Haleon 2022 Third Quarter Trading Statement

Thursday, 10th November 2022

Introduction

Sonya Ghobrial

Head of Investor Relations, Haleon

Welcome

Good morning, everyone and welcome to Haleon's conference call for our third quarter trading statement. I am Sonya Ghobrial, Head of Investor Relations and I am joined this morning by Tobias Hestler our Chief Financial Officer. Just to remind listeners on the call that in the discussions today the company may make certain forward-looking statements including those that refer to our estimates, plans and expectations. Please refer to this morning's announcement and company's UK and SEC filings for more details including factors that could lead actual results to differ materially from those expressed in or implied by any such forward-looking statements.

We intend to run through some slides before opening the call for Q&A. For those listening to our webcast who would like to ask a question please use the dial-in details on page two of today's press release. Whilst the focus today is on revenue performance, we have also provided group profit and margin detail on both a reported and an adjusted basis with a full reconciliation of this in the appendix. For information we do not intend to provide quarterly margin or profit detail on an ongoing basis and will only do this for as long as Pfizer reports our results as part of its financial statements and until our registration rights agreement with Pfizer and GSK terminates. With that I would like to hand the call over to Tobias.

2022 Third Quarter Trading Statement

Tobias Hestler

Chief Financial Officer, Haleon

Q3 Highlights

Thank you, Sonya and Good morning, everyone. Let me start with our third quarter highlights. We delivered another quarter of strong results with 8.1% organic revenue growth driven by a healthy combination of both positive volume/mix as well as price. Notably pricing accelerated throughout the year although we start to lap some material increases in the prior year in Q4. Our Power Brands continued to deliver good growth despite cycling over a double-digit comparative from last year with particular strength from Parodontax and our Respiratory brands Theraflu and Otrivin.

Our growth was profitable with inflationary cost pressures fully offset by price and efficiencies across the business, with margin down from adverse transactional foreign currency as well as the ramp up of standalone costs, as expected and previously guided. Given the strong nine-month result and the growth seen to date in Q4 we have updated our 2022 guidance. We now expect full-year organic revenue growth to be between 8% and 8.5% which also results in a benefit to operating profit. On margin given favourable translational currency movements since we reported half-year results and assuming current FX spot rates hold, we now expect adjusted operating margin to be slightly above year-on-year.

Our cash flow continues to be strong and in the last month with a recent repayment of a further £250 million we have now repaid £1 billion of the £1.5 billion term loan within three months of separation, demonstrating the strong cash generation of the business and our focus on deleveraging.

Q3 Key Financials

Turning now to our third quarter results. Revenue of £2.9 billion reflected 8.1% organic revenue growth with 2.6% volume/mix and 5.5% price. Adjusted operating profit of £725 million, up 4% constant currency, resulted in a 25.1% margin, down 90 basis points constant currency which included a drag from transactional FX largely from our exposure to the Swiss franc and US dollar.

Q3 2022 Revenue Growth

Delivering positive volume/mix and accelerating pricing

Turning to the drivers of revenue growth in more detail. Revenue increased 16.1% to £2.9 billion on a reported basis. There was an 800-basis point benefit from translational foreign exchange mainly due to the sterling weakness compared with our major trading currencies. All in all, we delivered 8.1% organic sales growth, importantly with 5.5% price and 2.6% volume/mix.

Broad Based Growth Across Categories

Improving pricing in Q3

Looking now at performance across our categories. Growth was broad based with increased pricing throughout the year.

Oral Health revenues were up 7% with Sensodyne up mid-single digit underpinned by continued share gain, benefitting from innovation and strong growth across a number of markets including India, Middle East and Africa. As expected, China started to come back as lockdown restrictions began to lift in some cities. In the US Sensodyne was down low single digit reflecting the high base last year when retailers purchased inventory ahead of a price increase in Q4. Our other growth driver in the category, Parodontax, was up double digit.

As expected, VMS organic revenues declined 1% largely due to tough comparatives in Q3 last year when the category was up around 20%. I will go through this in more detail shortly.

Pain Relief revenue was up 4% with Panadol and Advil up low and high single digit respectively, whilst Voltaren was broadly flat, with good growth in China and the US offset by a decline in Germany.

Respiratory revenues were strong driven by both increased consumption from cold and flu incidence over the summer and increased retailer purchasing ahead of the flu season. This contributed three points to group organic growth for the quarter. I will also share a bit more detail on this shortly.

Finally, Digestive Health and Other revenue was up 8% with high single digit growth in Tums and Eno. Smokers health and skin health brands were also up high single digit with Chapstick performing well as we launched a new value distribution channel for the brand.

