Haleon HY 2023 Results

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HY 2023 Results

Brian McNamara

CEO, Haleon

Introduction

Hello everyone. Welcome to Haleon's half year results presentation.

Today, I'm proud to report another strong set of results as we continue to build our track record as a standalone company.

Before we go into the detail, I'd like to quickly remind you of our strategy that underpins these results.

Clear approach delivering our growth ambitions

There are four pillars to our strategy. The first is our continued drive for more household penetration; the second is capitalising on new and emerging growth opportunities across both channels and geographies; third - maintaining our strong focus on execution and financial discipline to improve profitability, and finally - acting responsibly, which is at the heart of everything we do.

The work we're doing across these areas, is growing Haleon into an exceptional company, and a real category leader.

So, let's take a look at the headline results we reported today. At the same time, I'll talk you through some examples of how our strategy is working in practice leveraging our world-class portfolio of category-leading brands and driving growth through innovation and through our ability to combine deep human understanding with trusted science.

Half year 2023 results

We delivered very strong organic sales growth in the half, up 10.4% with a higher weighting to price, up 7.5% and, importantly positive volume mix of 2.9%.

We accelerated our organic revenue growth in Q2 over Q1 across all categories except Respiratory, where Q1 is typically a much more important quarter for cold and flu. We increased Q2 revenue by 11% with continued positive volume mix up 3.1% and price up 7.9%, demonstrating continued momentum through the first half.

Organic growth was broad-based across all categories and regions. The exception being VMS, which I will talk about shortly.

Year to date, 55% of the business is gaining or maintaining share with some weakness earlier in the year, although I am pleased in the last three months that momentum has improved.

In fact, we're demonstrating that our brands continue to resonate with our consumers, and you can see that our business hasn't been impacted significantly by moving to private label or downtrading. That consumer loyalty is one of the reasons why I am confident in the resilience of our portfolio.

Our adjusted operating profit was up 8.9% at constant currency and our adjusted operating margin came in at 22.2% in the first half down 40 basis points at constant currency and down

80 bps on a reported basis. Strong positive operating leverage partially offset the adverse impact from the phasing of standalone costs and transactional FX, as we previously highlighted. Tobias will go into more detail on the margin in a minute.

With our strong first half performance we have now increased our full year organic revenue growth guidance to 7-8% with adjusted operating profit growth between 9-11% at constant currency.

I'll now take you quickly through our category performance in the first half bringing to life how our strategy is delivering growth, and demonstrating why I'm confident that Haleon is so well-positioned for the future.

Oral Health

Outperformance: All three Power Brands up strongly and gaining share

So in Oral Health, we delivered 10.8% organic growth in the first half. All three power brands - Sensodyne, Parodontax and Polident/Poligrip - were up strongly, and all gained share.

That solid performance was again supported by a number of successful innovations.

One example of how we leveraged our competitive advantage of deep human understanding and trusted science is with Sensodyne Pronamel Active Enamel Shield. We launched this innovation at the start of the year. And, it's already delivering strong growth in the US. It is built on our Pronamel technology and uses an optimised formula to drive more fluoride into enamel. That way, it improves resistance to future acid attacks. With 9 out of 10 adults at risk of enamel loss due to acidic food, Pronamel Active Enamel Shield addresses a key consumer health need. Increased expert engagement and sampling through dentists led to double digit growth and underpinned our share performance in our Oral Health business.

Category growth was also supported by efforts to increase our growth geographically. A great example is Parodontax in South Africa and India following launches in both markets last year.

VMS

Performance impacted by tough comparatives

Looking at Vitamins, Minerals and Supplements, the overall category was down 0.5% in the first half, however we saw an improvement in Q2, with 2.7% growth.

In the first half, it was up mid-single-digit in EMEA, Latin America and Asia Pacific, but down double-digit in North America.

In North America, the category was impacted by tough comparatives reflecting the increased capacity added in the first half of 2022 as well as changing consumer behaviour post Covid, which impacted the immunity category and our Emergen-C brand.

To give you some perspective, the U.S. is a third of our VMS category. And, Emergen-C is our second largest VMS brand in that market. Last year in the U.S, the immunity category saw a significantly high demand during the Omicron wave of Covid, but consumers are now moving back to more normal patterns of consumption, and that impacted Emergen-C's performance in the half. We expect that will likely continue to impact the balance of the year.

That said, in the U.S. we're continuing to innovate across the VMS portfolio to drive growth. A good example is Emergen-C crystals in the US, which we launched earlier this year. This new crystal innovation combines new technology and a new format for what is a loved and trusted brand. It's a 'no-water-needed' product with a unique consumer experience. While it's still early days, initial feedback has been encouraging.

