Haleon FY 2023 Results Q&A

Thursday, 29th February 2024

Introduction

Sonya Ghobrial

Head of Investor Relations, Haleon

Welcome

Good morning, everyone. Thanks very much for joining us for our full year results Q&A. Hopefully, by now, you have had time to look at our presentation as well as the press release and watch the video in the Investors section of our Haleon website. As usual, I am joined by Brian McNamara, our CEO, and Tobias Hestler, CFO.

So with that, we would like to get started with Q&A and hand over to the first question. Thanks.

Q&A

Rashad Kawan (Morgan Stanley): Hey guys. Good morning, and thanks for taking my questions. Congrats on the results. Two for me, please. The first one, in terms of absolute margin developments. You are calling out 3% transactional FX impact, another 3% from M&A, so that is about a £150 million headwind. I think you likely get about £100 million from cost savings to partly offset that, some more from operating leverage. So you have taken some pricing obviously in the back half of last year. Can you just talk about how you expect gross margin to develop over the year? How much of the £100 million in savings you plan on reinvesting, etc.? Just trying to get a sense for the margin evolution over the year?

And then my second question, just on the shape of the P&L for this year. You have given guidance on Q1. But how should we think about the different moving parts over the year in terms of price mix and volume? Again, you are still benefiting from some carryover pricing. So do you expect growth to be priced-led again? Do you plan on taking more pricing? Any colour there is helpful.

Brian McNamara: Okay. Thanks, Rashad. Tobias, I will pass that to you.

Tobias Hestler: Great. So on your margin question, so for 2024. So I think we have given you, as you say, the building blocks with translational FX, 2% and 3% down so that gives you about 20 bps negative. That is largely driven by the Dollar and the Euro. So it's the big currencies, of course, we will update you as we go through the year and our aide-memoire in each quarter how that evolves.

We have given you the M&A building blocks, which is down 1% and 3%. That gives you another about 40 bps of margin that is negative. And then I think, as you said, we said, we are very confident in our guidance. One, we are very confident in the 4% to 6% sales growth guidance, but we are also very confident in being able to grow organic profit ahead of the rate of sales growth.

And just want to put it a little bit into perspective, you see what we delivered in '23. We delivered 60 bps of margin improvement. So operating profit grew nearly 3 points ahead of the rate of sales growth.

And then on your question on how we see that going through the P&L line? So on gross margin, we expect gross margin to grow ahead of the rate of sales growth. You have seen that come through in Q4. So in Q4, gross margin was up 70 bps, given easing of inflationary pressures, the pricing coming through being a little bit of help because we did not have to recall we had in the prior year. But overall, I think the algorithm will start working on that.

And then, as you mentioned, the productivity programme. We said about a third of the £300 million to come through. Again, we feel confident in the £300 million delivery, about a third of that is a drop to help us this year, but it is not going to drop to the bottom line because we are going to use and want to have the flexibility to use that to invest in the business.

And investing in a business for us means, one, systems, tools, processes because, as you know, we are doing this programme because we need to make the business more agile and faster, and we have to reinvest a bit in the business on that. Secondly, investing in R&D, clinical trials. We have seen great results we had last year on VMS trials on Centrum, other things we have done. So investment there.

And then lastly, investing in A&P because we want to grow A&P more than we did in 2023. So all of that with the productivity programme and gross margin going up gives us confidence that we will have operating leverage also in 2024.

And then your second question was on price volume and how to think about that going into the new year?

So let me maybe take a step back. So first of all, we have grown volume for the year, not just last year, also throughout the prior year. So I think this business has been, and we have delivered a very resilient business, and we have been very mindful on how much price we took. So I think, it shows you the resilience of the business. So we believe also next year, we will be able to do both, grow price and grow volume.

Now last year, as we had said, was more price-led. So last year, 85% of the growth came from price. 15% came from volume. In the longer run, we want to be back to about 50-50 between the two. 2024 will be a stepping stone in that direction, but we would not be back to 50-50. So I think that is how I would see that going into 2024.

Guillaume Delmas (UBS): Thank you. Good morning, Tobias, Brian and Sonya. So I have got two questions. The first one is on your Respiratory Health division, which had a very strong finish to the year, quite in sharp contrast to most of your listed competitors. So could you maybe shed some light on this surprisingly strong performance in Q4? And also, I guess, making sure that there were no one-offs or any particular sell-in, sell-out discrepancy that could explain this good Q4.