Vitamins, Minerals & Supplements

Q3 decline against a strong prior year comparative

Now coming back to VMS. As you will recall in Q3 last year we had strong growth in VMS from successful innovation across Centrum and improved capacity in the US for Emergen-C which allowed retail restocking. Since then, our revenue has remained within a narrow band. We are now lapping the comparative which benefitted from additional capacity in the US last year resulting in some volatility in organic growth rates. Absolute sales in Q3 were in line with the first two quarters this year, as you see in the table. This suggests continued consumption with good underlying demand, and we continue to gain share in the category globally.

Respiratory

Strong growth in Q3 from increased demand and retailer stocking

Let me now share a bit more on trends in Respiratory. It is becoming increasingly difficult to split individual year-on-year movements given elevated cold and flu incidences as well as Covid symptoms which are flu-like in nature. The data on this chart shows cold and flu industry sales for the US market and we are seeing a comparable picture in Europe. The grey shaded area in this chart is pre-pandemic sales which is indicative of a normal season. Low cold and flu sales in the summer and higher levels in the winter. The green and black lines show sales in 2021 and 2022. So first, we saw sustained cold and flu demand through the summer ahead of pre-pandemic levels and particularly in 2022. This was very different to 2019. Second, strong growth in the quarter was also helped by increased retailer stocking ahead of the key season. As you think about Q4 it is worth keeping in mind that we saw 45% growth in Respiratory in Q4 last year when cold and flu came back after its absence through the pandemic so we wouldn't expect these high growth rates to be sustained. As always it is difficult to predict cold and flu trends based on the recent out-of-season months. As you can see from the significant difference in the shape of the winter season sales between 2019, 2021 and 2022.

Strong Q3 Revenue Growth Across Regions

Looking now at the geographic segment performance. We delivered strong organic revenue growth across all of our regions.

North America

Volume decline as expected given prior year advanced purchasing

Starting with North America, organic revenue increased 2.9% with 4.2% price and a 1.3% decline in volume/mix. The volume decline was as expected given advanced retailer purchasing ahead of the Q4 price increase last year. This impacted third quarter growth last year by approximately 2% along with inventory restocking.

The region saw a low single digit decline of Oral Health and a high-teens percentage decline in VMS lapping the comparatives I just mentioned. That said, underlying consumption has remained broadly steady in both categories through the year. One thing we have observed in recent months is that Emergen-C demand has been skewed towards times of Covid demand whereas Centrum is more consistent and less volatile.

Pain Relief was up high single digit given pricing and continued strong demand for Advil.

Respiratory health was up in the mid-20's% benefitting from sustained cold and flu incidence and retailer stocking ahead of the season. This was underpinned by successful new innovations including Theraflu Max Strength and Flonase Headache and Allergy Relief.

EMEA & LatAm

Strong price and volume/mix growth

Turning now to Europe, Middle East, Africa and Latin America. Organic revenue increased 12.2% with 8.3% price and 3.9% volume/mix. There was strong growth in Latin America and Middle East Africa helped by Sensodyne. In Europe revenue was up high single digit with broad based growth, with the exception of Germany which was down slightly. As you know, we have plans in place to turn around the German business.

Across the categories. Oral Health saw good growth largely driven by Sensodyne, up low double digit and Parodontax which was up high single digit. We are seeing good consumer uptake for a number of brand innovations including Sensodyne Natural White and Parodontax Gum and Breath.

In VMS the region delivered low double digit revenue growth with strong growth from Centrum, up nearly 20%, as we continue to expand the portfolio where the brand is present and launch new innovations including Benefit Blends in Brazil.

Pain Relief revenue was down low single digit reflecting a decline for Voltaren given weakness in the topical market.

Respiratory sales were up over 35% driven by the factors I explained earlier and retailer stocking ahead of the season. Digestive Health and Other sales saw sales up double digit with good growth across most of our brands.

Asia Pacific

Strong volume/mix growth supported by price

Finally turning to Asia Pacific, organic revenue increased 9% with 2.7% from price and 6.3% from volume/mix. Growth from pricing was lower than our other regions given the less pronounced inflationary environment. China, our second-largest market overall, was up high single digit marking an improvement from the second quarter as lockdowns started to ease. India continued to perform well up 10%.

Looking across the Asia Pacific region as a whole Oral Health saw strong growth, particularly from Sensodyne helped by new innovations in the market.

In VMS we saw mid-single digit growth underpinned by successful consumer campaigns for Caltrate.

In Pain Relief Voltaren saw strong growth in China from distribution expansion, pricing and digital activation. Respiratory revenue was up high teens driven by advanced purchasing ahead of the flu season.

