Haleon FY 2023 Results

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Brian McNamara

CEO, Haleon

Introduction

Hello everyone. Welcome to our Full Year Results Presentation. 2023 was another successful year of delivery against our strategy for growth, as we continue to build a track-record as a standalone company.

We also made significant progress during the year in evolving to become a more agile, productive, and effective organisation, underpinning Haleon's future growth. That includes taking steps to proactively manage our portfolio, which Tobias and I will cover in a minute.

We're confident about the year ahead, and we're confident that we will continue to deliver against our medium-term guidance. The operating environment remains challenging, but, Haleon is a strong and resilient business in a growing market, and we have a strategy that's delivering.

Before Tobias and I focus on our 2023 performance, I'm going to quickly remind you of our approach to delivering our growth ambitions, to frame the results we've announced today.

Clear approach to delivering our growth ambitions

Our ambition is to deliver on our medium-term guidance of 4-6% annual organic revenue growth, drive organic profit growth ahead of that, while also investing for growth with high levels of cash-conversion.

We will deliver on that ambition by capitalising on Haleon's competitive advantages. I'm talking about our world-class portfolio of category-leading brands, which are trusted by consumers globally, as well as our ability to combine deep human understanding with trusted science. There's more, though – I also mean our leading route-to-market and our ability to innovate and stay ahead of consumer needs.

Added to these distinct competitive advantages, we have a clear and compelling strategy to deliver growth. The first element of that strategy is to continue to drive more household penetration, bringing more consumers into the categories where we compete.

The second element is capitalising on new growth opportunities, across our categories and geographies. We'll do this through successful innovation and expanding our portfolio. Our focus on execution and financial discipline is helping us improve profitability, and support reinvestment in growth.

And finally, acting responsibly is right at the heart of everything we do here at Haleon. As I've said before, we say that not just because it's the right thing to do, but because it's good for business.

This time last year, we announced a new productivity programme, to build a more agile and effective organisation. That programme will deliver annualised gross cost savings of £300 million over the next two years. I'll give you more colour on our progress in a minute.

We also set out our intention to proactively manage our portfolio, so we can focus our time and resources on our high growth brands. Our divestment of Lamisil and more recently, Chapstick, show clear progress here. Tobias will cover this in more detail shortly.

2023 Full Year Results

So, let's look at our 2023 results.

We delivered strong revenue growth for the year. And I'm pleased to report that overall organic sales growth was up 8%, right at the top end of the 7-8% guidance range we gave at Half Year. And, that 8% reflects growth across all regions and categories.

Importantly, in a year defined by inflationary pressure and increased cost of living for consumers around the world, we delivered positive volume/mix, up 1%. That improved volume/mix reflects the resilience of our brands and their importance to our consumers.

Our nine Power Brand were up over 9%, contributing two-thirds of the Group's growth. In fact, six of our Power Brands delivered double-digit growth. That's an encouraging performance, and it reflects the strong loyalty these brands command from consumers, even in challenging times. Our Local Growth Brands also performed well, with strong performance from Fenbid and Contac in China, and also Tums and ENO.

The combination of our Power Brands alongside a portfolio of strategic, highly trusted Local Growth Brands is really powerful for Haleon. And, in what remains a highly competitive sector, we're pleased to report that 58% of the business gained or maintained share in the year. That's a good improvement on the Half Year.

Our full year adjusted operating profit was up 10.4% at constant currency, or 10.8% on an organic basis. Our adjusted operating margin came in at 22.6%. That's an increase of 50bps at constant currency on the prior year, or down 20 bps including the impact of foreign exchange. We got strong operating leverage from pricing and tight cost control, more than offsetting inflationary pressures.

We generated strong cash-flow during the year and our net debt leverage now stands at 3x. That means we're on the cusp of delivering on our deleveraging commitment of less than 3x during 2024. Tobias will take you through our broader capital allocation priorities, along with our financial performance, but I am pleased to announce, Haleon intends to allocate capital to a share buyback of £500m during the year.

Now, let's take a closer look at our performance across our categories.