And then my second question is on your VMS operation because there has been a clear improvement towards the end of the year, led it sounds by Caltrate in China, Centrum and also some stabilisation for Emergen-C. So with additional marketing support put behind this business and also against the backdrop of improved category growth, would it be fair to assume that VMS should return to its medium-term ambition of mid to high single-digit growth as early as in 2024?

Brian McNamara: Thanks Guillaume. I will take those questions. Let me start with Respiratory performance. I think you are right; we did see good growth in Q4 of our Respiratory portfolio, just under 11%, and it was 7.5% in the back half.

Now I think one of the reasons that those results look different than some of our competitors is, it also has to do with our portfolio and geographic footprint. So for example, the US is about 32% of our Respiratory business. Now in the US in the back half, our business was basically flat in Respiratory, but the market was down kind of mid to high single digits.

So 68% of our business is outside the US. And we saw a much higher instances in some other geographies, specifically places like Central Eastern Europe, Japan and Turkey. And we have performed quite well in those environments. As we look, though, the outlook, we are looking for a more normal season. Now, of course, what is normal is always a debatable question. But Tobias shared some slides in the presentation that showed, if you look at the US environment, it is getting back to kind of pre-COVID levels, where we expect this to be a business that fluctuates plus or minus 0.5% to 1% on a very extreme good or high season or a low season.

So overall, I think that is the difference. Nothing particularly in one-offs or discrepancies and inventories or anything like that, that I would highlight.

On VMS, you are right. We continue to see a more normalisation of that category. Tobias, again, shared in the presentation some market share slide. You see that Caltrate and Centrum have done quite well. And frankly, Emergen C has won share.

Now they won share in a declining market, and we are seeing that stabilise as we get towards the end of the year. But we continue to be optimistic on this category. I am not going to give any specific guidance for next year on it. But we think the category overall will get back to more pre-COVID growth levels.

And honestly, this is also an area where I just highlight Centrum, what is happening there, really strong performance on Centrum last year, driven by the clinical study, which now we have three different outputs of that clinical study that show that Centrum Silver increases cognitive function by c.60% among the population of people 60 and older. We are seeing that really drive differentiation in the marketplace. So we are excited about those things where we can really make a difference in VMS.

Tobias Hestler: And maybe let me add one thing, Guillaume, going back to the cold and flu topic. So there is another differentiator for us, in our product portfolio. So we have Theraflu, NeoCitran in some European markets and in Canada, which is a hot drink, and that tends to do better in season where you have more flu-like symptoms. So when you really feel under the weather, when you are in bed, when you have a fever.

And the type of bugs that went around, especially in Europe in Q4 were more of this heavier nature. So I think that helps again, it shows you a bit the strength of our geographic portfolio, but also the strength and the diversity of our product portfolio, which makes this business very resilient.

Iain Simpson (Barclays): A couple of questions from me, if I may. Firstly, just to go through that margin point again to make sure I have understood you correctly. So you have quantified the headwind from portfolio and FX effects. That is 60, 70 basis point headwind. You have got some cost saves, but I assume that it sounds like a lot of those will be reinvested to further drive growth. So effectively, in order to get margins flat for this year, we probably have to assume that organic margin expansion would be, I know, let us call it, 50 bps plus, which I guess is possible, but also might be a bit of a stretch. So perhaps as we think about reported margin this year versus 2023, we should be thinking about it maybe flat to small down. Would that be a fair characterisation just to make sure I have understood you?

And then secondly, just getting on to that capital return, that £500 million buyback, very welcome. Is that something that you will be doing through the year as a kind of everyday buyback programme? Or is that £500 million buyback headroom, something that you will hold in your back pocket to potentially allow you to participate in any future placings?

Tobias Hestler: Sure. Thanks, Iain. On the margin, right? So I think first of all, not going to guide on the reported margin, right? Because there is two pieces in the reported margin. One is the translational FX, that is going to move up and down. So we are going to update you every quarter on what that is going to be. The numbers I have given you are now the Dollar and the Euro, as I said earlier.

M&A is also moving. We might acquire somewhat, you might have another divestment. The closing of the divestment might be two months earlier or two months later. So that is a moving piece. Again, we will update you on that as part of our aide-memoire.