As you know, India is a key strategic market for us. You may have seen that we have agreed with Hindustan Unilever Limited to end our sales and distribution agreement in this market in Q4 2023. Whilst, we have had a productive relationship with Hindustan we now believe that by taking these services in house we are better placed to fully deliver on our strategy, consistent with our approach in other markets. We are working to ensure a smooth transition as we re-establish our own network in the country.

Adjusted Operating Profit Growth

+4% at constant exchange rates and +15% at actual rates

Turning now to our operating performance, we delivered £725 million of adjusted operating profit, up 4% constant currency, which included transactional FX losses largely from the US dollar and our Swiss cost base. Pricing and efficiencies fully offset inflationary cost pressure with the decline in margin driven by the ramp up of standalone costs as we expected. There was also a £68 million benefit from movement in foreign exchange on a translational basis. Taken together this resulted in a 15% reported increase in adjusted operating profit and a 25.1% operating margin. As a reminder, as you think through modelling, Q3 is typically our higher margin quarter given advanced sales of cold and flu products ahead of the season without any significant A&P spend related to that.

Net Debt

Reduction in net debt before FX moves since demerger

Turning to Haleon's debt profile, as you will remember, pre-separation we secured our long-term capital structure with the issuance of just over £9 billion of notes and a £1.5-bllion term loan with no financial covenants. The principles applied for the debt rate support efficient deleveraging given our strong cash generation and at that time we looked to align the currencies of debt with revenue. During the third quarter we repaid £750 million of our £1.5billion term loan and a further £250 million was repaid in October. This was achieved through a combination of operational cash flows and commercial paper issuance.

Due to significant volatility of sterling particularly during the third quarter the resulting adverse impact of FX offset the repayments of the term loan. As such and given the adverse currency we ended the quarter with net debt of £10.8 billion. As you know, this reflects exchange rates as at the end of September. Although currency volatility continues, albeit to a lesser extent, the cash generative nature of the business remains unchanged. We remain on track to achieve our deleveraging target of less than 3.0x net debt to adjusted EBITDA by end of 2024. Furthermore, at the end of September our bond debt had an average duration of 8.2 years and a weighted average cost of 3%.

Outlook

For full year 2022

Finally, I am pleased to say that given our strong performance to date we have updated our revenue and margin guidance for 2022. Following the strong third quarter we now expect full year organic revenue growth to be between 8% and 8.5%. We also expect adjusted operating margin to be slightly ahead of the 22.8% we reported in 2021 assuming spot rates as of 31st October are sustained for the remainder of the year.

Summary

So, in summary, Haleon delivered strong third quarter performance with strength across both our Power Brands and local strategic brands. We delivered strong operating profit growth having been able to fully offset inflationary pressures through price and efficiencies. Our recent trading momentum has resulted in us revising upwards our sale guidance which will also result in higher operating profit and our margin guidance for adjusted operating margin is slightly higher on a reported basis given net favourable currency moves. Finally, our cash generation underpins our confidence in our ability to de-lever rapidly. Given the momentum across the business in what remains a challenging market environment we remain confident of delivering on our medium-term guidance, as we stated in this morning's release.

With that I would like to hand it back to the operator to open us up for questions.

Q&A

Guillaume Delmas (UBS): The first one is on your updated 2022 guidance because it seems to imply a soft fourth quarter with around 1-3% organic sales growth and circa 50 basis points margin contraction at the operating margin level. Can you maybe walk us through the main factors driving this sequential slowdown and what is more temporary in nature versus recurring? My second question is about your strong confidence in your ability to deliver on your medium-term guidance. Should we read into this statement that you anticipate your performance next year in 2023 to be consistent with your medium-term multiple-year objective of 4-6% like-for-like sales growth and moderate margin expansion in constant FX? Thank you.

Tobias Hestler: Thanks Guillaume. Let me start first with the sales outlook for Q4. As you said, our guidance implies about 1.5-3.5% growth in Q4. Now, first of all I think you have seen cold and flu sales were very strong. They contributed about three points to our organic revenue growth in the third quarter. As I said in my comments earlier, that will not repeat going forward because last year cold and flu was already back in Q4 with 45% growth. As you have seen in the chart actually the 2021 sales on cold and flu in Q4 were fully back at the pre-pandemic level. That additional growth driver will not be there for Q4. Then secondly, overall comps are slightly tougher for Q4. Remember last year was 11% growth in Q4. Then also last year we took pricing in Q4, so we are starting to hit the base of significant price increases. Last year, for example, we took mid-to-high single digit price increases on 1st October across half of the portfolio in the US. Then there were some benefits in Q3 from advanced cold and flu purchasing ahead of the season. Then the last one is, also you remember from last year, we brought incremental supply capacity on stream for VMS so that benefitted us in the second half of last year. Again, we are cycling over that. It is really a factor of quarterly movement. Underlying consumption trends remain strong and as you said, I think we said this morning we are committed to our 4-6% medium-term outlook.

