Reckitt Q1 Trading Update

Wednesday, 28th April 2021

Laxman Narasimhan

Chief Executive Officer, Reckitt Benckiser Group plc

Thank you, operator. Good morning and thank you all for joining our trading update call. There are two messages I have for you today. Firstly, we have had a good start to the year. This has been driven by stronger underlying execution, continued investment in the business and strong demand for our brands. We are encouraged by performance to date, and our 2021 outlook is unchanged.

Secondly, our journey to rejuvenate sustainable growth is firmly on track. We're actively managing our portfolio, which is well placed to benefit in both the short and longer term. We're making focused long-term investments and we have the right team in place to deliver our strategy. As a result, we remain confident in the delivery of our medium-term targets. Jeff will comment in more detail on our trading shortly, but let me first give you some highlights on group performance and some of the consumer demand dynamics we are seeing across the portfolio.

We have delivered like-for-like revenue growth of 4.1% in the quarter, taking our two-year stacked growth to over 17%. This growth is broad-based by brand and by geography and is led, in particular, by US Hygiene. Here, we are seeing continued strong demand for our trusted brands. Across the disinfection space, consumers see the use of our products, with improved hygiene habits, as a way of protecting their health and regaining freedom and normality in their lives. These trends give us confidence in the long-term opportunity for the category. As is to be expected, the underlying drivers of near-term demand for disinfectant products are dynamic as countries around the world are at significantly different stages of the pandemic. In some countries, such as India and Brazil, the situation is deteriorating markedly, while others, such as Australia and China, have seen the virus almost entirely eradicated. This has an implication on the nature of behaviours that consumers exhibit. To be clear though, demand for hygiene does remain at elevated levels compared to pre-pandemic. We are therefore closely tracking shifts in consumer behaviour to understand near-term supply and demand dynamics for our hygiene products, and how these will unfold over the course of the year.

There is also balance to this evolving consumer picture. As you know, the reduction in social activity in response to COVID has, for example, adversely affected parts of our business. For much of last year, we saw lower levels of demand for our sexual wellbeing category, and in the first quarter of this year we've experienced an exceptionally weak cough, cold and flu season. But, looking forward, as cases of COVID fall, social activity picks up and as schools return, we do anticipate the return of other viruses as well, such as common cold and influenza. This, in turn, over time, benefits our cold and flu relief products, and we are similarly seeing trading up improvements for Durex in markets where social restrictions are being eased. As I have said before, our portfolio is constructed to benefit pre- and post-COVID, and the inherent balance in our portfolio leaves us favourably based to perform well in both the short and the longer term.

And against this dynamic consumer backdrop, we are working hard to drive performance. In Hygiene, we continue to improve on-shelf availability for our customers to a bigger and expanded supply chain. And across our disinfection and germ protection portfolio, we are responding to consumer demand with new innovative products like Lysol On the Go and, in our Health business, Dettol Tru Clean, which is our first plant-based disinfectant. We are seeing elevated demand not only within our existing footprint, but as we build out our professional business, our Global Business Solutions business, and also as we continue our geographic expansion.

In Health, against an exceptionally weak cough, cold and flu season, we have been proactive in protecting share, benefitting from innovations such as Mucinex FreeFrom and Strepsils Herbals, as well as the expansion of our Mucinex Nightshift range. And Gaviscon also continues to grow very strongly, as Jeff will detail.

Finally, we are encouraged with the execution in many parts of our Nutrition portfolio. In the US IFCN business, we continue to drive share gains thanks to innovation and strong in-market execution, as well as in our brain-supplement business, Neuriva, who's innovation is grounded in our science platforms.

In China, the market remains challenging due to Hong Kong, but our team is doing a very good job. Our position versus our multinational peers remains strong, and we are taking share online. All in all, a number of moving parts in the quarter, but a good start to the year. As we have said before, you can expect us to be active managers of the portfolio, migrating to its higher growth. The transactions to acquire Biofreeze and to dispose of Scholl are ongoing, and our strategic review of IFC in China is also progressing well.

