year, but one where we made significant progress, strengthening our brands in our core markets. The team and I are very focused on continuing this in 2023 and beyond. And with true Reckitt focus, we aim to win in the fast-growing spaces in the market. The strong equity of our brands, our innovation pipeline and our strengthened go-to-market muscle position us very well to win here.

By focusing on these areas, I believe we are in a good place to grow by mid-single digits in 2023, excluding the impact of the competitor supply issue in the United States.

Nicandro, back to you.

Conclusion

Nicandro Durante

CEO, Reckitt

Summary

Thank you, Pat. And in particular, for the outstanding job that you and the team did to help mothers across the US gain access to high quality, safe formula under such difficult circumstances.

Well, we all have heard from Jeff and our three GBU presidents today on our performance in 2022 and our outlook for 2023. But to summarise, we had a very strong performance in 2022, and we are transitioned from transformation to delivery.

We delivered broad-based revenue growth, strong earnings growth, and improved free cash flow, which has enabled us to further delever the balance sheet and increase our dividend. We target further broad-based growth across the business, whilst recognising that we still have to lap the sustainable portion of gains from the competitor supply issue in our US Nutrition business.

Whilst momentum and delivery will continue, we must get better. We are united in our focus to further improve our execution muscle in 2023 and to provide strong support around our exciting pipeline of innovations that we are going to roll out this year.

We remain fully focused on the delivery of our strategy to protect, heal and nurture in the relentless pursuit of a cleaner, healthier world.

Thank you. And we would be more than happy to take your questions now.

Q&A

Iain Simpson (Barclays): A couple of questions for me, if I may. Firstly, I was really intrigued to hear the revenue uplift that you got from combining your Health and Hygiene sales forces in India. Are there other geographies where you could do that and we could expect revenue synergies from unwinding some of that RB 2.0 separation?

And then the second question, just thinking through the headwind from US infant formula unwind in 2023. So it was a 2.5% uplift. It sounds like you expect to hand back all of the WIC, but keep a decent chunk of the non-WIC. So should we be thinking about a smaller headwind to Group than the 2.5%? I know maybe more like 1.5% or 2% this year. And should we also be thinking about a smaller headwind to Group margins than 80bps this year? Because, again, if you are keeping some of the top line, I would expect you to keep some of the margin.

Nicandro Durante: Thank you for the questions. Let me start with the Health and Hygiene separation, the 2.0. We are looking for opportunities whenever we can. So we saw an opportunity in India. We implemented that. We are learning from that. What I can say now is that, yes, we see further opportunities across the world to improve the way that we execute, the way that we reach consumers, the way that we interact with customers. So some of these opportunities are really in our plans and we are looking at that.

I cannot give you much more detail now. But there is a lot of work in progress in order to streamline the operation and be more effective. So some of them, as I said, is already in the plan. Yes.

Jeff Carr: Let me, Iain, address the guidance question. Yes, as I think was clear from Pat's presentation, the full effect last year was 2.5%, of which half of that we gave up straight away. Of the other 1.25%, we would expect to keep an element. Now we are not giving specifics as to what percentage of that we retain because clearly, Abbott will come back into the market very strong and fight very hard to gain back market share. But we will keep an element of that.

And similarly on margin, we are not uncomfortable with consensus on margin, which implies, yes, we will keep an element of that 80 basis points. And I am not really looking for consensus to change when it comes to margins. So there will be an element of that.

Chris Pitcher (Redburn): Following up on the US Nutrition situation. In terms of the profitability of the WIC versus non-WIC that you gained, are those broadly comparable? And then if we look at the US Nutrition business ex the benefit, it looks like the margin was about 18%. All the other divisions called out industry-leading margins. You used to have industry-leading margins in Nutrition. How should we think about the margin rebuild in the core? Is the political environment back where you can take price increases now with the consumer, or is it still too soon?

Nicandro Durante: Listen, I will ask Pat to answer the first question. The second one, in terms of pricing, I think that Pat has mentioned we are moving to a price increase at the beginning of February double-digit. And something that we have negotiated with customers, has been well received so far. We were not able to introduce prices in the US last year after the formula shortage situation. I am letting you know because this is already in the market, it is public knowledge. So pricing has gone through 1st February, which will help us to recover margins as you would expect.

In terms of the first question about WIC, non-WIC, you would like to take it?

Pat Sly: Sure, I can take that. Yes, as you are probably aware, normally, when you have a WIC contract, you pay heavy rebates for that. Last year was unique because the WIC volume we gained with WIC consumers, the 9% that I referred to, we did not have to pay the rebate. So the profitability of WIC was actually similar to non-WIC in what we gained, which is a very unique dynamic and is now normalising, as I said, as of the end of February and would not be material this year. But the profitability on that WIC was similar to non-WIC.