And then I think on the organic profit growth, you should take some comfort from us being able to deliver 10.8% organic profit growth against the organic sales growth of 8%. So that is nearly 3 points ahead of that. And that was in a year, where gross margin was actually down in percent of sales. And we did not have a £100 million plus from a productivity programme come through, So we have more room to reinvest.

But of course, I do not know what is in your model, but I think Q4 should give you a bit of an indication that gross margin growing ahead of the rate of sales growth will help. Yes, we will have some inflation still, but the inflation pressures are lower. We will have less pricing, of course, as well. But I think we are getting back to a more normal. So I think, in my view, overall, this growth algorithm is really working and it is yielding result.

And then, that for me is a great segue to the share buyback, I think, ultimately because that algorithm is working and the strong cash conversion is working and we did a bit of the divestments we announced, that gave us the options to do two things. One, to update our capital allocation priorities, probably a year earlier than what we have committed two years ago. So you have seen in the slide deck the new capital allocation framework. And with that we are able to announce both, an increase in the dividend, also in the commitment that dividend going forward will grow at least in line with earnings, and then secondly announcing a £500 million share buyback.

Now specifically on the share buyback, we said we are going to do it during 2024, and we are going to do it either on the open market or buying it back from GSK or Pfizer, if and when they do a listing. I mean, clearly, doing it in a placing would be preferred because you can get it at a discount. But of course, that is outside of my control because that is a Pfizer and GSK decision, but of course the best value and the highest shareholder value creation you are going to get is if we can go through placings.

But if the placings would not happen, then, of course, we would go and do this and execute this on the open market. So we are ready for both of those things. And we are going to do it during 2024.

So again, in summary, the new capital allocation framework really shows you the value creation we are driving and also I think the optionality we have in that is returning now cash back to shareholders.

And also then do not forget, that is on top of us having reduced debt by over £2 billion within 18 months. And with the dividend we announced, that is £800 million of dividend going back to shareholders plus another £500 million. So you are in the high £3 billion of debt reduction and returning money to shareholders, as a result of that, again, proving the model, in my view, that is really coming through.

Iain Simpson: Very clear on the margin and congratulations for cranking the cash machine. Thanks.

Chris Pitcher (Redburn): A couple of questions for me. So following on from the cash question. Clearly, you have done some divestments. You are under no pressure to do divestments, but you are talking in the statement about active portfolio management. On the acquisition side, there has not been much on that front. Are you now in a position, do you have greater capacity to pursue deals? Was it just an issue of availability and price that was perhaps we have not seen as much on that side of the equation?

And then on India, could we just have a bit more detail on that? I mean, India sales were up high single-digit, but Sensodyne was up double-digit, implying the rest of the portfolio was quite a bit slower. Can you give us a share of how the business now splits between Sensodyne, Centrum, etc., for their launch? And was there any disruption from the transition from Hindustan Unilever that maybe affected some of those brands? I see you are going to ramp up marketing. Clearly, we should expect an acceleration in India. I just wanted to check that was right.

Brian McNamara: Thanks, Chris. Let me take the first question. So on active portfolio management, which we said we want to do and a year ago we said, divesting bolt-on acquisition and expect divestment first, feel good about the two divestments we made, both Lamisil and ChapStick. In both cases, fantastic brands, just not strategic for us and not growth drivers for us. And in both cases, I think we got really good value for those businesses. So value accretive to the shareholders.

And we will continue to look for opportunities to simplify the portfolio and strengthen the portfolio. But we are under no pressure to do that. We only do that if it makes sense, and if it creates value, doing it helps ultimately to create the company we want to create.

We do have capacity to do bolt-on M&A. And if we find something that is attractive and strategically makes sense and brings the value in, we would have the capacity and ability to do that. But I probably would not make any more comments beyond that.

Tobias, do you want to talk, India?

Tobias Hestler: Yes. So look, on India, first of all, I think the shift and the change in the business model, building up our own sales forces and getting out of the distribution deal with Unilever worked very well. Of course, this is a heavy, heavy undertaking and you always have a small wobble here or there, but I think the team has landed that very, very well. As a result, shifting all that over, probably sales growth and sales growth into the distribution channel was a little bit lower in Q4 than what you would normally see. But from a sell-out perspective, the business is doing really, really well and the numbers for the year where I think we are close to double-digit.