Oral Health: Exceptional Power Brand performance

Oral Health was a standout performer, outpacing the market and delivering an exceptional performance across the portfolio. Organic sales were up 10.6%, a highlight was the performance of our three Power Brands – Sensodyne, parodontax and Polident – all achieving double-digit growth and gaining share.

This continued growth was underpinned by a series of innovations, some of which we showcased at our Oral Health event at the end of 2023. In fact, last year Sensodyne

Sensitivity and Gum and Sensodyne Pronamel Active Shield were named as the two top innovations in the US market toothpaste category.

Now, let's dive a bit deeper into Sensodyne Pronamel Active Shield as an example. Launched at the start of 2023, it's a product built on our existing Pronamel technology, which drives more fluoride into enamel. Today, eight out of ten adults are at risk of enamel erosion due to acidic food. So, our innovation addresses a key consumer health need.

We're really excited by what lies ahead for Oral Health. Just recently, we launched Clinical White, the "one product", scientifically proven to whiten teeth by two shades, while also providing 24/7 care for sensitive teeth.

Vitamins, minerals and supplements: return to growth in the second half

Turning now to Vitamins, Minerals and Supplements.

Organic growth for 2023 grew nearly 1%, following the steady progress made during the year, with over 3% growth in Q4. The strong performance of Caltrate and Centrum were key factors behind that.

The progress we've made with VMS reflects our relentless focus on innovation and in-market execution across the portfolio to drive growth.

Centrum is a good example of how we're innovating in VMS and leveraging our science as a powerful source of differentiation. Take Centrum Silver for example, Centrum Silver targets older consumers and according to multiple clinical trials, improves cognitive function of adults aged 65 years and older. We've activated this claim, which importantly is unique to Haleon, with Centrum Silver seeing market share gains across US and China.

Pain Relief: Performance supported by improved capacity and strong execution.

In our over-the-counter Pain Relief category, we delivered 7.4% organic growth. We had standout performances from Panadol and Fenbid, through a combination of innovation and successful execution. As you'll remember, Fenbid was boosted by the lifting of COVID lockdowns in China, which involved the removal of sales restrictions on pain relief products.

Looking first at innovation, we delivered good results for Panadol PanaNatra, which launched in Australia. PanaNatra has clinically proven, plant-based active ingredients addressing Joint and Muscle Pain. This was one of Australia's top new product launches in the Pain Relief category and is attracting new consumers in the 'naturals' space.

Elsewhere in the portfolio, we extended our range of Advil Dual Action to specifically target Back Pain. Early results have been encouraging, driving Dual Action up nearly 20%. We are targeting additional investment here to fuel future growth.

Respiratory Health: Performance underpinned by strong first half and excellent execution.

In Respiratory Health, we delivered 13.7% organic growth. Here, we had a strong cold and flu season in the first half, which was boosted by the growth of Contac in Q1. That followed China ending its COVID lockdown restrictions. We had a more 'normal' cold and flu season in the second half.

We're continuing to innovate with brands like Otrivin, with the launch of Otrivin Nasal Mist in Europe. This new technology, which is exclusive to Haleon, delivers a more comfortable nasal experience. Consumer feedback has been really encouraging. We see significant potential for this new innovation and look forward to bringing it to new markets in 2024.

Digestive Health and Other: Broad based growth across all three sub-categories

Finally, let's look at Digestive Health and Other, which was up 6.5% overall. We achieved mid-single digit growth across all three categories – Digestive Health, Skin Health and Smoking Cessation. The standout performer here was Digestive Health, which makes up around 50% of the portfolio.

Tums and ENO reported double-digit growth, boosted by a number of new products including ENO chewy bites and 'Tums plus Sleep'. Given the fact that 63% of US adults with heartburn find it difficult to sleep, this new chewy bite containing melatonin addresses not just the heartburn, but also helps people fall asleep.

Strong execution and financial discipline

I'd now like to talk briefly about our strong execution and commitment to financial discipline.

A good example here is in our supply chain, where we implemented dual sourcing for most of our critical materials, securing our supply.

This time last year, I also talked about our plan to proactively manage our portfolio of brands, to allow us to reallocate resources to the really important drivers of our future growth.

You'll remember that in November we disposed of our rights to Lamisil, which is part of our 'Skin Health' category. Since then, we have also agreed to divest Chapstick.