Pilar Rocafort (UBS): So the volumes in Europe, New Zealand, Australia, they have deteriorated in the Q4 at around minus 8%. I think you mentioned that there were some market share losses, but I was wondering if also you suffer from maybe elevated price elasticity. And how should we think about those trends into the first half?

Nicandro Durante: Yes. Your question is specifically on Hygiene, I understand. Yes, Hygiene, quarter four, we had a similar decline in terms of volume that we had in Q3. Let us start from there. And there are some elements that we have to take into account. We had some trade negotiations. We did not have some of our products in the trade for some months. That is one of the reasons for this deterioration. And those things have been resolved.

I expect, going forward in 2023, considering that the price is going to be much more benign, we expect to have much lower pricing going forward 2023. We have single-digit inflation. We have a fantastic carryover going into 2023 because the majority of the price was taken at the beginning of the second half. And also, we have a great pipeline of innovation, mainly Hygiene. I think that is unheard of in the last years. And that is why we mentioned that we have a significant increase in brand investment behind those innovations.

And every time that you come up with innovation, you end up pricing up the innovation, this a good way of achieving price because you are providing something else to consumers. So for those reasons, I expect that volume in 2023 will be slightly better. All those issues that I mentioned about trade negotiations is behind us. So I expect a better trend going for 2023.

Jeremy Fialko (HSBC): Two questions from me. So first one on the OTC market. Perhaps you can just expand on the point you made, obviously, you have had this impact of the cold and flu season. It has been long. It has been quite a strong one. Just how you are thinking about comping that in 2023 in terms of kind of the base there? And whether you might end up seeing some reduced flu incidence, then what your assumptions are in terms of guidance?

And then second question is on retailer inventories. Can you talk about where they are across your business? Whether you saw any kind of destocking in the latter part of 2022, or whether there are actually areas where the retailers are still quite short of stock? And whether you are going to actually end up having a bit of supply chain filling in 2023?

Nicandro Durante: The second question, I will start from that. I do not see any big movement in retailers stocking. In OTC for example, i would be pretty much dependent on the size of the cold and flu season, but we do not see any big movement in retailing. I do not expect significant destocking. So that will be our second answer. The first one, Kris, would you like to take it?

Kris Licht: Sure. Yes, as you said, it has been a very strong season. It was in the Southern Hemisphere, and it now is in the Northern Hemisphere. The shape seems to have been roughly the same, which is an unusually early and sharp spike in flu, which then tapered off. And in most of the markets that we track that data pretty closely where we compete. We are running just above average levels. So the total season is about 13% above three-year average. So it has been strong.

As it relates to the future, as we cited in another part of the presentation, we do not have a crystal ball. But we do see that COVID is becoming endemic. We do see that consumers look to our brands to treat COVID symptoms and COVID-related illness. And so in that regard, we are not expecting any kind of very sharp drop off in demand. But we really do not know what the future season holds, and it is too early to speculate on that.

What I will say is that I am very confident that our team has learned how to operate with unusual volatility. What we have been through in the last three years is anything but normal. And our teams have become much, much better, much more adept at navigating that. So I will say, regardless of the shape of the season, I feel confident that we will be good stewards of the P&L and that we will make good operating decisions to navigate it.

Jeremy Fialko: So just maybe one clarification. Is the guidance for the division effectively predicated on an average season for cold and flu in 2023?

Kris Licht: The concept of an average season is tricky these days. So there was a pre-COVID average. There is a current COVID average. And we have made a reasonably, I think, appropriate and conservative assumption around what we can sell in the coming year.

Nicandro Durante: Supported by a strong innovation pipeline, which gives us the confidence.

Kris Licht: Supported by innovation, supported by distribution gains. I mentioned the new businesses we have built in InstaSoothe and other brands.

Nicandro Durante: I think that you should not underestimate as well the share gains that we have seen in the OTC category, it has been phenomenal. If you look at share in brands like Mucinex, Strepsils, Lemsip. So it is a little bit of a strong flu season, but we expect the brands to continue to grow with that kind of pipeline of innovations that we have. A lot of things are coming next year as well.

Celine Pannuti (JP Morgan): My first question, you are saying that you are coming out of the distortion of the past few years for the first time in 2023. I think we just mentioned OTC. Maybe coming back to disinfectant and Lysol. So you alluded to a tough Q1, which I think we saw in the US Nielsen panel. But I would be quite interested to gauge a bit your visibility on effectively the potential for the disinfectant platform to be growing this year.