So I think overall, they performed well. And also, they started the year with very strong momentum. So overall, I think as we always said, this is a market for us that should grow in the double-digit, in the teens for us. And I think we are also very heavily investing into the market, right? So both in 2023, but also into 2024, we continue to support that market, not just with the investment in the sales forces and in building the machines to do it ourselves, but also in terms of A&P and with launching further brands in the market like taking Centrum into brick and mortars and other things.

So overall, the big switch was done, executed successfully, and I think now really see that as a growth driver for us in the future as well.

David Hayes (Jefferies): Good morning all, I have one follow-up and two questions, if I can. Just to follow up and may appreciate a bit more on the net cost savings versus the gross cost savings. So I am interpreting it as £100 million of gross, none of it falling through to the bottom line this year really. And then looking to next year, £200 million gross. Is there any way you can give us an indication of what the net benefit might be budgeted for in 2025 as you phase in those savings?

And then on the two other questions. A&P spend, I think, down 80 basis points potential sales in 2023. Can you just talk us through the drivers of that? I am assuming there is a bit of Russia suspension of A&P, maybe some agency continued rationalisation post falling out of GSK, but just a bit of dynamics on that 80 basis points, would be helpful.

And then my final one, on the first quarter guidance that you are giving close to 4% OSG. Could you commit to the volumes you think will be positive within that number in the first quarter? Just to push on that as well.

Brian McNamara: Great, thanks David. Listen, I will answer the A&P question and then pass it to Tobias to do your follow-up in the Q1 guidance. So first of all, on A&P, I just want to be very clear that we are absolutely committed to investing in our brands, and we believe investing in A&P is important. Also investing in R&D, and in our case, in the expert side of our business model, which is really important in oral health with dentists, but also with pharmacists with our OTC business.

We do start A&P as a percent of sales in a relatively healthy place at 17.9%. But as you said, this year, we grew A&P 3%. And as the year goes on, we are very active in the way we manage A&P and ensure we get the best returns. So for example, in 2023, our A&P investment will find oral health was very strong, and you have seen that come out in results. And actually, we continue to invest in VMS, and we are able to take share, an example on Emergen C which Tobias showed in the presentation in a declining market, which I think positions us and strengthens us for the future.

On the contrary, in Respiratory, in the US, where we saw lower incidences and some disruption due to some ingredient questions on PE, phenylephrine, we actually pulled back from our A&P spend there, is a conscious choice because we feel like the returns were not there in that level of market.

And so when we look across the portfolio. We are actively managing that and making sure that we are investing for growth and we are investing in the right places, but not investing just to invest. And then as you said, within that, there is efficiencies we are always looking to be more efficient in our non-working A&P, and we see that obviously grow slower than overall A&P.

So there is a number of dynamics in there. But we feel good about the investment. As Tobias said earlier, we expect in 2024 to continue to invest in A&P and drive growth and invest higher than this year.

Tobias Hestler: Good. And so coming back to the productivity question. So look, we are not going to split out what is the productivity programme and how much of that drops to the bottom line. But I mean, let me go back to why we did the productivity programme. We did it because we want to drive agility in the business, to make the business faster, more agile.

And then secondly, we also did it because it gives us the comfort that we can invest into the business in R&D and A&P. And I think, that is where there are slight differences to 2023. We did not have the tailwind from a productivity programme. So going into 2024, we have this tailwind. And that helps us being able to fund the things we want to fund. And actually, that helps us that we will be able to continue to be competitive in still a difficult market environment, where in some places, we have seen volumes declining, and we have to battle for the volume growth that also we are committed to get.

And I think that gives us, the confidence to be in this 4% to 6% range. And secondly, that we can grow operating profit ahead of the rate of sales growth in 2024, even in an environment out there where people might be putting more money back into A&P that they had taken out earlier.

And then just on Q1. So we are not going to split out and give quarterly guidance on price and volume, right? But I think in the backup of my deck, you see a little bit of consideration for sales growth. So look, Oral care, VMS, Digestive health and other pretty clean from a run rate point of view. There is nothing undue in the base.