As you know, sustainability is central to our purpose and strategy and runs through everything that we do. Last month, we formally released our 2030 sustainability roadmap, centred around three pillars of purpose-led brands, a healthier planet and a fairer society. And I would encourage you to review our various publications, which provide insights on our progress and targets. Reflecting the importance we are placing in this area, we are committing over £1 billion of investment over the next ten years, built into our plans. However, we are already making tangible progress on this journey, and I am pleased that we have very recently been notified that our MSCI ESG rating has improved to AA. Having held steady at single-A for a number of years, this is a clear external validation of the work that has been underway at Reckitt. Our Sustainalytics score currently sits at 20.8, and we remain focused on improvements here also. Let's be clear, there is a lot more to do in this area, but this is good progress.

Finally, before I hand over to Jeff, a word on the team. I'm delighted that Filippo Catalano has recently joined the company as our Chief Information and Digitisation Officer. In doing so, he completes our senior management team. I know the team is keen to meet with investors and analysts, and we plan to hold an event in due course for exactly this.

And with that, I will hand over to Jeff to run you through the numbers in more detail. Jeff?

Jeff Carr

Chief Financial Officer, Reckitt Benckiser Group plc

Well, thank you. Thank you, Laxman. As you mentioned, net revenue grew by 4.1% on a like-for-like basis and reported net revenue declined 1.1% to £3.506 billion as a result of a 5.2% foreign exchange headwind, reflecting primarily the weakening of the US dollar and a number of developing market currencies against sterling. Now, it's important to remember that our like-for-like growth builds on a very strong performance in the comparative period, where we had growth of 13.3% due to the significant growth in March 2020 as COVID started to distort the typical purchasing patterns, affecting our categories in different ways.

So, very briefly, I'll look at the three reporting segments. In Hygiene, net revenue grew 28.5% on a like-for-like basis to £1.641 billion. Whilst largely volume-led, revenue also benefitted from a 5.9% price mix movement, mainly due to lower promotional activity in North America compared to the first quarter of 2020. Lysol continued to deliver strong growth in the quarter, benefitting from favourable underlying demand trends and strong sell-in, to greater aisle presence and a degree of retailer restocking, given our ongoing improvements in supply. The brand performance was also driven by GBS and our geographic expansion. Together these contributed to some 400 basis points to Hygiene's growth in the quarter. Other brands continued to perform well, with double-digit growth in Air Wick and Finish, and this was particularly strong in North America as we benefitted from the ongoing stay-at-home dynamics.

Turning to Health, net revenue was down 13% on a like-for-like basis to £1.123 billion, and this reflected volume declines of 14.2% and a small price mix improvement of 1.2%. Within Health, Dettol was stable in the quarter, reflecting the strong comparatives from prior year, particularly in China which was the first market to see an uplift in trading related to COVID. However, overall, revenue remained significantly higher than the level seen pre-COVID.

Our OTC portfolio declined by just under 40% due to the exceptionally weak cough, cold and flu season, which impacted Mucinex, Strepsils and Nurofen. This was partly offset by a very strong performance in Gaviscon, where we continued to take share in a growing market due to the ongoing benefits of recent innovations and supply improvements. Durex was up double digits, driven by more favourable market conditions in China, compared to the first quarter of 2020, and our PU innovation which was launched in October 2020, which continues to support improved market share in China.

Finally, moving on to Nutrition, we saw revenue decline 7.4% on a like-for-like basis to £742 million. The US infant formula business declined in line with the market, as it left the pantry loading of March 2020, but we're pleased with our market share performance. In China, market conditions remain difficult, though we're now beginning to lap the impact of the Hong Kong border closure, which fully came into effect in March of 2020. As Laxman already mentioned, our market share position in Mainland China is robust relative to our multinational peers.

Elsewhere, Latin America saw revenues up mid-single digits, and we're seeing improved trends in our ASEAN market. A common dynamic across the businesses has been the decline in birth rates, which is likely to remain a headwind for the remainder of the year. BMF declined slightly in the quarter as Airborne begins to annualise very strong comparatives last year. The brand was also impacted by the decline in the cough, cold and flu season, given its position as an immune-support brand. Again, it's important to note that, despite this decline, Airborne revenues remain significantly higher than the base year of 2019. Elsewhere, we're very pleased with the performance of Neuriva, our brain-supplement product, which was launched in 2019.