Then let me move to your margin question so why margin would be down in Q4 compared with what we have. First of all, I think Q3 margin is artificially high. That is driven by us shipping and selling all the cold and flu inventory in Q3 without A&P attached to it. Then in Q4 you are catching this up by spending A&P on the sales we had in Q3. So, I think Q3 has always been the highest margin quarter in the year as well. Secondly, growth rates in half two are lower so I think we get less benefits from the efficiencies on the growth. And, then the third one is very similar to what we explained at half-year. The costs to run Haleon as an independent company are ramping up in the second half of the year, whereas we deliver the synergies predominantly in the first half of the year. I think again, this is the result of all these quarterly movements and these moving pieces as we are separating out and establishing this company independently.

Then thirdly coming back to the medium-term guidance, we are going to give full year guidance at the full year results, and we will update you then. Overall we remain committed to 4-6% medium term but we will tell you more about it as we close out the year.

Guillaume Delmas: Thank you very much.

Tobias Hestler: Thanks Guillaume.

Chris Pitcher (Redburn): Good Morning Tobias, Sonya and all. Two questions from me. Could you talk a bit more specifically about Sensodyne in the US? You mentioned Sensodyne you thought was taking share but can you talk about the competitive environment in the US and innovations that you are working with there? Then secondly on standalone costs, forgive me if you did give this but are you able to provide the range you said beforehand now that we are a bit further into it? Within that what sort of internal incentivisation plans are being put in place both operationally and for the executives? Thanks.

Tobias Hestler: Great, thanks Chris. On Sensodyne in the US I think first of all when you look at the sales growth we are cycling over a pull-forward last year because of price increases we took in Q4 last year were on Oral Health largely. That meant quite a few of the retailers bought some inventory still in Q3 last year ahead of the price increase. We said last year that I think impacted US growth rates by a full two percentage points. A big part of that was on Oral Health and since Sensodyne is the largest brand. You can imagine a lot of it landed on Sensodyne as well. That is the one item to keep in mind. Outside that we are competing well on Sensodyne. I think the business is doing well. We are gaining share overall so from our perspective, we are happy with the Oral Health performance and how it has come back on a year-to-date basis now after a weaker Q2 we had globally.

On the standalone costs we are in the range of the guidance we have given, £175-200m. Of course, now in Q3 because the costs fully landed the team is complete and full. We also started the small amount of TSA agreements we have with GSK so the costs are running on that on 18th July. I think we have now have the fully loaded cost in the base as we operate Haleon independently so no surprises here.

Then your last question was on the incentives plan. I think we have said, and you have seen we have issued the share plan. The short-term incentives are on sales and operating profit. Then the executive team has personal objectives also to hit so it is a combination of sales, adjusted operating profit delivery and margin delivery as a result, and individual objectives. Then the long-term objectives are all linked to the cash generation and to the deleveraging target. Very much in line with the overall objectives that we laid out at the CMD and that we are updating you on.

Sonya Ghobrial: I think the other thing I would maybe also say on that incentivisation is I think there is a real opportunity because it is more consumer, more performance related than perhaps what we said before. I think the other component we are flagging; it is a little bit differentiated, is the ESG qualifier that is included within the incentivisation as well.

Chris Pitcher: Thank you.

Tobias Hestler: Thanks Chris.

Rashad Kawan (Morgan Stanley): Good morning, Tobias and Sonya, thanks for taking my questions. My first one is on downtrading or category softness. Are you seeing any signs of accelerating downtrading in any of your categories or geographies? I know obviously you talked about VMS lapping strong comps but that is one where we have started to see some category softness and a few peers talked about that as well. Any other geographies or brands in particular you would call out? Then the second question is on Nexium. Obviously, the product viability litigation bell-weather trials have been pushed back from 14th November to 1st March of next year with the judge providing time for the parties to pursue a settlement agreement beforehand. Obviously, the litigation remains complex and recent Delaware ruling in favour of AstraZeneca, but the future product liability could be significant if the plaintiffs gain momentum there given the high prevalence of chronic kidney disease. Can you talk about whether your views have changed at all over the last few months around the litigation and help us with anything we should be looking out for in the coming month that can help us stay on track of any developments there? Thank you.