And then we have to cycle over Pain-relief and Respiratory health. And you see that in the backup, and we mentioned it earlier in the call. And look, if you want to take a little bit of a step back, take comfort from what we delivered in Q4. We did 6.5% sales growth cycling over tough comps with some volume growth as well, right?

And then again, that is the strength of the portfolio geographically and from a product mix point of view that the categories give us.

Bruno Monteyne (Bernstein): Hi, Good morning. My first question is on innovation and R&D. If I read the slides correctly, R&D is down as a percentage of sales. I just wanted to understand, is that linked to the R&D to see switches that are maybe further delayed or maybe off the table? And if you could say anything about the sexual health product license that you gained a little while ago, when will that start impacting organic growth for the business?

My second question is coming back to hyperinflation. I am totally clear how hyperinflation capping will impact the pricing and the organic growth. But my question is on your margin bridges, you talked about operating leverage, let us say, the plus 50, 60 basis points this year and then you have the negative effects. Clearly, a big part of the operating leverage and the FX is Argentina and the like. So will your new approach to hyperinflation also reduce the amount of operating leverage you would have quoted for 2023, and therefore the effect? So will that new approach also impact the way you report those EBIT margin bridges?

Brian McNamara: I will start with the innovation R&D and then pass it on to Tobias. So on innovation and R&D, we believe in investing in that. What you saw coming through in the numbers was a bit of the efficiencies and effectiveness of the things we are driving across the business on some structured things and we exited some TSAs, for instance, with GSK on pharmacovigilance and took that in.

So that is the slight percentage of sales decline that you see. We are very committed to delivering this year. We had 67 new product launches this year. Very proud of some of the innovation that went, and you look at the US market, where we launched Sensodyne Active Pronamel Shield, year two of Sensodyne sensitivity gum, the two biggest innovations in the US toothpaste market.

Things like Emergen C crystals, which is a new form and be able to take Emergen C without water, again off to a really nice start. PanaNatra is in Australia, which is a natural pain relief brand with clinical claims, we think is a new frontier and opportunity we are working our way into. So we feel good about the innovation. We feel like we can do better and always pushing for more there. But we are going to invest where we need to invest in that space.

Your question on the sexual health, we have not given much of an update. We expect to launch that within the next 12 months, and we will update the market as we have more clarity and can give more perspective on that.

Tobias, you want to?

Tobias Hestler: Yes. Just one small build in R&D. There is also a small accounting change we made. There were certain G&A costs that in the old days as we spun out of GSK, we still reported in R&D. We simplified our accounting. So some of it moved into the SG&A line just to be more consistent. So that was also another reason you saw a little bit less on the R&D line, which has shifted over into another line, but that is also now also out of the base going forward.

And then on your hyperinflation question, yes, Bruno, you are absolutely right. I think the Argentina and Turkey because we did not apply hyperinflation accounting in 2023, gave us a bit of a tailwind on both the sales numbers, but also on the operating profit number.

Now of course, there is also transactional losses in that because these markets tend to import. So I think in Turkey, we do not have our own manufacturing. So they have to import mostly from hard currencies production sites.

In Argentina, we have our own production, but they are still raw materials and certain materials that you cannot get in the country that it offsets. But look, in the mix, I am not concerned about the ability to drive operating margin going forward even with applying hyperinflation accounting going forward.

Bruno Monteyne: And anything on the Rx/OTC switches and the innovation. Is any update there?

Brian McNamara: No, no update to speak of. I think as we said, again, two years ago, we said we would expect that in the pipeline, we have two switches that could potentially launched in 2025 and 2026. We since said those have been delayed, based on discussions with the FDA, so really no update on that. And obviously, we have done the deal on sexual health, which is, in a way, an Rx/OTC switch. It is a direct to OTC and we are excited about that opportunity there.

Celine Pannuti (JP Morgan): Thank you and Good morning, everyone. My first question is on the balance sheet or the leverage. So you said you are 3 times. Do you still have a goal of 2.5 times given that you are going to do that, that is the share buyback and you announced the dividend, so actually if you could update us on that?

My second question is on pricing. Can you talk about your ability to price and what regions or quantum of pricing we should be looking forward as additional pricing in 2024, if any?

And then lastly, can you talk about the volume performance in EMEA, LATAM, which was negative as in Q3, while in Q3, there were some, I think one-off issues. So could you shed light on that? Thank you.