We are also continuing to leverage our science as a powerful source of differentiation. At full-year, I told you about the science-backed claims on Centrum Silver, our brand which targets older consumers. An initial study took place at the end of 2022, with a further study earlier this year which both demonstrated positive results on the cognitive capabilities of people aged 65 years and older who took this product. We are now leveraging this claim in marketing Centrum Silver on national TV in the US and in Chinese media. That campaign is driving strong double digit growth in this part of the Centrum portfolio in both countries.

OTC: Pain

Performance driven by agility in China, excellent execution and innovation

In the Pain Relief category, we generated organic growth of 12.9% in the first half. Panadol, Fenbid, Advil and Voltaren were the outperformers. Fenbid more than doubled its sales, due to elevated demand in China following the end of Covid lockdowns.

Growth elsewhere was underpinned by a combination of innovation and successful execution. Panadol's growth of high single digit was the result of strong growth in Middle East Africa, Central and Eastern Europe and Australia. We also continued to innovate, and in Australia we launched Panadol PanaNatra – with clinically proven plant-based active ingredients addressing Joint and Muscle Pain. Early results are encouraging, and, that progress will provide a platform for further innovation.

OTC: Respiratory

Performance underpinned by innovation and commercial execution

In Respiratory, we delivered 22% growth. Here, we had very strong growth in our cold and flu brands in the first quarter. Contac also did well in China, due to elevated volumes after the end of Covid lockdowns.

We're also innovating with brands like Theraflu, introducing Theraflu Max Strength, a powerful flu multi-symptom relief innovation, that treats both daytime and night-time symptoms launched in Q3 last year. It continues to deliver good growth and is now 25% of US Theraflu sales.

OTC: Digestive health and other

Broad-based growth across all three sub-categories

Turning now to Digestive Health and other, which was up 7.7% overall. Here, we delivered broad based growth across all categories.

Digestive, which is around 50% of the portfolio saw Tums up double digit and ENO up high single digit. Skin Health was boosted by Fenistil up double digit, and smoking cessation was supported by strong growth in EMEA and Latin America.

We've also been innovating with a combination of products across the range. A good example is Tums + Sleep. In the US about 1 in 3 adults report not getting enough rest or sleep every day with an estimated 50 to 70 million people suffering from chronic or ongoing sleep disorders. Also, 63% of US adults with heartburn say that it has affected their ability to sleep well. Our innovation, with Tums + Sleep is a chewy bite containing melatonin that addresses not just the heartburn but also helps consumers fall asleep.

As you can see, there is real momentum across our business. And, that momentum underpins our exciting potential for future growth.

Strong execution and financial discipline

Since the de-merger, we have successfully operated as a standalone company and we have maintained our focus on driving efficiency. But, at the same time, we have also made sure that we are making the investments required to increase our agility and deliver stronger returns.

A good example here was our supply chain agility in China. We were able to react to the strong demand for Fenbid and Contac, following the end of lockdowns by doubling the manufacturing output for Fenbid and Contac at our plant in Tianjin, China.

We are also proactively working to de-risk the supply chain by focusing on dual sourcing - increasing supply resilience and protecting revenue. We now have approximately 80% of our key supplier spend dual sourced with a clear plan in place to increase that proportion.

At the end of last year, we also initiated a new complexity reduction program in areas including SKUs and materials to unlock more capacity, increase agility and reduce costs.

In March, we announced an agility and productivity programme targeting around £300 million of gross annualised cost savings over a three-year period. These changes will accelerate our speed to market and optimise our existing processes and structures. We're now in the process of implementing our plans. Given the sensitivities around the program, there is not much else, I can share today, but we will come back to this in the future.

In marketing, we continue to focus on driving our A&P investment to work harder. We increased A&P by 4% at constant currency, with consumer facing A&P up 8%, excluding Russia. And, that clearly reinforces our commitment to invest in the business for long term growth.

Across our commercial business, we continue to increase engagement with Health Care professionals. This is an area where we have real competitive advantage, which directly supports our ability to drive growth through brand recommendations.

An example here is the Haleon HealthPartner Portal – an online hub for Health Care professionals. Launched in 2019 in Great Britain, it's now been scaled globally in 50 markets. During the first half, we've been able to scale more engagements through this platform and we know from our analytics, that this helps secure more recommendations. A recent study in the US showed that experts who have engaged on the portal recommend our toothpastes about 30% more than those who haven't.

And finally – as we indicated at Full Year, we are proactively managing our portfolio.