Tobias Hestler: Thanks Rashad. Let me start with the current trading. We have not seen any significant change in consumer behaviour that we would call out. There are small variances here and there by region or subcategories but there is no widespread change. I think maybe as a reminder our product treat basic healthcare needs and they tend as our experience from prior crises to hold up well through difficult economic times. What we have seen, for a bit of colour, there are some small private label gains in subcategories like the PPI category which has always been more price sensitive in the US. On base vitamin C a bit more private label bought but really it is too early to call it a trend. What we have also seen is more multipack purchases with consumers looking at bulking up and buying more packs to get a price benefit. Also, a little bit of channel shift so more sales going through, for example, Dollar Tree in the US which ultimately for us is just a channel mix with very similar margin so we are not too concerned about that.

Then Asia Pacific really a much lower inflationary environment so nothing to report there. Then in Europe it is mix, again nothing significant that we would call out. However, we are not complacent. We believe in the strength of our brands, and you have seen also the business coming through well with volume gains on top of the price increases we took. I think that gives us some confidence.

Then on Nexium there is no change in our view on the situation. Just as a reminder, first of all the product is on the market. It is supported by the FDA. We do not believe the science constitutes an evidence that there is a link between PPI usage and the injuries. Then also lastly think about OTC use, these products are labelled for short-term use in the OTC space as well. I think no change in our view on the product or on the PPI case.

Sonya Ghobrial: I think your specific point in terms of the trial being postponed, the first bell-weather trial on Nexium was scheduled for November 2022. That has been postponed to 2023 but probably important to note that that trial does not involve Haleon or our OTC products Nexium 24 or Prevacid 24. There are currently no trials involving Haleon scheduled. It is just worth mentioning that.

Rashad Kawan: Okay, very helpful, thank you both.

Victoria Nice (Société Générale): Hi there, good morning. My first question is on A&P. I wondered if you could just remind us on the outlook for group A&P spend this year either as a percentage of sales or growth versus last year, please. Then my next question is on the Zantac litigation. I just wondered when you expect we could see the next meaningful update providing better visibility on how the situation is unfolding. I guess specifically related to that, where are we on the indemnification dispute with GSK and Pfizer? Have the parties developed anything regarding a resolution on this situation? Thank you.

Tobias Hestler: Great, on A&P I think we said we are investing in the business, as you have seen in our half-year results. We are not giving specific guidance on what happened in the quarter. Again, Q3 is not really meaningful given the Respiratory spend that is happening in Q4 rather than in Q3. Overall, we are investing in the business. We are investing behind the growth of the business, and we are agile in allocating the A&P to where we can get the growth. We talked a bit earlier today about where the growth drivers are. Overall A&P was 20% of sales last year. We think it is in a healthy place and we keep investing in the business, into both A&P and also into R&D. Then we will give you more update at the full-year results on that, like we have done in the half-year results.

On Zantac there is really nothing new to report. I think we talked about it a month and a half ago when we came out with the half-year results. There have been small movements on the primary liabilities, but I think that is probably for you to speak to GSK or Sanofi to. From our perspective there is no update. We believe, and as we said at half-year, we are not liable and that is also why there is no movement on any indemnity discussions on that.

Faham Baig (Credit Suisse): Good morning guys, thanks for the question. A couple for me as well please. Thanks for providing the VMS data on a quarterly basis and on a currency adjusted basis. The question here for me is how should we think about VMS consumption from a volume standpoint? Trying to eradicate the price increases that you have taken in the market and where does volumes consumption or share of stomach compare to pre-pandemic levels? Are we 10% higher, 20% higher, are we back in line with 2019 volumes? And then the second question if you could just give us an update on the percentage of the business that is winning and maintaining market share. I think you highlighted it was two-thirds of the portfolio at H1. Thank you.

Tobias Hestler: Good. Thanks. First of all, on the percentage winning and maintaining share, we plan to give you that update at the full-year and at the half-year results. Given we only reported a few weeks ago there is just no material update to that. I think what I would say more broadly is no major change or move on that, so we feel confident. By the way you will see in the Q3 results which were up both price and volume which should give you an indication that the business continues to do well. However, we will give you that update at the full-year results again when there are a few more months of data for it to be also meaningful. On VMS I think overall the business is up on a three-year stack and it is also doing well in terms of volume. I think we have not seen the category go back. We are gaining share, so we are growing ahead of the market. There is a bit of a rollercoaster on Emergen-C because there are people that went into the category that went out. It reacts very much to Covid being in the news. If people are scared about immunity, they buy a bit more Emergen-C, if less then they buy it a bit less. That is the one that is a bit more volatile, whereas Centrum is doing well. We are also doing extremely well in Centrum activating it in the markets across EMEA/LatAm, up over 20% in the quarter for that region. Also, Caltrate continues to perform well in China. Overall, we are pleased with VMS consumption both from a volume perspective and also from a pricing perspective.

Question: Thank you.

Celine Pannuti (JP Morgan): Good morning, thank you for taking my questions.