These are all good brands, but they aren't a key focus for us. Tobias will cover the impact of those transactions.

Increasing agility and productivity across Haleon

Moving now to the steps we've taken this year to drive a more agile, productive, and effective organisation, to underpin our future growth.

Alongside optimising existing processes and organisation structures, we will accelerate our speed to market, making the business more consumer focused, allowing us to invest in future growth.

This work will result in around £300 million of gross annualised savings. We expect about a third of that £300 million to come through in 2024, and the rest in 2025. We have made good progress and are on track to deliver on this guidance.

We will re-invest part of these savings into Advertising and R&D. We will also establish greater automation across the business.

Taken together, this will help strengthen our business and position Haleon for continued long-term success.

Responsible business integral to everything we do

I'd like to take a minute now to talk about the progress we've made in making everyday health more inclusive and accessible as part of our broader Responsible Business strategy.

We have a unique opportunity to address the challenges that hold people back from improving their everyday health. Here, we have made a clear commitment to empower 50 million people a year by 2025 to be more included in opportunities for better everyday health. We're well on our way to achieving this, reaching over 41 million people in 2023.

A good example of how we're doing that is through our Caltrate Bone Health programme in China. We have a long-standing partnership with the Chinese government to raise condition awareness of Osteoporosis. The work we are doing here has also helped strengthen Caltrate's leadership position in China.

We're also making good progress against our environmental and sustainability commitments. We will give you more detail on this in our upcoming Responsible Business Report.

So, as you can see, 2023 was another successful year. We are delivering against our strategy. We are executing well on our plan to be a more agile, consumer focused business and we have built a strong platform for future growth.

With that, I'll hand it over to Tobias to take you through the numbers in more detail.

Tobias Hestler

CFO, Haleon

Thanks Brian, good morning everyone.

Building our track record

We have delivered strong results this year, continuing on the trajectory we set over the last four years with strong growth in revenues, gross profit, adjusted profit and EBITDA, and generating a significant amount of cash which has supported our drive to deleverage. We have achieved this whilst we did the spin off and despite COVID, high levels of inflation and a more challenging economic backdrop. This gives us confidence that we are well placed for the future.

So, as I take you through the results for the year, I'll focus mostly on our adjusted results as this is the most meaningful way to understand our performance. As usual, you'll find a full reconciliation of adjusted results to IFRS in the release published today.

Delivering strong results

Our business continues to be resilient and we're building a track record of sustainable growth, and that's despite facing a challenging macro-economic backdrop.

Revenue of £11.3 billion reflected 8% organic revenue growth at the top end of the guidance upgraded at Half Year.

Our adjusted operating profit of £2.5 billion was up 10.4% constant currency or 10.8% on an organic basis. Going forward we will refer to organic profit growth, as this is a more relevant measure to understand the performance of our business, particularly as we do more to optimise the portfolio. But, for 2023 we are providing constant currency metrics for comparative purposes and for consistency. Our growth resulted in a 22.6% margin. That's up 50bps constant currency or 60bps organically. Inflationary cost pressures were more than offset by positive operating leverage generated from strong pricing and operational efficiencies. On top of this we demonstrated good cash generation and de-levered to 3x at the end of the year.

Let's take a look at the drivers of that revenue growth.

Strong FY revenue growth

Full Year organic revenue increased 8% with price at 7% and a 1% increase in volume/mix, showing the resilience of the business. We also saw a return to volume/mix growth in Q4.

There was around a 1% benefit to group revenue from pricing in Turkey and Argentina.

Our revenue growth was partially offset by 3.8% adverse translational FX, predominately sterling strength against the Argentine peso, Chinese renminbi and most other emerging market currencies.

Before turning to regional performance, I'd like to focus on Respiratory and VMS.

Respiratory: 2023 – 2024 season to-date returning to pre-COVID levels

Firstly, cold and flu, a more seasonal part of our portfolio in Respiratory health, a category which is around 15% of our business. The chart you see here is similar to what I shared this time last year. It shows weekly industry units sell-out data for the US. The grey shaded area is pre-pandemic sales, which is indicative of a normal seasonal pattern. That means low cold and flu sales in the summer and higher levels in the winter months. The black and green lines show sales for the prior two seasons. The pink line is the current season.