So, let me wrap up with a comment on our outlook. We had an encouraging start to the year. However, it's still early in the year and, as we set out in the full-year results just over two months ago, we expect to deliver like-for-like revenue growth of flat to +2% for 2021. Our guidance for adjusted operating profit margin is unchanged and expected to be between 40 and 90 basis points lower than the 23.6% reported for full-year 2020. We're seeing increasing commodity cost inflation, especially across dairy, palm oil and transportation. However, we're feeling good about our progress in terms of productivity and, where appropriate, we will consider pricing action when required. The reduction in margin will be weighted towards the first half of the year as we annualise the significant step up in investments in the second half of 2020 and as a result of the decline in OTC revenue.

So with that, I'll hand back to Laxman. Thank you.

Q&A

Laxman Narasimhan: Well, thank you all. Thank you, Jeff. I think it's time for questions, and so I'm going to hand this to the operator to guide us through that. Operator?

Guillaume Delmas (UBS): Thank you. Good morning Laxman and Jeff.

Laxman Narasimhan: Good morning.

Guillaume Delmas: Two questions from me. My first question is on your second quarter, because you will benefit from several tailwinds in the quarter from the reversal of last year's revenue adjustment to [inaudible] in OTC and, of course, in Nutrition, both in LATAM and in China. So, appreciate still a lot of uncertainty around disinfection, but at this stage, any additional reason that would prevent you from achieving a sequential acceleration in your like-for-like sales growth in Q2, relative to the 4% posted in Q1?

And then my second question is on commodity and distribution costs. I mean you've reiterated your margin guidance for the year, you're also flagging a more challenging cost pressure environment than anticipated a couple of months ago, so the question here is what are the levers you'll be pulling to mitigate these headwinds? You mentioned pricing, but given that you've invested significantly behind price competitiveness last year, I would assume at this stage a more cautious approach to pricing for 2021. Thank you.

Jeff Carr: Hi Guillaume, let me take those questions. Look, we're not – I'm not going to get into quarter by quarter guidance on revenue. We've been clear that our full-year guidance – which is quite specific and quite narrow, 0% to 2%. We started the year well, with 4.1% in terms of like-for-like, and we're pleased with the way it's going. So, I'm not going to get pulled into specific guidance on Q2. Yeah, of course we saw some areas of our business where the pantry loading from March left us with lower volumes in the second quarter, but we also saw very strong impacts from other brands.

I think on commodity costs, I think we're seeing commodity cost inflation, as you said, higher than we had expected in February. And I think that's in line with most of our peers and also in areas like transportation. We have many levers that we can pull. Clearly, we have an incredibly strong productivity programme; I'm very pleased with the way that that's going. We're very much on track to deliver against the £1.6 billion savings over the three-year period, and clearly that's a very important lever for us. You're right that we are cautious on pricing because, you know, we have just adjusted, and taken a margin adjustment, to adjust some of the outliers on price. And so as we look to take pricing, we will be very cautious and we will only move where it makes sense to move. But those are the levers. Those are key levers that we have to make sure that we can manage our way through the year and deliver against our margin expectations.

Guillaume Delmas: Thank you.

Operator: We're taking our next question from the line of Iain Simpson at Barclays.

Iain Simpson (Barclays): Thank you very much. Good morning everyone. A couple of questions from me, if I may? Firstly, in IFCN, can you give any indication as to what the growth in there might be ex-Greater China, just to give us an idea, as obviously that business is being strategically reviewed?

And then in Dettol, I was interested that you said that Dettol China Q1 2021 was double 2019 so, you know, double the kind of pre-COVID rates. Will you be able to give any indication as to whether you think that that kind of Hygiene stabilising at double pre-COVID rates, as it moves post-COVID for Dettol and Lysol, is kind of the right number to use elsewhere in your business? And then just lastly, if I may, on your financing items. I think you've still got a sort of 3% marginal cost of debt, which looks a little bit high, given that, potentially, going to finish this year on under two turns net debt/EBITDA, versus sort of peak of four, post-Mead, when you did the financing. Is there any scope to refinance any of that debt with – for the foreseeable future? Thank you very much.