Tobias Hestler: Hi Celine, good morning.

Celine Pannuti: Hello. Number one I would like to understand a bit your margin guide for the year. You raised it because of FX so ex-FX is unchanged yet the top line is better. From a mix standpoint OTC is better. What has not done so well that net-net you are not raising the underlying margin? Maybe on that, could you tell us what is your FX transactional exposure to the US dollar and the Swiss franc and how much that had an impact on the nine months on your margin? My second question relates to some of the questions that were asked on liabilities; Number one, on Nexium and Zantac does this change a bit your view on Rx switches? i.e. is that a more risky business and so how do you look at that? Second, you said that you think you are not liable on Zantac. Why are you not doing an arbitration and getting into an arbitration to get this cleared please? Thank you.

Tobias Hestler: Good, thanks Celine. On the margin guidance, we have taken the margin guidance up. First of all, we have taken the sales guidance up so there are more sales which roll through to higher profit. Operationally leaving currencies aside things are as we expected. We are offsetting the inflationary pressures we have across the business with pricing and efficiencies. We are delivering the synergies from the Pfizer transaction which were predominant in the first half of the year and we are in line with the cost to run Haleon independently as we have guided before and those costs are coming predominantly in the second half of the year. Nothing has changed from our purely operational performance compared to what we had said before. What has changed is the massive movement on the currencies, predominantly after the summer, so August and September. Two things have happened. On the translational side you have actually seen in Q3 there is about 800 basis points positive impact on sales and over 10% on the profit line on my slide. That I think is a proof point for the natural hedging we have in the business, coming pretty much from the weakness of the sterling. Then of course that was partially offset with some transactional losses and the transactional losses relate predominantly to two things. One, to our cost base in Switzerland and then secondly to the strengthening of the US dollar against a number of the trading currencies that we have in the group, as we purchase some of our materials in dollars but of course we sell in the local trading currencies. That has increased as the year went on and given it was material, we pointed it out now and gave you a bit of a colour for it. For the full year we expect up to 30 bps of transactional FX losses assuming the spot rates remain where they were a few weeks ago. I think there is also natural hedging on the debt, we have aligned the amount of our debt with where we earn our profits in the longer-term. Of course, there is a timing effect because it takes you a full 12 months until the FX benefits are visible on the P&L whereas the balance sheet they were immediately visible.

Then moving on to Rx-to-OTC switches, I think these cases have changed nothing in the way in how we deal with them. Rx-to-OTC switches are an attractive play. We have done them successfully in our business. Yes, we are selling pharmaceuticals and bringing them to the market but we believe that the overall risk exposure is significantly lower than in the pharmaceutical industry because these products have been on the market decades. There is another big regulatory approval step that happens, so from our perspective that makes sense and also the benefit you get from it is these are highly attractive products. You get high margins for it. I think that the attractiveness of the OTC business is the strength of the margin and of course that comes with a little bit of risk given it is regulated environment. The regulated environment is also helpful because the hurdles of entry into that are also higher. When you put it all together, we believe this is an attractive business and we will continue to invest in Rx-to-OTC switches given we have a leading position there.

Then on your last question on Zantac, we do not want to comment on the legal strategy but we do not think a court would take an arbitration at that time so I think that is not a road that is open to us at that point.

Celine Pannuti: Thank you.

Martin Deboo (Jefferies): Morning everybody.

Tobias Hestler: Hello Martin.

Martin Deboo: Hello. A quick one from me, a follow-up on Zantac. I understand Pfizer did an SEC filing yesterday where they seem to be clarifying that all Zantac assets and liabilities had been transferred to J&J. I presume in the 2006 transaction. Does that have any impact on your indemnity relationship with Pfizer as opposed to GSK? Can you just comment on that?

Tobias Hestler: Thanks Martin. Let me just read the sentence that they put into their 10Q yesterday. Pfizer updated their 10Q and in that is the following sentence, '*In 2006, Pfizer sold the consumer business that included its Zantac OTC rights to Johnson & Johnson and transferred the assets and liabilities related to Zantac OTC to Johnson & Johnson in connection with the sale*.' In our view this is what we had always assumed but there was no public data on that sale, so we were all speculating. I think that now with that statement Pfizer has confirmed that they sold the business including its assets and liabilities in 2006. I think there is now an official datapoint made by Pfizer on what happened back then rather than us speculating about what most likely would have happened in that transaction. It just clarifies in our view the chain of liabilities which is now clearly established these liabilities were sold by Pfizer to J&J with all the historic liabilities.

Martin Deboo: Okay, thank you.