You can see that the seasonal trend and levels are now much more consistent with pre-COVID levels. In the current season, the peak happened slightly later – early January 2024, a trend more consistent with pre-COVID.

While this data is for the US market, we have seen a broadly similar trend in Europe. In geographies which lifted COVID-19 restrictions later, such as China, we saw elevated demand in Q4 2022 and Q1 2023, which we are now lapping.

Stepping back, whilst cold and flu will always have some seasonal volatility, the last few years have demonstrated the strength of our business in this important category, and it will continue to be a growth driver going forward. Having returned to a more normal season, 2023 will be a much cleaner base to work from.

Moving now to VMS.

Vitamins, Minerals and Supplements: Market share gains across the three largest VMS brands

As you know, our VMS performance this year has been negatively impacted by softness in the immunity category.

Here you can see how our three largest VMS brands, which account for over 85% of the category, are performing vs the market. Both Centrum and Caltrate are performing strongly and ahead of the market. Emergen-C declined but gained share in a declining market. We are well positioned for future growth in this category.

Now let’s turn to our regional segment performance.

Broad based growth across all regions

We delivered broad based organic revenue growth across all our regions.

Emerging markets, around a third of our revenue, generated strong broad-based growth up 14.5%. China was up double-digit, with growth skewed to the first half of the year, driven by elevated demand from the lifting of COVID-19 restrictions. Notably, growth in the emerging markets more than offset the negative impact of FX. So, even in times of more volatile currency moves, they continue to be additive to group growth.

Developed markets, which are around two-thirds of our revenue, saw good growth, up 4.9%.

Now looking at the regions one by one.

North America: FY growth driven by price; more favourable volume/mix in Q4

Starting with North America.

Organic revenue increased 2.7%, driven by 3.6% price with volume/mix down 0.9%. In Q4, organic revenue was up 3.5%. The split was 2.8% price, with a return to positive volume/mix up 0.7%.

In the year, Oral Health performed well with high-single digit growth underpinned by Sensodyne innovation. VMS declined mid-single digit due to weakness in immunity that impacted Emergen-C.

Respiratory Health was up high single digit due to strong cold and flu incidence in Q1, with a return to normal sell-in patterns and consumption in the second half of the year.

Adjusted operating profit increased 4.7% constant currency, ahead of sales growth, with tight control of A&P, which although down overall in light of the soft US consumer environment, was targeted to support certain growth categories. Performance was supported by pricing, strong cost management and a one-time tax credit. Taken together these more than offset significant cost inflation across the region.

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

EMEA and LatAm: Strong price underpinning double-digit organic growth

Organic revenue increased 12.6%, driven by price up 12.8% and volume/mix down 0.2%. We have said before that this region is most exposed to economies experiencing high inflation. Around 3 points of growth came from pricing in Turkey and Argentina.

In Q4, organic revenue was up 10.1% with price up 11.9% and volume mix down 1.8%. Those numbers reflect the challenging macro-economic environment across Europe.

For the year, our growth was broad based across the region. Southern and Northern Europe were up high-single digit and mid-single digit respectively. Germany grew mid-single digit, evidence that our turnaround in this market is working.

Looking at the categories, Oral Health revenue increased double-digit with all three Power Brands delivering double-digit growth.

VMS was up low-single digit with strong Centrum performance, which was partly offset by a decline in some Local Brands.

Respiratory was strong throughout the year, up in the mid-teens but this accounted for less than a quarter of the total growth for the region.

Adjusted operating profit increased 12.6% constant currency and 13.4% organically. The impact of divestments was most pronounced in this region. Growth was driven by strong pricing and continued operational efficiencies, which were partially offset by cost pressure.

I’ll now turn to Asia Pacific.

Asia Pacific: Good organic growth more volume/mix driven

Organic revenue increased 9.0%, with 2.7% price and 6.3% volume/mix. In Q4, organic revenue increased 6.8%, with a healthy balance of 3.5% price and 3.3% volume/mix.

Growth for the year was broad based with strong growth in key markets including China and India.