Brian McNamara: Thanks, Celine. First, let me just talk the pricing ability thing. I think as we look at next year, we continue to expect to see pricing. We also expect to have volume growth for the full year. And as we have always said, we are very conscious of how we take pricing because we want to continue to see that volume growth, very proud of 2022 and 2023 and what we have been able to deliver.

The pricing environment certainly in mass markets, places like US and across Europe is challenging, but we believe that we still have the ability to take price. And certainly, in pharmacies across Europe, it is much more about the decision we want to make on the pricing we can take and the consumer elasticity because there are really not a retailer in between us and the ability to take pricing as it is mostly independent pharmacy. And our OTC portfolio in Europe pretty much goes 100% through that channel.

And then overall, listen, we feel good about the performance of our business in Europe, Middle East, Africa and Latin America. We did see some volume declines there, as you noted. We have been able to take good price. And the volume decline is really differentiated geographically. So places like Latin America, you would see a bit more volume decline, and it links a little bit to Tobias' point also in the hyperinflation comments in Argentina.

But overall, we feel good about the makeup of the business. And then you have regions like Asia, where we had low inflation, and we continue to see really strong volume growth in that region and expect to continue to see good volume growth. Tobias?

Tobias Hestler: Yes, look, on the leverage question, right, we said our medium-term target is to be around 2.5, right? It does not mean 2.5 sharp, but around, the 2.5 number. We think that with all the analysis we have done, we think this is the right, more medium-term leverage range, taking all the components into account, interest rate and all the other capital allocation priorities. So I think that is why we aligned with the Board to target around 2.5 number over the medium term.

Now I think how we get there? I mean, you should take some confidence from our deleveraging path. We started around 4, so slightly above 4, 18 months ago, and we are down to 3.0 now. And I think the strong cash generation of this business will not change going forward. As we keep executing in the model, if we can do both, we can deleverage. And then also, when you think about the share buyback now, we have the income from the divest that helped to partially fund that. And lastly, also, I mean, if you just look at our cash position, we ended the year with a strong cash position. So ended the year with £1 billion of cash on the balance sheet, no commercial paper outstanding.

And that allows us to pay back the bond, the $700 million bond that is due now in March from cash and also to pay out the dividend. I think, overall, the business is in a very strong place from a cash position. And I think it is delivering exactly on what we have promised to do and even ahead of time on that.

Olivier Nicolai (Goldman Sachs): Hi Good morning, Brian, Tobias and Sonya. I have got two questions, please. First, going back to Oral health. Could you give us a bit more details on the strong growth acceleration you have seen throughout the year? How much of this growth could be explained by the distribution gain that you still got on parodontax and Polident, and if that will continue to be a boost in 2024?

And then just a follow-up, if I may, on the marketing spend, which grew 3% constant currency, but declining as a percentage of sales to 17.9%. Now you mentioned that some of the reduction was in Respiratory but did not prevent you from outperforming your peers. So keen to hear your thoughts there? But also going forward, is 18% roughly a percentage of sales? Is that roughly the correct level that we should think about?

Brian McNamara: Thanks for the questions, Olivier. Let me start on Oral health. So yes, very good about the Oral health performance. As you saw from the presentation, really strong share growth across the three power brands, which is the vast majority of our business and different dynamics across all three.

So Sensodyne continues to see strong growth. Obviously, there was pricing but also volume growth on that business. And I think that growth was really driven by some very good innovations and performance by innovation. So I mentioned Sensodyne Proactive Enamel Repair, year two in many places, the Sensodyne sensitivity gum. So we are really seeing the model, which is the dental detail model, the innovation, the recommendation continues to be very strong and hold up very well in a volatile economic environment.

Also, we just launched in the US and a few other markets, Sensodyne Clinical White in Q1, which is an innovation we are very, very excited about. As you may know, whitening is a big trend in the market. But whitening toothpaste actually are very bad for people with sensitive teeth, and we have a product that actually does both, two shades whiter and 24/7 sensitivity protection. So feel good about that.

parodontax is a bit of us continuing to activate where it has been in market but maybe we have not had the capacity to resource allocate. We are seeing it react very well to brands and also to investment and to the growth.