My second question on innovation, I think it is probably more in Hygiene, that seems to be more on the premium side, but I think about air care, if I think about the Auto Dishwash, just wanted to see how you see the reception with retailers? But how you see that as well with the current environment and private label discussions? How would we balance that? Is there a risk, it is a bit too late to do this kind of innovation at a premium level?

And maybe just finalising on this. If I think about the reinvestment that we have made for the past three years, we can clearly see you invested well in capex and the supply chain was strong. The innovation is coming, R&D. I wonder if you are satisfied with your white space opportunities from those investments?

Nicandro Durante: Okay. Let me start with Lysol first, disinfection. We mentioned before that we still think that quarter one for Lysol is going to have a strong comparator at the beginning of 2023. 2022 was a strong quarter. But coming out from Q1, we expect to see growth in Lysol, growth in disinfectants as a whole. I think that we have said this several times in the presentation. So that is our view.

If you look at quarter one for Lysol against quarter four, quarter three, you see sequential improvement. So going forward quarter by quarter, you will see further improvement.

Regarding innovation in Hygiene, do not take as granted that all the innovations in Hygiene is going to be a super high price point. We may have innovation at different price points in order to be able to give something for consumers to stick to our brands, to stick to our portfolio. But listen, you have to understand that in majority, our categories are non-elastic. So they do not suffer that much.

If you look at private label, I know that private label has gained some share during the year. But if you look at private label in our portfolio, we have not made any loss. We lost, what, 20 basis points for private label last year in Hygiene. We gained 20 basis points in Health. But you look at Auto Dish, for example, we have 11% price increase during 2022, and the volume was 1% down. It is very non-elastic. You look at, for example, fabric treatment with Vanish, 11% price up, 1% volume up.

Of course, categories like air care, which is more discretionary, you saw 5% price up, 7.5% volume down. So I think that the majority of our categories are non-elastic. That is one thing that I would like to say. But I think that the innovation demonstrates the strength of our portfolio, to be able to keep performing as we are performing.

As Volker highlighted, if you exclude Lysol, which I think that is much less to do with elasticity than high comparators because of COVID, the whole Hygiene portfolio grew. Excluding Lysol, Hygiene pricing was around 9% and volume was down 4%. So it is quite a solid performance.

Let me go back to item three in terms of reinvestments. Yes, we are very satisfied with the level of investment that we have put behind R&D, investments, behind supply chain. And I think that if we had not done that during the last three years, it would have been impossible to manage the business, mainly in terms of supply chain capabilities that we created and things like that.

And the additional investment for next year is down basically because you have a fantastic portfolio innovation. You need to guarantee that you land them well. That is why you have additional BEI. If I did not have those innovations coming to the market, we do not see an additional BEI. So BEI is pretty much related to the innovation pipeline that I have.

Volker Kuhn: Well said, Nicandro. Thank you. So on Lysol, I think just let me add on this. You asked, Celine, the question, obviously, we still go down in quarter one. But if you look at the Nielsen data, you referenced to it, you see actually that the recent week was the first week where POS actually started to stabilise and slightly go up. That is one point. So we see what we expected that, that Lysol will flatten and really start to grow, point one.

Point two, we have really fantastic innovation coming, and we cannot talk about it yet, which will further drive growth. And as I said, when you look at the different sub-segments of Lysol, we are pretty much growing share across the board except for one segment.

And lastly, I mentioned the laundry sanitisers. Our growth continues to grow very nicely, and we have much more headroom and growth also with the innovation that is coming. So therefore, we really are very confident that post quarter one, we return back to growth on Lysol.

On the premium innovation, it is all about consumer value. Actually, when you look at the Dish category, you see that the premium segments are growing faster than the low-tier segments, and that is simply because the results are much better.

Consumers are actively switching everywhere in the world from the low tier to the high tier. So that is why we believe it is actually still good timing. And what we have also seen in previous crisis is that there is normally always two areas that win and one that is losing. The two areas that are winning is the high tier, where you get better value, and on the very low tier or smaller sizes and the mid-tier is the one that is struggling.

So all in all, I don't think it is a timing issue. Actually, I think innovation that brings consumer value is always at a good timing and can always come faster. But that is why we also invest behind it. And the receptiveness of customers was, to your point, is extremely positive, because they believe in our ability to grow the categories, attract consumers, as we have done that in the past. So all in all, that is something that really gives us more confidence in our future as we are accelerating our innovation pipeline.