Within the categories, Respiratory and Pain relief were up double-digit, boosted by the end of COVID-19 lockdowns in China, which led to stronger demand in the first half. Oral Health was up mid-single digit, underpinned by our strong Sensodyne growth in several key markets. Parodontax and denture care both grew double-digit.

VMS was up mid-single digit as a result of strong performance from Centrum and Caltrate.

Adjusted operating profit increased by 17.8% constant currency, underpinned by positive operating leverage from strong revenue growth and operational efficiencies. These more than offset increased A&P and sales force investment in key emerging markets as well as some inflationary cost pressure.

Now that I have covered the regions, let's look at the overall group performance.

Adjusted operating profit growth of 10.4% constant currency

Over the last five years, including years with COVID pressures and inflation, our gross margin has been resilient and fairly consistent at around 62% throughout. Adjusted gross profit grew to £7 billion, up 7.3% constant currency, and only slightly behind revenue growth of 7.9%. Pricing and efficiencies largely offset cost inflation. As inflationary pressure eased in the fourth quarter, we saw a return to gross margin expansion.

SG&A costs increased 6% resulting in an increase in adjusted operating profit of 10.4% at constant currency.

What were the drivers of our strong Adjusted Operating profit?

FY adjusted operating profit growth

We delivered £2.5 billion of adjusted operating profit, an increase of £77 million. Strong revenue growth and tight cost control contributed to our £266 million increase in operating profit which you can see on this chart. These favourable drivers more than offset continued cost inflation, enabling us to continue to invest in the business in areas including sales force, automation, systems and processes. A&P spend was up c. 3%, which although less than revenue growth, was targeted on key growth areas of Oral Health and VMS, and key growth markets such as India and China. We would expect A&P growth to be higher in 2024.

Net M&A had a small negative impact of around £8 million and was around a 10bps drag on adjusted operating margin.

Finally, there was also a £181 million or 70bps adverse impact from foreign exchange. That mainly reflected movements in the Argentine peso, Chinese renminbi and most other emerging market currencies.

Taken together, this resulted in a 3.1% increase in adjusted operating profit and a 22.6% margin.

Adjusted EPS driven by strong operating profit, partly offset by annualisation of interest costs

Now taking you through the other items in the P&L. Our interest charge of £368 million reflects annualisation of bond interest payments.

Our Adjusted tax charge was £512 million and represents an effective tax rate of 23.5%, in line with previous guidance.

Overall, this resulted in adjusted diluted earnings of 17.3p per share.

Turning to the adjusting items.

Operating profit +90bps due to reduction in adjusting items

Net amortisation and impairment of intangible assets included the impairment of Chapstick.

As previously guided, restructuring costs increased largely due to the Productivity programme announced at the start of last year, and which Brian talked about a minute ago.

Separation and admission costs were £120 million. Whilst this was ahead of our earlier guidance, the majority has now been incurred with around £40m remaining in 2024.

So, how did we do on cash?

Strong free cash flow generation

We generated a significant amount of cash, continued evidence of the highly cash generative nature of our business. For the year, free cash flow was £1.6 billion.

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

Working capital reduced from over 9% to 8% of sales, largely due to lower receivables given a reduction in debtor days partially offset by higher inventory.

Cash tax of £445 million and as guided, is now more aligned to the P&L tax charge.

Capital expenditure was around 3% of sales, reflecting our continued investment in the business.

Sale of intangibles included the proceeds from the Lamisil disposal we completed in Q4.

Turning to Haleon's debt and liquidity profile.

Leverage reduced to 3.0x – £2.2bn net debt reduction since demerger

We reduced our net debt by £1.4 billion during the year and by over £2 billion since the demerger. We ended the year with leverage of three times, close to delivering on our commitment to be below 3x during 2024. We also ended the year with cash of £1 billion with no commercial paper outstanding.

Around 77% of our debt is currently fixed. Our next bond matures in March 2024, which we expect to fund through operational cash flow.

We continue to have no major refinancing needs until March 2025.

Optimising the portfolio to accelerate future growth

The disposals that we've announced so far as well as the ongoing portfolio optimisation will be helpful in reducing our debt.

As a reminder, ahead of our listing there was a significant rationalisation programme to focus on key categories for growth.