And then I would say on Denture care. Denture care is a bit of a bounce back from COVID. So what happened during COVID in that population, an older population, less disposable income as social occasions went down, the usage of the category went down. Obviously, we are about half of that category on a global basis. And now we are seeing that come back, but also strong innovation there, too, because our Max grip hold product that went out truly, truly has made a difference for that consumer segment.

But you would not expect to see that level of growth going forward because there is a bit of a base effect. So overall, feel good about that.

On the A&P investment and on Respiratory, again, as I mentioned, and Tobias mentioned a bit on our brands, but the geographic footprint in our Respiratory portfolio is very different than our competitors. So yes, we decided to invest less in certain markets where we were not seeing it and we were still able to deliver.

We believe in investing in A&P, no question about it. I am not going to put a number on what I think the right level is because we do want to be active in the way we manage that and in the way we drive growth and we drive returns of our A&P. But feel good about the choices.

And I think the big data point for me is if you remember, at half year we were at 55% of the business gaining and maintaining share. At full year for all of 2023, we are at 58%. So while we are making those choices, we are continuing to see the competitiveness strengthened. We have always, by the way, are wanting to do more and be more competitive and even see that number go up. But we feel really good about where we ended for the full year and the choices we made.

Tobias Hestler: And maybe just to add two little builds to what Brian said, just on the 58% of the business gaining share, just a reminder, that covers over 90% of our revenue. So this is really our full business, all the brands, all the markets wherever we get market share data, so it is a really holistic measure against the £11 billion of revenue that we have. And I think I just want to point that out a bit. So I think, really strong number overall.

Mikheil Omanadze (BNP Paribas Exane): One question, one follow-up for me, please. Can you please comment on the consumer environment in your categories? Are you observing any down trading at all in your key markets? And in terms of the follow-up, just to make sure I understood correctly, you said that longer term, you are targeting your organic growth to be roughly half and half split between volume and price and that 2024 will be a step in that direction. Does that mean that you expect pricing to still be a higher contributor of growth in 2024? Just to make sure I understood this correctly.

Brian McNamara: Great. Thanks for the question. Let me take the first, and I will pass it to Tobias on the pricing. As far as the consumer environment in key markets, I think we mentioned a bit. It does change geographically a bit on what we see. And as I mentioned before, Asia continues to be quite strong, low inflation in that market and we can see this good volume growth.

If you look at the US environment, it has been a bit tougher environment in the sense that we have seen volume declines in certain categories. But what I would say is it is really a category-by-category story. So as immunity category, as we shared, saw a significant decline because of the explosive growth that happened during COVID.

If you look at Respiratory, in the first half, we saw good growth and then in the back half due to seasonality, we saw that category decline. And on Oral health, we have continued to see real strength in that category going on. As far as down-trading and private label and US would be the largest private label market, we are really not seeing that on a broad basis and across our portfolio.

Actually, overall, in private label in the US, we have gained share. Now it is different category-by-category, smoking cessation, a little different. It is a higher priced product. But I would say, overall, nothing material is happening that is impacting the business overall in that way. Tobias?

Tobias Hestler: Yes, I think you understood this correctly. So there will be more of our growth coming from price than from volume next year. So it is a stepping stone in that direction. In the medium term, we think we are going to be back at the round of 50-50, and in the outlooks the 50-50 was 60-40, 40-60, depending on the year when you launch and how you take price.

But a stepping stone in that direction, but clearly still more skewed to price. But significantly less than it was last year with the 7% and 1% or the 85-15 split between the two years.

Tom Sykes (Deutsche Bank): Thank you and Morning everybody. Firstly, just on China OTC, and I guess, the renewal of the China route JV is due in September. Is there anything you can say on that and whether any terms will change and maybe what phasing of China OTC does to the phasing of Group profitability?

And then just on North American growth. Are you seeing any impact of increased OTC allowances from insurance companies? And do you get a flushing of FSA eligible or accounts for FSA eligible product in Q4, which rather accentuates the seasonality at all of OTC?

Brian McNamara: Great. Let me do this. Let me mention OTC China. I will touch on your US question. I will have Tobias talk about the status of the joint venture. So first of all, in OTC in China, if you remember a year ago, when COVID lockdowns came off, also sales restrictions on our products like Fenbid, which is an ibuprofen pain reliever and Contac cold and flu product.