Jeff Carr: Let me take the financing question first. We have got a little – you're right, the cost of financing is a little higher than we would normally see. It's primarily at that level on the basis that we may – we haven't fully decided on our plans, but we may take some cost to refinance the significant bond refinancing that's due in 2022 and may take some of that early, so that's one of the reasons that we keep – we've kept that guidance a little higher than it would normally be. And, obviously, as we refinance that, yes, there is an opportunity to bring that cost down.

Let me also take the question on growth in IFCN, and I'll hand over to Laxman on the Hygiene question, in terms of the ongoing levels. Our China IFCN number was in double digits in terms of decline in the quarter, so clearly the ex-China number was significantly better than the 7.4%. But that's in quarter one 2021, where we also saw significant pantry loading in the prior year comparatives, so I wouldn't take that as an ongoing run rate. We saw significant pantry loading, for example, in March 2020 in the US. So all in all, ex-China, as I think we said last year, we were running very much positive in terms of IFCN ex-China last year and, you know, I'd expect that we can continue to run very much positive like-for-likes ex-China. And the margins ex-China are also significantly higher than the total segment levels as well. So very much the focus in the strategic review was on China for those reasons.

Laxman, would you like to comment on the Hygiene?

Laxman Narasimhan: Yeah, sure. On the Hygiene question, let me just talk about Dettol. I think what Jeff was saying was that the demand for Dettol that we're seeing is stable, relative to what we saw last year, which was a more than 50% growth in Dettol. Naturally, what you see there in some of the lead markets is that, if you think about both penetration and frequency – and as the virus, you know, played itself out and as people get vaccinated, there's mobility, there's mask mandates that are released – what you do see is changes in frequency. You also might see, in some ways, a softening of penetration in some of the core products that do exist in that market. The way we have offset that is what we said before, which is we're broadening the shoulders of this brand – of the brands, not just Dettol or even Lysol. In addition to that, we are taking the brand to new places – that will be 70 countries by the end of this year – and new spaces, the Global Business Solutions business in particular. And what we see there, with the demand there, as people become more mobile, as they are looking for cleaner spaces at places of work as well as in transportation, and so demand clearly is showing up in a different way in the sense of hygiene as consumers evolve.

So, going forward, what we're doing is we recognise that the traditional use will in fact get more muted, but we're offsetting that by broadening the brand and by taking it to new places and new spaces, and that's the way we're looking to manage overall hygiene demand as it plays itself out, both, you know, during COVID as well as post-COVID.

Iain Simpson: That's very clear, thank you very much.

Operator: We're taking our next question from the line of Bruno Monteyne at Bernstein.

Bruno Monteyne (Bernstein): Hi, good morning. My first question is around the future of flu season. Obviously, I understand why it's down now, but if I think about the next few years, you'd expect hand hygiene to remain strong, but that would probably mean flu transmission should be down. On top of that, you were trying[?] to talk about regular top-ups for COVID vaccinations, which might sort of impact the flu season as well. So would it be realistic to expect that the flu season will never come back to what it was, simply because of the different behaviours post-COVID? That would be my first question.

The second one is that you mentioned the big reductions in your CO2 emissions as part of your recent plans. Can you just confirm those numbers, the minus 50%? Is that Scope 1 to Scope 3 emissions or only 1 to 2?

And my last question is on the big boost you have from pricing in Lysol when sort of said in the US, there was much less promotional intensity. Would it be fair that you'd expect that promotional intensity to come back in the second half of the year? Or do you think those retail conditions will remain for the rest of the year? Thank you.

Laxman Narasimhan: Thank you. On the flu season, pre-pandemic, the global stats were that 20% of people washed their hands after going to bathroom. The number for the UK is 33% for men and 66% for women.

If you look at what's happened over the course of the pandemic, 86% of consumers are telling us that they were adopting cleaner habits. We also expect that coming out of it – and we're seeing this with consumer work in markets like Australia and Israel and so on – that people expect to retain some of their new habits that they've acquired over the course of the last year, no question that is the case.

