Reckitt Q3 Trading and Strategic Update Presentation

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Q3 Trading and Strategy Update

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CEO, Reckitt

Good morning and welcome to our third quarter trading and strategy update. I'm Kris Licht and I am delighted to talk to you today as the CEO of Reckitt

A lot has happened over the past 4 years. We have seen significant volatility, many opportunities and challenges both across markets and within our business. Today, Reckitt is at an exciting place. I am going to take you through the highlights of our Q3 trading update, and then my key priorities and expectations for the future of this great company.

Disclaimer
Before we start, I draw your attention to the usual disclaimer in respect of forward-looking statements.

Q3 Trading update
So to start, here are the highlights of our Q3 trading update…

Q3 Health and Hygiene strong growth. Nutrition rebasing
We have delivered a strong third quarter. Group LFL net revenue growth was 3.4%.

Our Hygiene & Health portfolios delivered a very strong 6.7% LFL growth, with improving volume trends in our Hygiene business and continued stable volumes in Health. Growth was broad-based across our key categories, including OTC, disinfection, auto dishwash, intimate wellness and fabric treatment.

Nutrition is rebasing as expected. The good news is that we have maintained market leadership in the US as the supply situation is normalising. Enfamil is the Number 1 trusted brand by US consumers and the Number 1 brand recommended by paediatricians.

We have previously spoken about several innovation platforms which we are launching or expanding this year. Lysol laundry sanitiser continues to grow penetration, Finish Ultimate Plus All in One has launched and is performing well, Mucinex Instasoothe continues to grow well, and Lysol Air is off to a strong start. We will continue to invest behind these innovation platforms.

We remain firmly on track to deliver our full year revenue and margin targets, whilst recognising that we face tough comps in both US Nutrition because of the continued normalisation of supply and in OTC given a record quarter for the cold and flu season last year.

Strategic update
I will now turn to our strategic update.

A strong business
Reckitt today is a strong, competitive and resilient business.

We have an inspiring Purpose and a unique entrepreneurial culture which is fit for the future.

Our brand portfolio is excellent and serves as the foundation for enduring value creation.

We have an opportunity to further sharpen and improve execution and optimise our fixed costs.

And given our strong cashflows and healthy balance sheet we are now in a position to enhance returns to shareholders.

This provides us with all the attributes for Reckitt to return to leading total shareholder returns.

Now let me address each of these in turn.

A strong business… Purpose and culture fit for the future
Let's start with our purpose and culture.

A purpose and culture fit for the future
Our purpose is clear and compelling and remains unchanged.

Our brands and products do good in the world, and enable us to protect, heal and nurture in the pursuit of a cleaner healthier world.

Our distinct culture is purpose driven, entrepreneurial, fast paced, and action oriented. Our people are driven to outperform, and I'm delighted with the passion and energy throughout our business.

At Reckitt we have an ownership culture and our leaders demonstrate a strong sense of accountability.

Over the last 4 years we have placed a greater emphasis on "care" as we focus on serving all stakeholders.

And at the heart of our culture is doing the right thing always.

I am pleased to see our people living these values everyday at Reckitt.

I do believe that our culture is a special asset that we will harness as a source of enduring competitive advantage.

A strong business… Excellent brand portfolio for value creation divider slide
Let's now turn to our categories and our brand portfolio.

We operate in long-term growth categories
We operate in categories with significant and long-term runways for growth. Category creation, household penetration and premiumisation can fuel our growth for decades to come.

Let me give you a few examples:

- The growth of self-care, including OTC is fuelled by heightened consumer interest, increased disposable incomes, and the need to migrate to greater self-care as populations age. In emerging markets OTC is in fact still a nascent category with significant and long-term growth potential.
- Auto-dish is a good example of category creation, household penetration and premiumisation – all of which contribute to an extremely attractive long term growth outlook.
- Intimate Wellness remains a high growth, attractive category fuelled by increasing consumer interest, normalisation and engagement. Significant innovation and product premiumisation give us confidence that this category will also enjoy attractive long-term growth.

- Laundry additives is an excellent example of category creation where we continue to see long-term growth opportunities as more and more consumers discover the benefits of these propositions.

On average we expect the medium-term growth of our categories to be in the region of 3-4% and as market leaders we expect to exceed this.

... With an excellent portfolio of market leading brands
We have an excellent portfolio of market leading brands.

More than 70% of our brands, on a net revenue basis, occupy market leading positions in their respective categories, with a high level of consumer trust and affinity.

Nothing demonstrates the strength of our brands and their ability to stretch and expand better than our 3-year growth rate which has been sector leading. As a result we are a £3bn larger business than 3 years ago on a like-for-like basis.

... And a scaled global footprint
We have a scaled global footprint across developed and emerging markets.

We have seen strong, broad-based growth across both developed and emerging markets and enjoy significant scale benefits in major strategic growth markets such as the US, China and India. These markets alone contribute to 40% of our Group net revenue and around 55% of our total growth over the last three years.

This scale in our manufacturing and go-to-market networks enable us to partner effectively with our customers and continuously grow the distribution of our brands. When coupled with our excellent brand portfolio and strengthened innovation pipeline, this creates the opportunity to rapidly scale and execute consumer preferred propositions throughout the world.

Our three principles of portfolio value creation
Today I would like to share with you the driving logic behind the Reckitt portfolio and how it creates value. I have just reflected on the attractive categories in which we operate and our excellent portfolio of brands.

As we go forward I will consider this portfolio through 3 clear principles which will govern our organic and inorganic capital allocation:

Number 1 – a brand or a business must enjoy a clear long-term runway for growth. Not just for a few years, but a long-term runway.