You can see what I mean with the disposal of our rights to Lamisil topical which we've announced today, with total cash to be realised of around £250 million. Lamisil is a good brand but not an area of focus for us and the disposal allows us to reallocate resources to other more important drivers of Haleon's future growth.

We also recently entered into a licencing agreement with Futura Medical – a pharmaceutical company which develops proprietary technology focused on sexual health. We agreed to exclusively commercialise their innovative topical erectile dysfunction treatment in the US. This is an excellent addition to our portfolio in what is an attractive category for Haleon.

Running a responsible business

Integral to strategy

Taking a step back from our financial performance, I'd like to spend a minute talking about running our business responsibly and how that's key to our strategy.

At Haleon, we are on the path to making everyday health more inclusive and accessible. We have a unique opportunity to create solutions to the social and environmental challenges that hold people back from improving their everyday health.

We're continuing to progress against the environmental targets we've set.

Looking at carbon, we're making good progress on reducing our 'Scope 3' emissions, and we're also working with our suppliers to accelerate their transition to renewable electricity. And, we have recently held our first Haleon Supplier Sustainability Summit. There, we took over 200 of our key suppliers through our sustainability goals and ambitions, and we set clear expectations for their own sustainability journey.

And we are on track for all product packaging to be recycle-ready by 2025 where safety, quality and regulations permit. We are continuing to roll-out our recycle-ready toothpaste tubes globally and by the end of this year we project that we'll have launched around 1 billion tubes in market since our roll out began in 2021 two years ahead of our plan to reach this milestone in 2025.

We're also committed, as I've mentioned before, to playing a leading role in making health more inclusive. As a leader in consumer healthcare, we want to empower millions of people every year to be more included in opportunities for better everyday health. And, in fact we plan to reach 50 million people a year by 2025.

With that, I'll hand over to Tobias to take you through our first half results in more detail.

Tobias Hestler

CFO, Haleon

Introduction

Thank you Brian, and good morning everyone.

I will mostly focus on our adjusted results as this is the most meaningful way to understand our performance. A full reconciliation of our adjusted to IFRS results can be found in our results press release published today.

Let's look at the headline numbers for the first half.

H1 key financials

Delivering strong performance

We continued to deliver strong results proving that our strategy across the business is delivering growth even against more difficult macro-environment backdrop, reinforcing the resilience of our portfolio.

As Brian already said revenue of £5.7bn reflected 10.4% organic revenue growth. Which, as I had previously guided to, would be weighted towards price while delivering continued positive volume mix. Growth was strong across both our Power Brands, up 10.1% and Local Growth Brands, up 14.1%.

Adjusted operating profit of 1.3 billion, up 8.9% constant currency resulted in 22.2% margin, down 80 basis points at actual rates and 40 basis points constant currency, driven by positive operating leverage in the business that was offset as expected and previously guided by adverse transactional foreign currency, as well as the phasing of standalone costs which are more evenly balanced this year.

Finally, the business continued to be cash generative with 0.4 billion of free cash flow. As a result, and after paying our first dividend we finished the half with reduced leverage of 3.4 times.

Turning to the drivers of revenue growth.

Strong H1 revenue growth

Both strong price and positive volume/mix

Revenue increased 10.6% to 5.7 billion on a reported basis in the first half of 2023.

Looking at organic sales growth for the half, the split was 7.5% price and 2.9% volume mix. This demonstrates our ability to drive volume growth even in a tougher economic backdrop.

It’s worth bearing in mind, that the 7.5% price increase included the annualisation of pricing taken last year, along with pricing taken in countries with more pronounced inflation rates.

There was also a 20 basis points benefit from favourable translational foreign exchange. The FX benefit seen in the first quarter was largely reversed in the second quarter from the strength of sterling against both the US dollar, and a broad set of emerging market currencies. I have provided some colour on FX in the Appendix of the slide presentation.

Strong H1 performance across categories

Brian has taken you through our category performance, so now let’s move to look at the regional performance.

Strong revenue growth across regions

We delivered strong organic revenue growth across all of our regions.

Emerging markets, which are over a third of our revenue, saw broad based growth, up 18%, driven by price in the high inflation markets I mentioned, along with strong volume growth particularly in China.

Developed markets saw good growth, up 7%.

Looking at the regions in more detail, the half is more helpful as this removes the distortive impact of the ERP cutover last year which impacts the year-on-year comparatives in individual quarters.

North America

Organic growth driven by price

Starting with North America.

Organic revenue increased 4.7% entirely driven by price with flat volume mix.

For the half, the region saw high-single digit growth in Oral Health with double-digit growth in Sensodyne and Parodontax, with Denture revenue flat.

As Brian explained earlier VMS was down double digit.