But having said that, the headroom that you have in terms of hygiene behaviour adoption is still very large. If you look at the flu season and look at what is it that sort of in some ways really drives it, and what is it that we look at as we look at the flu season, we're looking at school openings, we're looking at social mobility and office openings.

And what we have seen is that many of these rhinoviruses actually do transmit. There isn't a flu vaccine per se; there is a COVID vaccine, and there will probably be, you know, further shots that people can take year-over-year. But as we see greater interaction between people, we will see flus return. Now we're seeing this in some of the more advanced markets already. We're seeing the fact that as things open up, and as mask mandates go and people socialise, we are seeing greater incidence of flu. It's still early for us to share all that data with you, but the reality is we are seeing that.

Now, some of this will play itself out over the course of this year and next year. But there's no question the flus will come back. Colds will come back; it's not like colds will go away. And so I think that what has happened, particularly with social distancing, mask mandates and the kind of behaviours that people had last year, is – what happened was that you didn't see a double peak that a lot of people said would happen, which is you would have both a combination of a COVID peak as well as a cold and flu peak happen at the same time.

So, the hygiene behaviours really mattered. And the point and time where you don't have a vaccine or you don't have antivirals, the only thing you can really put in place are these non-pharmaceutical interventions. And hygiene is a very important part of that.

On your question on the emissions, it's really about Scope 1 and 2, not Scope 3.

Jeff Carr: Was there a third question, Bruno?

Laxman Narasimhan: There was a question on Lysol promo activity.

Jeff Carr: Yeah.

Bruno Monteyne: Yeah.

Laxman Narasimhan: We fully expect that as competitive activity goes up over the course of the year, we will see the return of the appropriate measures to ensure that our propositions are competitive in the marketplace.

Bruno Monteyne: Thank you.

Operator: We're taking our next question from the line of Tom Sykes at Deutsche Bank.

Tom Sykes (Deutsche Bank): Yeah. Morning, everybody. Firstly, just on the restocking aspect within Hygiene, are you able to say just how strong that was, and where would you put inventories at your customers versus where you would expect them to be, i.e., what restocking benefit may help with the drive[?] of cost[?] downwards in – if at all, in Hygiene in Q2?

And then thank you for your comments on Hygiene before. But I wondered if you could maybe dive a little bit deeper into any early learnings in the US that you're seeing as different states open up at different rates and what usage you're seeing there? And maybe is there again a demographic difference? Are you seeing younger customers reduce frequency a bit more often? Is the area of real competition and where gains might be made in sort of older demographics at all, please?

Laxman Narasimhan: So on your question of restocking, you know, I think as we had mentioned earlier, late last year as well as in February, in the case of Lysol in the US, in particular, there was a supply and demand imbalance. We were still working to increase supply, we were still working to improve customer service rates. We were operating with fewer SKUs that we traditionally have across our entire portfolio. And what you've been seeing us do is expanding supply, improving customer service. And we think the demand and supply will converge over the course of the second quarter.

We're also perfectly reflecting what we have in stores through the offer that we have and the sell-out that we get, and so restocking's is clearly underway. And I think that over the course of Q2, we will clearly have the ability for us to ensure that demand and supply are converging, in the case of the US in particular. It's been less of an issue in some of the other markets, but even in those markets, I think, you'll see a very similar dynamic.

On your question about early learning in the US, I think – you know, first of all, I think if you look at our penetration, it's an over US – over half of US households. As states open up differentially, we have seen the interplay in our portfolio play itself out. We're clearly seeing is that – you know, we are clearly seeing that the – clearly seeing that we have the – we have the ability to see a consumer behaviour play itself out, particularly in things like cold and flu. The way you have masks mandates where you have distancing, you obviously see a greater impact on cold and flu than you do in some of the other states where you don't. And so I think that this is going to play itself out over the course of the year.

In terms of consumer segments in particular, I think it's fair to suggest that, you know, there's a greater degree of care and caution with the more older consumers and folks that are truly impacted with COVID than potentially some of the more younger ones, although I think we have seen behaviour shifts also happen with some of the younger consumers who have, you know – enjoyed the franchise.

Tom Sykes: Many thanks.

Operator: We're taking our next question from the line of Pinar Ergun at Morgan Stanley.