Number 2 – It must have an attractive earnings model. I primarily look at the strength of the gross margin. It needs to be high and at the high end of the category in which it operates. This enables continuous investment and premiumisation as well as operating margins that are consistent with our group earnings model.

And Number 3 – We must have a source of sustained competitive advantage. It must be a trusted market leading brand, a superior product or technology, or some other source of advantage.

Not all of this is new. Elements of this thinking drove the formation of the core Reckitt portfolio back in time. And as we move forward from here, every brand within our portfolio will need to earn its place by satisfying these principles.

This will also be the lens through which we assess inorganic opportunities.

All of which drives sector leading growth
We have already shown that this portfolio has the capacity to grow faster than our peer set.

Over the past 3 years we have delivered sector leading organic growth, and this gives us the confidence that we can be a mid-single digit growth company going forward.

… And superior gross margins

And we have delivered this growth with superior gross margins, demonstrating the continued strength of our earnings model.

A strong business... Continuously sharpen and improve
I will now turn to areas where I want us to sharpen and improve…

Sharpen and improve

There are 3 priority areas where I believe we can get better.

Firstly, whilst we have superiority in many parts of our brand and product portfolio, we have an opportunity to improve further, particularly in Hygiene.

Secondly, as I mentioned at the half year, we have examples of executional excellence in our markets – some of the best I have seen. But next door to these markets we have mediocrity. To me this is <u>not acceptable</u>. We now have the tools and the people to execute with excellence …everywhere.

And thirdly, we have an opportunity to optimise our fixed cost base whilst maintaining the capabilities that we have built.

Insight driven and science-backed innovation

Today we bring our best tools to bear to delight consumers and grow our categories.

We can only gain superiority when we leverage data driven insights and bring new scientifically grounded innovation to our consumers.

We have invested in both our digital and machine-learning capabilities. We connect consumer contextual, behavioural and demographic data to map <u>where to play</u> and <u>how to win</u>.

Our robust R&D capabilities embed science and superiority into our products backed by the work we do in our science platforms.

Let me share a couple of examples:

… To drive superiority
Durex is the global leader in condoms.

We have leadership and expertise in the key polymer for condoms – latex. We now also have leadership in more recent condom technology – Polyurethane.

We are actively working on the next generation of condom polymers, which I look forward to sharing with you in due course.

Our polymer science platform also enables us to premiumise our auto-dish portfolio. Our latest thermoforming products continue to evolve our portfolio to premium and top tier consumer propositions.

Winning in market

Another priority of mine is that we win in our markets by more consistently executing with excellence.

We now have the tools to win in the market – most of our sales teams have the latest digital technology to optimise revenue growth.

We have improved our service to our customers and are being recognised for this, but this work is never done.

And we have increased our distribution points over the past 3 years.

But we still have more work to do to…..to execute with excellence….everywhere…every day.

Superior GM gives us fuel to win..

Now let's look further down our P&L…

Our industry-leading margins demonstrate our advantaged portfolio. However there is room to be more efficient in our cost base. You can see this when we look at the difference between our gross and operating profit versus peers.

We have an opportunity to extend our productivity programme

To optimise our fixed costs we will extend our productivity programme with a greater focus on this area of our P&L.

Focus areas for fixed cost optimisation

And we will pursue four areas of opportunity…

Firstly we will simplify our organisation and look for scale opportunities wherever they exist. We have already identified concrete opportunities to streamline our organisation and channel investments more effectively.

Secondly, after a period of significant investment in capabilities and centres of excellence across our business we have an opportunity to take stock and right size our investments – without cutting the important muscle and capabilities we have built. For example there is an opportunity to move from dedicated centres of excellence to a more integrated omnichannel approach.

Thirdly, automation and shared services represents a significant opportunity for us as we reduce cost and improve efficiency.

And fourthly – whilst we have been using machine learning in our business for some time, the world of generative AI presents us with entirely new opportunities for effectiveness and efficiency.

I expect these four areas of opportunity to be generate savings in the order of 200bps of net revenue which will enable us to invest for growth and enhance earnings over the coming several years.

The capture of the fixed cost opportunity will be funded from within the P&L. Given this, the net benefits will build over time.

A strong business… Enhance returns to shareholders divider slide

Turning now to how we enhance the returns to shareholders.

Strong cashflow and healthy balance sheet

We generate strong cashflows ….

and we have a healthy balance sheet.

I remain very confident that our free cash generation will remain strong.
Our leverage is around 2.0x net debt to EBITDA.

This now places us in a position to enhance returns to shareholders.

Capital allocation priorities remain

Let me recap our capital allocation priorities:

- Firstly, **we will invest in organic growth:** This remains our top priority and will be funded through our organic earnings model.
- Secondly, we continue to prioritise **strong free cash conversion.**
- Last year we upgraded our dividend policy centred around **Sustainable growth.** This upgraded policy continues.
- We continue to **Target a single A credit rating.**
- We will use our three principles for long-term portfolio value creation that I discussed today to manage the portfolio.
- And finally, as I mentioned earlier, I am delighted to announce that we are commencing a new share buyback programme.

Now increasing cash returns to shareholders

This new share buyback programme will commence imminently.

Over the course of the next 12 months the quantum of the buyback will be £1bn.

We expect this programme to continue in the coming years, consistent with our capital allocation principles.

We have an enduring framework for leading TSR
So to conclude….

Our medium term our ambitions are clear:

- We will continue to deliver sustainable MSD top-line growth with our excellent portfolio of brands.
- We expect to grow adjusted operating profit ahead of revenue growth.
- We maintain our dividend growth policy
- And we are commencing our new share buyback programme – imminently.

Let me leave you with this message - our strong, competitive and resilient business is poised to deliver sustainable profitable growth and leading Total Shareholder Returns.

Thank you for your interest in Reckitt.

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