Iain Simpson (Barclays): Thank you very much. Just a quick housekeeping question if I may. Could you just remind us of the sources of translational FX tailwind? You have talked a bit about where the transactional headwind is coming from but anything on the translational tailwind would be great, thanks. Then also a quick housekeeping, if you could just give us an update on the Panadol rollout in Asia as I think earlier in the year that was something that you felt had the potential to be a meaningful growth engine? Then lastly if I could, thinking about the dynamics and the comps here at the H1 stage you called out tough volume comps in Q3 due to pre-orders and pipeline fill as supply came online. You are now talking about higher prices in the Q4. Setting cold and flu to one side let us just leave cold and flu out of it. How should we think about your Q4 comp versus your Q3 comp given that tension? Thanks very much.

Tobias Hestler: Good, thanks Iain. If we start with translational the biggest impact was the Dollars. I think we have about a third of our revenues in dollars and also a big part of the cost base is in Dollars given the manufacturing network is broadly aligned. The next biggest currency is the Euro, about 15%, and then followed by the Chinese RMB with about 8% of revenue. Those are the biggest currencies then ultimately it is the sterling weakness against those currencies which was most pronounced of course in Q3. Those are probably the biggest drivers, but it was a bit bigger than normally given the massive rollercoaster we have experienced. Then some of it has eased since then as well.

On your Panadol question we commented at half-year that Panadol did well. One reason is that the team in Asia did a brilliant job in positioning it for post-Covid vaccination use. That gave us good results. It allowed us to get the product into more people's hands and we expect a positive long-term impact from that. Overall, we are very happy about the Panadol performance, and you have seen Panadol did well also in Q3.

Then on your question on the pre-orders, it is very hard to establish exactly what the right level of pre-ordering is given the changes we had over the last few years. What I would say more qualitatively is, we know that some customers took orders that we felt were maybe a little bit higher, but we would not be able to exactly quantify what it was. Ultimately it does not really matter because the sell-out is happening in Q4. You want enough inventory with the wholesalers and then we will determine in the spring how good or bad of a season it was looking back, how many spikes you had. For us it is important to manage inventory as the season ends.

Then on your other comp leaving Respiratory aside what you have to keep in mind for Q4 is the price increases we put through last year, we are hitting the base on those. The example was 50% of the US categories took a price increase on 1st October last year so we are cycling that. We are also going to cycle more VMS supply that came on stream, a bit of re-piping last year. Those are the two things to keep in mind for Q4.

Iain Simpson: Thank you very much. On translational FX if I could follow up, I meant more at the margin level. Is it just that your cost base is overweight sterling because that is where your head office is and sterling is weaker so you get a translational tailwind? My question was really on the margin rather than revenues.

Tobias Hestler: Yes, I think you saw it is slightly better. It was eight and then it was a bit more than ten so yes, the sterling cost base plays a role in that. For me it is probably even with the massive number of movements we had in Q3 it shows that natural hedging which is positive for us as a business.

Iain Simpson: Thank you.

Karel Zoete (Kepler Cheuvreux): Good morning all, thanks for taking the question. I have two questions on individual markets. The first one is on India. Can you elaborate on the recent change to your route to market in this market? What is going to be the benefit for Haleon? Will there be a transition period we should take into account, etc? The other thing is, is Germany a big market for Voltaren? I think for a few quarters it has been a bit more difficult and was reporting setbacks. Is this a market issue or also a competitive situation that is difficult at this stage? Thank you.

Tobias Hestler: Sure. First of all, on India when we sold the Horlicks business to Hindustan Unilever we agreed a five-year distribution agreement and what Hindustan Unilever did for us is the sales distribution. Our team were doing the marketing, the market campaigns, the promotions, the advertising – that is all done by us. Hindustan Unilever supported us on the distribution side. That deal was signed for five years, and we now agreed with Hindustan that we would end that prematurely, two years earlier than we originally intended. There is a 12-months' notice on it so over the next 12 months we will work together with Hindustan to build our own structures. Maybe just a reminder, we have run this business with our own distribution before we did the Horlicks deal a few years back. We have the capabilities and the skills in the team so ultimately, we are building back what we had before. Ultimately, like we have in every other market, India is a key growth market for us, and we want to have control of our own sales and distribution. We also think it is more efficient from a cost base to run that as the business continues to grow. I think we feel confident that, that is the right step to do that and take it back into our own hands. The collaboration went well, and I think we are going to collaborate with Hindustan over the next 12 months to transfer it back into our business.

With respect to Germany, it is a turnaround case so we said that will take a while. We are implementing those plans. Germany also, there is a bit of a market issue. The biggest product in Germany is Voltaren. It is in times when systemic pain relief does well, as you have seen from our results as well. Usually, topicals do not do as well because if you are already taking a systemic pain reliever you then usually do not use a topical in addition. Of course, in Germany you get a bigger exposure on that given the high share of Voltaren in their business mix. In addition, we have other internal things to fix and that plan is underway. It is not a quick fix where it is done within a month or two. The team is on that, and the implementation is underway.