Tom Sykes (Deutsche Bank): Just on the margin, the underlying margin ex the Nutrition, you said that that is flat to slightly up. If costs come in below where you expect at the moment, will you invest more into BEI? So is that a maximum or is that a best guess as the outcome at the moment?

And then just a couple of follow-ups on what you have already said. Could you just say when you expect Lysol to bevolume flat rather than total growth flat, please, if possible?

And in OTC, was there any reason, or has there been any reason to top up inventories at retailers more than usual at all in Q1? You seem to have maybe had a higher level of sell-in in Q3. Perhaps that was slightly lower in Q4 year-on-year, but there seem to be some shortages. So was there any extra top-up that has occurred in Q1 that is going to help, please?

Nicandro Durante: You take the margin.

Jeff Carr: It is early in the year. So we have given the guidance, the clear guidance of underlying margins, ex the 80bps, to be flat or slightly up. It is very early in the year. We have said we are not uncomfortable with consensus, which assumes we keep a little bit of that 80bps in 2023. And as we go through the year, those are the type of trade-offs that we manage all the time, whether or not to invest more in more top line growth and how we manage that.

So I am not going to start talking about upside or things like that. We have given clear guidance, and we are comfortable with consensus. And as we go through the year, we get to speak to you guys quarterly. If there is any change, then we will come back and we will give you an update at those intervals.

Nicandro Durante: The Lysol question, do you want to take it?

Volker Kuhn: Yes, on Lysol, first of all, even if you compare versus pre-pandemic, we have grown volume nicely in the double-digit area. And we expect clearly our volume trend to improve post quarter one. Quarter one is still comping the Omicron peak that we had and that you can all read will be negative in volumes and then our trends will improve.

Jeff Carr: Yes, I am not going to comment too much on trading in Q1, but I can say that, as I said in the presentation, we shipped a lot more OTC volume than we have historically done. Actually, we had a really big Q4 in 2021 as well, as we talked about. So that was a high comparator, but we did ship more in Q4 of 2022. But demand is high. And I mean, obviously, you have access to the POS data as well, and you can see what is happening in the marketplace.

Alicia Forry (Investec): My question is on the turnaround in the Infant Nutrition business in the emerging markets, which is great to see after so many years. I was wondering if you could talk a little bit more about what has enabled that? And also anything you can say about the profitability of that part of the business?

Nicandro Durante: Okay. You?

Pat Sly: Yes, happy to comment on that. I think one of the big inflection points was where we exited our business in China. We are now left with a much more homogenous business. Although there are important differences between ASEAN and LATAM and North America, how we go to market is much more homogenous, and that has allowed us to really drive focus and strengthen our go-to-market capability, particularly with how we interact with professionals. So that has made a big difference.

The China business was just such a different animal, and frankly, in the last years, was a bit of a management distraction. So now we have been able to really focus on driving our flywheel in these developing markets. I think the other thing that has been important is Nutrition, or at least Infant Nutrition is a bit more of a specialised category. And so we have strengthened our capabilities in terms of understanding that category and understanding the unique dynamics of that flywheel beyond where it was a couple of years ago. I think those are the things that have really made a big difference for us.

Nicandro Durante: There is also a question about profitability

Pat Sly: Yes, it is not that dissimilar to North America. So at an operating margin level, our business in Latin America and ASEAN, the two regions where we are really strong is somewhat similar. Latin America, for example, is almost identical.

Jeff Carr: There was a question about the overall underlying margins of our infant formula business. And what we have said before is we do expect to get back to the low 20s in terms of underlying margin. That is one of the factors in our confidence in terms of the mid-20s for the Group by the mid-20s. So we do see opportunity. It has been obviously a stellar year this year. But underlying, we see opportunities to continue to improve the margins on that business.

Pinar Ergun (Morgan Stanley): The first one is for Jeff. Leverage has fallen to around 2 times. Would you consider launching buybacks in the near future?

The second one is for Volker. Competition in Hygiene categories have intensified in recent years. Can you discuss the drivers of multi-year margin expansion, of course, beyond easing cost pressures? What gives you confidence that your industry-leading margins will not come under pressure from an evolving competitive environment?

And then the final one is for Nicandro. Reckitt has invested significantly behind organic and in inorganic growth opportunities in recent years. But when we look at the earnings progress, that has been quite limited. If you look at this year's EPS, it is only marginally ahead of 2018. And based on your guidance, it looks like 2023 will not substantially change this conclusion. So can you please talk about what kind of actions you are taking to make Reckitt a reliable earnings compounder it once was? And how long this journey might take?