Respiratory Health was up double digit due to strong cold and flu incidence in Q1. Flonase was flat for the half given a softer allergy season.

On a constant currency basis, adjusted operating profit declined 2% with margin down 150 basis points to 23%.

The decline in margin was driven by the prior year ramp up of standalone costs along with continued commodity and inflationary cost pressures, as well as costs to meet unexpected volatility in demand. This more than offset the benefit of pricing and productivity improvements.

Turning to Europe, Middle East, Africa and Latin America.

EMEA and LatAm

Very strong organic growth driven by pricing and positive volume/mix

Organic revenue increased 14.9%, with 13.3% price and 1.6% volume/mix. This region is most exposed to economies experiencing high inflation. Around 3 points of growth came from pricing in Turkey and Argentina, where inflation was most pronounced.

Across the half, we saw strong broad based geographic growth with Southern Europe up double digit and Northern Europe up high single digit. Germany grew mid-single digit underpinned by our turnaround focus in this market.

Looking at the categories, Oral Health revenues were up double digit with strength in Sensodyne, Parodontax and Denture care across a number of markets.

In VMS, there was double-digit growth in Centrum and strong performance from our Local Growth Brands including Be-Total.

Respiratory was strong up over 25% following the prolonged strong cold and flu season particularly in Q1, with Theraflu and Otrivin particularly strong.

On a constant currency basis, adjusted operating profit increased 17.6% with margin up 50 basis points to 23.3%.

Margin was driven by strong operating leverage, pricing and efficiencies. This more than offset cost inflation, the prior year ramp up of standalone costs and adverse transactional FX.

Finally, turning to Asia Pacific.

Asia Pacific

Organic growth driven by strong volume growth

Organic revenue increased 11.6% with 2.3% from price and 9.3% from volume/mix.

During the half, China, our second largest market overall was up over 20% following the easing of Covid related restrictions and subsequent rise in covid cases particularly at the start of the year.

Elsewhere, India was up high single digit along with Australia, up mid-single digit with particularly strong growth in the second quarter.

Within the categories, Oral Health was up high single digit underpinned by strong growth in Denture Care and Parodontax. Sensodyne continued to see penetration and premiumisation led growth in Japan and India.

VMS was up mid-single digit boosted by new innovations such as upgrades to our gender range in Centrum. In Pain Relief, Fenbid revenue more than doubled.

Respiratory revenues were up over 20% driven by Contac in China which also more than doubled.

On a constant currency basis, adjusted operating profit increased 9.7% with margin down 50 basis points to 23.2%.

Margin was driven by strong operating leverage and good cost management which were more than offset by the prior year ramp up of standalone costs.

China

A leading market position, growth underpinned by favourable structural drivers

It is worth taking a moment to consider our business in China which is our second largest market after the US.

Following the Pfizer Joint Venture in 2019, we became the largest multi-national Consumer Health player in this market, and we have been investing to build a scale platform. This includes our digital capabilities with around a quarter of our revenues from e-comm, and we continue to invest across a number of platforms including Alibaba and Doyuin.
We have a strong position in China with over half of our revenues coming from VMS and Oral Health. Our combination of global Power Brands, and Local Growth Brands with excellent market positions and a high distribution reach through our diversified route to market, ensures that we are well placed for future growth.

And we have delivered consistent growth despite the impact of Covid related lock downs underscoring the resilience of our overall portfolio which capitalises on our local production footprint and innovation capabilities.

As I mentioned, in the short term, we have seen some fluctuations across the categories, particularly, the strong rebound in Fenbid and Contac following the re-opening of China, which we expect to normalise through the rest of the year.

Looking ahead, we continue to see strong structural growth drivers with OTC and VMS consumption per capita being well below a number of other markets and the Healthy China 2030 government plan providing a national medium and long term strategic plan focused on a number of goals including; Healthy living for all, Improving health security and Building a Healthy environment.

Haleon has a strong role to play across all of those areas in all of our categories.

Turning now to our operating performance.

Adjusted operating profit growth of 8.9% constant currency

Reported revenue increased 10.6%. Adjusted gross profit was slightly behind this at 9.8% resulting in a 50-basis point decline in margin or a 70-basis point decline at constant currency. This was largely driven by negative transactional FX as I had previously guided.

Adjusted operating profit increased 8.9% at constant exchange rates.

I will now go through the drivers of adjusted operating profit.

H1 adjusted operating profit growth

+8.9% at constant exchange rates

We delivered 1.3billion of adjusted operating profit an increase of 80million resulting in a margin of 22.2%, down 40 basis points constant currency.