Pinar Ergun (Morgan Stanley): Hi. Good morning. Thank you for taking my questions. Laxman, you've just touched on this. But just to be a little bit more clear, in OTC, have you seen any green shoots in demand in countries where you see some reopening? Can you share any examples with us?

In – and then the second one is on Durex and Gaviscon. The growth was very strong at double digits. Could you please elaborate on what you attribute this to? Is it primarily an acceleration of market growth, or do you see your investments from last year starting to bear fruits?

And then one final quick one on the margins. You've made some comments on H1, H2 margin pacing. Would you be able to give us some colour around the different moving parts, please? Thank you.

Laxman Narasimhan: Thank you, Pinar. I'm going to take the first and the second question. And Jeff will take the third one on margin.

On OTC, first of all, OTC is taken in its entirety, but the reality is that what we see in our cough, cold, flu franchise is different than what we're seeing in brands like Gaviscon and some of the local jewels that we have spread across the entire company.

On OTC, it's early days. But if you look at what's been impacted negatively because of the cough, cold, flu season incidents being down so much, is Mucinex gets impacted and a brand like Nurofen for children gets impacted because of the cough and cold.

We also had an issue last year. If you recall that we had an issue where there was misinformation about Ibuprofen that was put online sometime around now, which actually had an impact on Nurofen and in fact had Nurofen sales drop because of supposedly – people said there was a linkage between that and COVID and unfortunately – that was not really proven.

As things have evolved what we're seeing here is Nurofen is sequentially gaining share. And in fact, in Australia, for example, Nurofen is back to the share gains that it had prior to COVID.

If you look at Mucinex, our focus has been on execution. And if you look at our market shares of Mucinex, they are steady. So we've held share through this period.

Now back to your point about incidents and what are we seeing – early days. But if you look at Australia, what you are seeing in Australia is actually growth in this category. Now, the peak of the season doesn't necessarily play itself out in the southern hemisphere until, let's say, late May or early June. So it's a little early for us to actually point to it and say there's shoots, but we are clearly seeing that there. And now the question, of course, is how is that then going to play itself out across the rest of the world? So that's clearly something we are monitoring and watching. So that's on OTC.

On your question of Gaviscon and Durex, in the case of Gaviscon we have a proven model that works well when introduced across different markets. It's a very clear playbook. And once we enter, we know exactly what to do over a period of time to build penetration, to build frequency, the grow share in that business.

And one of the things we realised over the last 18 months is there was a real capacity shortfall on Gaviscon. So one of the investments we have made is actually in capacity for Gaviscon. And what you're seeing with the growth in the business is actually a realisation of the capital that we've allocated to Gaviscon, and the fact we are seeing the growth there is a direct correlation with that and there's more to come.

If you look at Durex and if you go back about 19 months or so, we actually have some major challenges, particularly around thin condoms in China. And it's very – a focused work around ensuring we solve that issue technologically, and then over time with a brand launch and execution in stores.

If you look at our market shares in Durex China, they're back to being a majority. If you look at execution in stores at point of sale, much stronger. If you look at distribution in places like India, where we used to be at 75,000, we're over between 105,000 and 110,000 right now before the lockdown, or as in before some of the recent incidents. But we see the thing playing itself out over the course of the year with greater distribution. So – and it's worth going into the space in sexual wellbeing, just on how we reinterpret those categories. You know, e acquired a small brand called Queen V, late last year, that we expect will find its way into the market later this year.

So, if I look at what's happening in Health, and I look at what's happening overall with OTC and what's happening with Gaviscon and Durex, and particularly your question, what you're seeing is a result of the investments we are making in capacity, the investments in the capability improvements on execution, the much better customer service. And now if you look at our customer service scores, they've significantly improved over the course of the last 15 months.

All that gives me confidence that as things turn, that our business is set up to grow, particularly as we think about next year.

Jeff Carr: Thanks, Laxman. Let me take on the margin question and give a bit more clarity on H1, H2. I think, first of all, Pinar, if we go back to last year, we achieved 23.6% in total, but there was quite a shift in H1, H2 last year. We had 24.5% in the first half of last year and 22.6% in the second half. The first half obviously benefited from high degrees of leverage, and at the same time, if you recall, we had not really started the investment programme in significant spend levels. And then as the investments kicked in, in the second half of the year, we saw that clearly implemented and impacting in the margin. So as we left last year, the run rate of 22.6% is more of a better indication of where we expect the first half of this year to be.