In a company with many brands, there is always opportunity to simplify the business and focus on more attractive and consistent growth categories. The Lamisil and Chapstick disposals are two great examples, with both brands having delivered inconsistent performance and lost market share. Under new ownership, Chapstick and Lamisil will be better placed to thrive, and the passive minority stake we retained with Chapstick will also allow us to share in future upside.

Our work on the portfolio follows a rigorous strategic review.

In addition to the top line benefit, proceeds from disposals provide increased optionality and choices in how we allocate capital. While these actions are initially dilutive to operating profit, we are convinced they bring real strategic benefit to the business and will deliver shareholder value.

Moving now to our capital allocation framework, updated for our revised guidance.

Updated capital allocation

We remain committed to investing in the business and this remains our priority to drive sustainable long-term growth.

Secondly, we will continue to look at M&A where it is commercially compelling and consistent with our strategy, as well as being active in portfolio management. Importantly, we do not need to do deals to deliver on our guidance, especially with the strong growth opportunities we already have available.

Thirdly, we are committed to building our track record of delivering attractive shareholder returns. Consistent with this, we have increased the dividend payout from 30% last year to 35%, resulting in a final dividend of 4.2p taking the total dividend to 6p. Going forward, we intend to grow our dividend at least in line with earnings.

Additionally, as Brian mentioned earlier, we have announced today, we will allocate capital of £500m to share buybacks in 2024, given the accelerated progress in de-leveraging from cash generated by the business, as well as the cash proceeds from recent disposals. We remain confident in our future cash generation.

This reflects our focus on capital discipline, helps mitigate the dilution from the brand disposals and is consistent with our ambition of moving towards our optimal leverage range, of around 2.5x net debt/adjusted EBITDA over the medium term.

We intend to execute the buyback in 2024, either on-market, and/or through direct off-market buybacks if the opportunity arises.

Considerations for full year 2024

Finally, let me turn to our outlook for 2024.

We expect to deliver organic revenue growth in the 4-6% range, in-line with our medium-term guidance. However, organic revenue growth in Q1 will be just below the lower end of this range, given the tough comparatives relating to the strong cold and flu season in Q1 last year as well as the China rebound and the Advil Canada performance.

We see another year of positive operating leverage. The easing of inflation and our ability to take price will result in Gross Margin expansion. Together with the benefit of the productivity programme, this will allow us to invest into processes, systems and higher A&P in order to drive sales growth. All together, resulting in organic operating profit growing ahead of our organic revenue growth.

We expect the Lamisil and ChapStick disposals to dilute full year 2024 revenue and adjusted operating profit by c.1% and c.3% respectively. This assumes the ChapStick disposal completes in Q2.

We have shared in the release the expected adverse translational foreign exchange impact for the year.

Also, from 2024 we are making some changes in how we account for high inflation countries, effectively capping the benefit to organic growth. More detail is in the results release.

Outlook for the full year 2024

In addition, we expect net interest expense to be around £320 million and an estimated tax rate on adjusted profit in the range of 24-25%.

Conclusion

In conclusion, Haleon is performing strongly across both our Power Brands and Local Growth brands.

We delivered operating profit growth and strong positive operating leverage across the business, clear proof that our model is delivering.

We are actively managing our portfolio to strengthen the business, increasing focus on our most important brands and enabling us to pay down debt quickly.

And this, combined with the excellent cash generation in the business, is allowing us to make good progress on further bringing down leverage and enhancing shareholder returns.

All together, we are confident that we are well placed to deliver on 2024 and to deliver superior shareholder value.

With that, I will hand back to Brian.

Brian McNamara

CEO, Haleon

Medium term guidance

Thanks Tobias.

Before I close, I'm going to touch on our medium-term guidance. We continue to target annual organic sales growth of between 4-6%, organic operating profit growth ahead of that range, resulting in margin expansion.

So, 2023 was another successful year. And we are continuing to build a strong track-record as a standalone business.

Our strategy supported the high-quality growth we generated in the year, which was underpinned by the excellent performance of Haleon's brand portfolio, in categories which continue to offer strong growth potential.

We are confident in our 2024 guidance and our ability to deliver against our medium-term guidance.

Thank you for your continued interest and support.