As a reminder last year we were a segment of GSK so in 2022 you have seen the costs to run Haleon as an independent company ramp up in the year, which impacts the year on year comparison in the first half. During the half, the prior year full ramp up of stand-alone costs had a £54 million impact. This was most pronounced in Q1 at 48 millon with a minor impact in Q2.

Let me take you through the components underpinning the incremental H1 operating profit of £160 million, or 60bps to operating margin, shared on this chart. Contributing positively to this was the strong revenue growth and pricing, further efficiencies in the business, a benefit from A&P which although up 4% constant currency in the period increased less than organic revenue. Importantly consumer facing A&P spend excluding Russia for the half was up 8% constant currency, demonstrating our continued commitment to invest in the business.

These positive underlying drivers more than offset continued cost inflation as well as adverse transactional foreign exchange. The transactional FX losses were fully in line with what I had guided to previously.

Finally, there was also a 26 million pound or 40 basis points headwind from movement in foreign exchange on a translational basis. This reflected mainly movements in the USD Dollar, the Euro as well as the Chinese Renminbi, the Turkish Lira, the Argentinean Peso and the Russian Rouble for the latter it was particularly pronounced in the last few weeks of the second quarter.

Taken together, this resulted in a 6.7% increase in Adjusted operating profit and a 22.2% margin.

Adjusted EPS driven by strong operating profit, offset by annualisation of interest costs and higher tax rate

Taking you through the other items in the P&L, our interest charge of 181 million reflects interest from the bonds we issued last year and had on-lent to GSK/Pfizer in Q2 last year.

Our Adjusted tax charge was 256 million representing an effective tax rate of 23.5%.

Overall, this resulted in adjusted diluted earnings per share of 8.5 pence.

Turning to the adjusting items.

Significant reduction in adjusting items driven by lower separation costs

There was a significant reduction in these items driven by the fall in separation and admission costs.

Restructuring costs were higher from the productivity programme which we announced at the start of the year.

Separation and admission costs were 60 million.

Moving now to look at cash.

Free cash flow impacted by annualisation of interest payments and tax

Our business model is highly cash generative, and we are very focused on cash.

For the half, free cash flow was 369 million which reflects normal seasonality of our cash generation being weighted towards the second half.

There are several key items to note which impacted the cash flow.

Working capital and other movements saw an outflow of 354 million, this is as expected and reflects higher revenue growth seen in the half, and the building of inventory ahead of the cold and flu season in the second half.

Cash tax of 234 million is as I had guided in March with cash tax catching up with the P&L charge.

Net cash interest of 204 million reflects the normalisation of interest payments and the timing of coupon payments on our bonds which are mainly in September and March.

Net capex was 133 million pounds, with spend focused on manufacturing sites, technology, and automation.

Turning to Haleon's debt and liquidity profile.

Continued progress on debt reduction

We are pleased to report that in our first year as an independent company, we have reduced our net debt by 1.2 billion.

During the half, we reduced leverage down to 3.4 times, cash generation and movements in foreign exchange were partially offset by payment of our first dividend.

Looking now at our debt maturity profile.

Staggered bond maturity profile, no near term refinancing needs

Our bonds are staggered. Our next bond maturity is next year, which we expect to fund through operational cash flows. Then we have no major refinancing need until 2025.

Outlook for the full year 2023

Finally, let me turn to our outlook for 2023.

As Brian mentioned, following strong trading in the first half, we now expect organic revenue growth to be between 7 and 8% this assumes a more normal cold and flu season in the second half, with volumes down slightly resulting in a broadly flat performance for our Respiratory category.

We see another year of positive operating leverage and expect adjusted operating profit to grow between 9 and 11% constant currency. This will therefore result in adjusted operating margin expansion on a constant currency basis.

Net interest expense is expected to be around 350 million and we expect an estimated tax rate on adjusted profit in the range of 23 to 24%.

Conclusion

So, to sum it up.

Haleon is delivering strong performance with strength across both our Power Brands and Local Growth Brands; - proof that our model is delivering.

We delivered operating profit growth and strong positive operating leverage across the business.

We have made good progress on further bringing our leverage down and will continue to invest in our brands to drive further growth.

Altogether, this gives us confidence that we are on solid foundations to deliver our full year and medium-term guidance.

With that, I will hand back to Brian.

Brian McNamara

CEO, Haleon

Conclusion

Thanks Tobias.

So, my Team and I are pleased with our progress to date and we feel confident about the coming year as reflected in our upgrade of revenue guidance.

We have a clear strategy which is delivering strong growth.

And, that strategy supported the high-quality growth we generated in the first half setting us up well for the rest of the year.

Thank you for your continued interest and support.