Now, in addition to that, we have an OTC mix challenge, very high margin cough and cold products, which are at significant low levels, somewhat offset by additional leverage from Hygiene. But overall that's a negative mix impact. So we do expect the first half margins to be down significantly on last year, not least because last year we hadn't made the investment that we're now – investments in capability that Laxman mentioned.

And then as we go into the second half of the year, you can do your own math, but we've given guidance that we'll be down 40 basis points to 90 basis points versus last year. So clearly, you'd expect them to see the second half for the year balance that out with a stronger margin.

I hope that gives some clarity. Obviously, on top of that, we've talked about the commodity cost increases and we talked about the levers that we've got to offset that, which includes our productivity programme; and it includes targeted pricing, where we see the opportunity to adjust pricing.

Pinar Ergun: Great. Thank you both very much.

Operator: We're taking our next question from the line of Celine Pannuti at JP Morgan.

Celine Pannuti (JP Morgan): Thank you very much. Good morning, everyone. My first question is on Health. Hello, can you hear me?

Laxman Narasimhan: Yes, we can.

Jeff Carr: Yeah, we can.

Celine Pannuti: Yeah. My first question is on Health. I want – because there were several points made on the flu season and the fact that you're still quite impacted by overall what the flu season does. So, first point is on your innovation and with your new R&D head that came last year, do you think that you have enough capabilities organically to steer your portfolio towards other subcategories, and which would that be?

Second point on the same topic is we've seen an increasing activity from some of your competitors to buy assets in nutrition, vitamins and minerals. And you have seem to have been absent of that. So I just want to understand what is your appetite, and how do you see this category?

And lastly, just to double-check on Nutrition, so you expect ex-China to see a positive growth. Does that encompass the lower birth rates, or even with the low birth rate this year, you're happy with that? And just on this, trying to understand why Mainland China was – it seems quite negative if you say that your market share is competitive. Thank you.

Laxman Narasimhan: Celine, thank you. Let me go to the Health question, which I think is an R&D question. So with our new R&D head, what we have been working on is recasting R&D across seven major technology platforms. OTC is a clear area of focus for us. And there were several things that we're working on, including things that we do as well as in-licensing, that is available to us, and that will essentially form the pipeline for our OTC innovations that we will bring to market over the next several years.

So, I feel good about the progress being made. Not all of it is frankly arrived at the market yet. But I think you should be aware that if I go back to just the Mucinex FreeFrom, which is rated the best new product in the US in one of the surveys done; and the strength of Mucinex Nightshift, which actually did very well as well in the whole IRI basis survey last year – it's one of the top 25 introductions across all of consumer products – I think we feel that we have a pipeline internally that we are investing behind. And that is part of where the investment is going, particularly in R&D, is to ensure that we can organically get enough firepower in the OTC business in order for us to drive that business higher. So clearly, there's work going in that space. And I feel good about that, but it isn't just what we're doing organically. It's also partnerships with suppliers, it's about in-licensing capability that we're building. All of that will help us become much better organically – organic innovators in that space.

On your second question around the number of vitamins, minerals and supplements acquisitions that have been made. Look, we look at all of these. We look at all of these. And at this moment in time, we are pleased with the portfolio we have. As you know, we recently acquired Biofreeze, we're divesting Scholl. We have a business that is going through a strategic review. And I think our focus is on ensuring that we spend the time getting that right. And so it isn't that we haven't looked at any of these. You know, science – you know, a science base is very important for us as we look at many of these fields. And so I think that's the way I would answer your question on the Nutrition front.

On your question on market share, I think the point that Jeff was trying to make there was if you look at market share relative to the full suite of multinational competitors, our share is growing but the share of multinationals cumulatively relative to local players is not. And I think within that, if you look at our e-commerce share, our e-commerce share is strong or growing. So, that's really what he trying to suggest.