Karel Zoete: Thank you.

Tobias Hestler: Thank you.

Tom Sykes (Deutsche Bank): Morning everybody, thank you. I wanted to clarify what you are saying on the Respiratory inventories and stock building please because obviously you would normally get restocking in Q3 but the previous year was weak. You are saying that this year was a particularly strong restocking effect versus last year. Is that in quantum any different to where it may have been perhaps in 2019? Then still on Respiratory you obviously faced as an industry a particularly tough comp in Q1. In Q1 last year as well as the very high demand was there also some sort of overbuying which makes that particularly difficult as a comp this year at all? I suppose therefore where do you think retailer inventories are at the moment on a normalised level versus cold and flu please? A final one would be on tax and interest. Is there any upward pressure on tax because of the UK and interest because of FX impacts on the gross debt in sterling please?

Tobias Hestler: Thanks Tom. On the stock in trade, overall what happens in Q3 is you ship all the inventory so of course the shelves are full, the warehouses are full and that is what you want it to be going into the season. As you have seen in the sell-out chart that I had, for example in Q1 you can get massive spikes. When cold and flu bugs go around, you suddenly get the business to double or quadruple in a week or two weeks' time. It is important that for those situations and for those weeks that there is enough inventory out in the trade. That is impossible to predict if and when these spikes in demand are happening. That is why the industry sells as a strong sell-in by the end of Q3 and then we watch how the season goes. If you get some spikes earlier in the season you usually have repurchases. When they happen later in the season then the inventory comes down. Then what we manage is we make sure towards the end of the season in spring that the inventory levels are where they should be going into the off-season months where the demand is much lower, and you have also seen on my slide where it is much more predictable and not spiky anymore. That is the dynamic.

What happened this year in Q3 the summer was a bit stronger given the Q1 level was strong last year that some customers wanted maybe a bit more product. It is very hard to quantify what that is and for us we ship it, we know it is going to be used and there are several months to manage inventory down if needed. However, I am not particularly concerned about too much inventory in the trade because the season is going to be made by the number of spikes. What we would show to you and share with you is at full-year how Q4 has been going and at the end of Q1 how the winter season has been going and if we had a stronger or weaker season. Then Q1 earlier this year was strong. There was strong sell-out but there was not any particular inventory effects on top of that.

Then we are going to give you guidance on tax and interest next year at the full year results but this year there is no change to guidance. On the tax rate this year we said we expect it to be at the lower end of the 22-23% range. Then on interest it is £200 million for the year, and we are still in line with that guidance so no change to that. Just to keep in mind for next year on interest the £200 million includes a £40 million income from the onlending of the bonds between March and 18th July to GSK and Pfizer. This £40 million income will not be there next year, so you have to take that into account. Then secondly you have to take into account for next year that we had the bonds for nine months this year, so you have to gross it up to a full year. Then the interest rate, 20% is floating so I think there is a smaller impact on the 20% that is floating from the change in interest rate environment since March when we took the bonds. That is to give you a bit more colour as you model your interest for next year.

Tom Sykes: Yes, that is very helpful. Thank you very much.

Tobias Hestler: Thank you.

Iain Simpson (Barclays): Thanks for letting me go again. To drill into that debt with the 20% that is floating, you have repaid £1 billion of your £1.5 billion term loan that I think was floating. You have clearly got the commercial paper element that by definition is going to be floating I guess. Could you just firstly remind us, what proportion of your bonds are floating and what the face value of the floating debt is? Secondly, whether we should assume that as the cash comes in you will finish retiring that term loan early and then potentially retire the commercial paper early? I am assuming that your floating debt will have priority in terms of how you repay stuff but any granularity you can give us to how we think about this would be very helpful. Thank you.

Tobias Hestler: Thanks Iain. The floating one at the moment is a bit higher given the term loan that we are paying down. You are absolutely right we are prioritising the term loan to pay it down. We expect by year-end to have about 20% floating and 80% fixed. That is where we are going to be by the end of this year. That includes some swaps as well that are in there. On the commercial paper programme, yes, part of the repayment of the £1 billion term loan came from taking commercial paper but we did that because the commercial paper has a lower interest charge than the term loan. We used the flexibility we have on the term loan and being successful in the commercial paper market to also lower our interest charge on that.

Iain Simpson: Thank you very much.

Tobias Hestler: Great. With that, thanks everyone for listening and obviously a strong quarter. Thanks everyone.