Jeff Carr: Okay, let me start. Look, the strength of the free cash flows significantly improving from last year, which I think is something which I would not say is unique to us, but it is a great indication of the overall strength of the business, means that the net debt-to-EBITDA has come right down to 2.1 times. And clearly, that is starting to enter into the territory where we talk about as looking to have surplus cash. What we have decided this year is to significantly 5% increase in the dividend.

Of course, as we go forward, we are very clear, we are not going to manage a lazy balance sheet. And as we go forward, opportunities for areas like buybacks will come on the table, because we are certainly entering into that territory. But it was not something we thought was appropriate this year. Having held the dividend for some time, we thought that was the right step to take this year. Hygiene?

Volker Kuhn: Yes. So to your question about competition intensifying, our strategy is all about category growth. And as long as we deliver, and we will, better products and packaging solutions for the consumer that get the job done better as well as fuelling the brands with, again, premiumised innovation as well as driving penetration of the category, the whole pie is growing. So our focus is really not on taking share, our focus is on growing the pie. That is what we are successfully doing.

I talked about our Auto Dish category, we are holding share, but we are growing double-digits. That is a nice category to be in. And I like competition on making that category grow. So that is really what we do. You have that across pretty much all of our categories. As I mentioned, our categories are pretty well underpenetrated and have massive upside there, too. So this game can actually work very nicely for us, and that is why we are confident that we get that expansion which we are talking about.

Nicandro Durante: Earnings. I do not see that I need to go back in the last three years to explain what we have done in the company in order to strengthen our position in the market in terms of reinvesting in several areas, areas like supply chain, R&D and some others.

In the case of supply chain, I have to say that we have done that. If we had not, we would not be where we are today, because the level of disruption that we experienced in the business in the last three years has been phenomenal. We have made all the right moves in order to be where we are.

Going forward next year, you know that interest cost is going up a little bit, not just for us, but for the whole world, unfortunately. You see tax rates going up a little bit, but I see no reason going forward, why earnings is not going to be at a nice steady growth. We are planning for that.

If you look at my three, five years plan, we see steady growth in terms of earnings. We are working very hard on that. But listen, everything that has been put in the business in the last three years, if we look at the numbers in 2022 and if you look at what we expect in 2023, it shows that it is working quite well for shareholders and for us as a whole. So I am very happy where we are and expect earnings to represent this going forward.

John Ennis (Goldman Sachs): I have got two follow-ups. The first is on the brand investments. What classifies as significant? Is that greater than 10% year-on-year, should we say, to classify as significant? And then the second is on a comment you made, Jeff, around working capital. You said minus 11% is the sustainable level you would expect. Why is that the right level?

Nicandro Durante: Let me take the first question. Jeff is going to take the second one. When I am saying brand investments, we are going to invest more because of the innovations that we are deploying in the market. I cannot be precise how much it is going to be. Of course, we do not disclose this kind of data, but it is going to be enough for us to land these innovations in the right way, because if you do not land it in the right way, it is just a waste of money and we do not want to do that.

There will be more brand investment. There will be less fixed costs in the company, because we are working very hard in our productivity programmes. We have a very strong productivity programme coming in 2023, and it is going to fund the increase in BEI.

But I am just saying that you want to land those innovations in the right way. Unfortunately, we cannot disclose this exactly what is going to be the size of BEI increase, but most of them will be self-financed.

Jeff Carr: I think on working capital, we have had a pattern. Reckitt has always been best-in-class in terms of working capital. And I could bore you with the history of it. But I think we have always had an incredible track record in delivering working capital. By the time we got to about 2019, our working capital was stable at a certain level, and we did not feel improvements in working capital were really where we were driving. We are at the right level of inventory, payables and such forth.

2020 saw a massive working capital inflow as we went through the pandemic. And we have given that back, if you look at the numbers, around about £800 million, and we have given that back in 2021 and 2022. We now feel we are stable. So you should see roughly a neutral working capital number by the end of 2023. That is what I'm targeting at least, and that is what I would like to deliver. You can judge that at the end of the year, which obviously means, from a free cash flow perspective, it was roughly minus £400 million this year, and that gives us a benefit from a free cash flow perspective next year.

And we think that level of around minus 11% is the right level in terms of having the right levels of inventory, the right level of safety stock, the right service levels into the trade, having the right terms with our suppliers and not extending small suppliers too far. I am happy to extend the large suppliers, but we have a responsibility towards the small suppliers and obviously collecting our cash in a timely manner. So we think that is a good position to be in.

Nicandro Durante: Any other questions in the room? No? Okay, nice. Thank you very much for coming over. It is a great pleasure to see many of you, many of them that I know from my past. Thank you very much for coming.

[END OF TRANSCRIPT]