And finally, if you look at your question about growth rates ex-China, in the case of Nutrition, recall we have a combination of things going on. We have a specialty business that continues to grow, we have better execution in ASEAN. You know, we've had some challenges in the last few years at ASEAN; the execution is improving. And despite the fact that they were lower birth rate in many of those markets, we feel good about the growth that we're beginning to see there. We also had the planned shutdown of a dryer in Latin America. And so you have that as well, working. And you look at shares in Latin America for us, particularly Mexico, they are growing.

So it's both of it, despite the fact that the overall environment in the infant formula business is challenged by the lower birth rates. There are very specific areas of growth opportunity that we see, and we also see the strength and the performance of our innovations that are coming to market. So, I think that cumulatively put together gives us confidence in the fact that ex-mainland China or ex-Greater China, we would see growth in the infant business going forward.

Jeff Carr: So Laxman, can I just – if you don't mind, can I just add as well? The reason that China numbers are also negative is still largely driven by Hong Kong as well. I mean, clearly the toll border closure kicked in March 2020, and that impacts the numbers in quarter one clearly.

Celine Pannuti: Thanks very much.

Laxman Narasimhan: So we are more exposed.

Jeff Carr: Definitely, thank you. Yeah.

Operator: We're taking our final question from Martin Deboo at Jefferies.

Martin Deboo (Jefferies): Yeah. Morning, gentlemen. Two quick ones to finish this off. Back to the issue of stock level, this time in OTC, where do you think the stock in trade is in OTC, particularly in cold and flu dependent brands like Mucinex and Nurofen, at the end of Q1? You'll sense what's behind my question. Is it in a good place, or is there a danger that sell-in in Q2 could be impaired because the trade's carrying too much stock?

And the final, final one is just very quickly, what are you seeing real-time in Dettol in India? Any positive impact to that from what's going on there?

Laxman Narasimhan: I think, Martin, let me take both questions on. On the first one, when you have a contraction, a category at the level that you have, and it hasn't been abnormal sell-in at all last year, you still go into second quarter with a decent level of inventory in the system. And so we fully need to work that through as we go into the back half of the year. There's no question that is the case.

I think if I get to your second question about Dettol, what you see in Dettol is the situation in India is obviously very difficult, and my heart goes out to all the people in the country and what they're really facing. Q1 was strong overall for the business. And we do see pickup in Q2, given sort of recent weeks of business. But we recognise there's obviously uncertainties over time, lockdowns, etc. might come into India at some point of time, in more markets than do exist. But having said that, the brand is very strong, very highly recognised.

And our focus in India at this point of time is to do three things. Our focus is to use our voice in the various platforms that we have to ensure that India gets the help it needs. Second, we are protecting our employees and their families, encouraging vaccination, providing fully[?], etc. And thirdly, we're using the amount of money that we have, particularly in brand equity investments, in order to reinforce the messaging that will help consumers change their behaviours to break the chain of infection.

And as you know, we've been involved with multiple things in India over the last many, many years. You know, we've in India since 1936 or so. And we have partnerships with various state organisations, various public health organisations, as well as with religious groups. And we're working with all of them to ensure that the messages are well laid out, so that we can break the chain of infection in India which, as you know, is clearly alarming. Yeah.

Martin Deboo: Okay, thank you very much.

Laxman Narasimhan: Thank you, Martin. Just before I wrap up, I want to make one clarification to the question on the environmental targets, because I had taken that to be a 2013 question – 2030 question. But just to give you a quick sense of it, it's 65% absolute for Scope 1 and 2 by 2030 and 50% Scope 3 by 2040, so that's the way to think about it. So it's – you know, Scope 3 clearly is a bit more back-ended. And again, you have all these commitments laid out in the reports that we have online, so hopefully that clarifies it further as well.

So, thank you all for joining us. In summary, we've had a good start for the year with like-for-like revenues up over 17% on a two-year basis. And our journey to rejuvenate sustainable growth is firmly on track. We therefore feel confident in our outlook both for 2021 as well as for the medium term.

Thank you for the time this morning. And Jeff and I look forward to updating you again soon. Take care and stay safe.

Operator: That concludes our conference for today. Thank you for participating.

[END OF TRANSCRIPT]