We saw a significant demand for two reasons. On sales, restrictions were taken off and COVID went through the country and we treat those symptoms. So very proud of the way our China organisation will react from a supply chain demand with increased overnight, and we are able to really react and help meet that demand. And that certainly will be a factor for our China business in Q1 and Q2 as we look forward.

Now that is already incorporated into our Q1 guidance. We said we will be slightly below our full year 4% to 6% guidance. But overall, we feel very good about that market and our business there, and it grew at healthy double digits in 2023.

Our North American growth and the impact of the FSA, really no impact to speak up. We think they are good to have in place, and it is good that people can use those funds in a tax-free way to buy OTC products, but I would say there would be no analysis that we have to say ahead of any material impact on our business.

Tobias, do you want to talk the China joint venture?

Tobias Hestler: Yes. So look, on the China joint venture. So as you can imagine, we are in discussions with our partner. I mean, I have said before, this is a joint venture I think, where both partners need each other. And I think so we are very confident on the continuation of the joint venture, and we would update throughout the year if there is anything that would change in that.

I think this is a joint venture that has done well for us. We are very happy with the performance. Our partner is very happy with the performance. So I think from our perspective, no concerns on that. And if any material change, we would, of course, tell you timely.

And also from a phasing point of view, I think in the back of my deck, you see, I mean, remember Fenbid but not all the Fenbid growth last year is going to disappear again because Fenbid came back from a reduced use because it was blocked for sales before. So we are going to retain some of that upside.

And then, we have seen very strong and continued success on the other categories in China. Caltrate, you have seen that in my deck. I have shared the sell-out numbers that we had on that brand. That is our largest brand in China.

Sensodyne had a weaker half one last year and started to perform very well in the second half of the year, so we go with good momentum into the year. So you have some offsets in other part of the category in China. So it is not just the Fenbid. And as a result, confident that China will be a growth contributor and will be additive to good growth in 2024 as well for the full year.

Sonya Ghobrial: One more question, please

David Hayes (Jefferies): Sorry to come back. Just want to completely clarify on the share buyback, which I may have not quite caught. So the £500 million, you mentioned that may be impacted the way you use that by what GSK and Pfizer do. So just to be clear, you could, for example, do £500 million in the first six months of the year, nothing in the back half if the dynamics are what they choose to do made that attractive? And then I guess if you are maybe to do more divestments in the year, that £500 million could change? This is not something you agreed locked in with the Board. You could be flexible on that and maybe do more in the second half if the balance sheet flexibility was to get more favourable. Is that both fair comments?

Tobias Hestler: First of all, look, I think we have allocated £500 million of capital for share buybacks. We are going to do £500 million. How we do it? We want to do it in the best possible way. And I think preferably if there would be a placing, it would be through that because we get a discount, yes.

Now we are going to do it in 2024. So that is the timing we have set for that. So we have the cash, and we will do that flexibly in the most efficient way for the shareholders. I think you understood that part correctly.

In terms of capital allocation decision. So I mean, look, if we would do exactly, as laid out in my presentation, the new capital allocation framework, right? And I think one thing that does not change is the high cash-generative nature of the business. So if we are in a situation that we have excess cash, like we have now coming through towards the end of the year and plus the divestment, we sit down and go through the three buckets, have we invested properly in the business. Tick, we have done that. Then you move on to either any bolt-on or any M&A opportunities that are commercially compelling and accretive in value.

And then lastly, if none of those exist, then we will look at what to do with the excess cash. So we would look at, does it make sense to pay down more of the debt? Or does it make sense to return it, for example, via shareholders? And we are going to do via buybacks or via dividends. And I think, that is exactly how we came to the decision because share buybacks are at the moment the best way and the most value-accretive way what we can do with that excess cash, and that is why we made a decision to allocate £500 million to share buyback. We would go exactly to that same logic if and when the situation would arise that we have excess cash on our hands.

Brian McNamara: Okay. Great. Thanks, David. Okay. Great. Listen, thanks very much, everyone. I always appreciate your time and the engagement and your questions. It has been another successful year of delivery for Haleon, building on our track record as a stand-alone company.

I feel really confident about the year ahead, and we remain well positioned to deliver our 2024 and our medium-term guidance. So I hope you all have a good rest of the day. And if there are any further questions, as always, feel free to reach out to Sonya and the Investor Relations team. Thanks again.

[END OF TRANSCRIPT]