Haleon FY 2024 Results

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Introduction

Hello, welcome to our Full Year Results Presentation.

2024 was another successful year. We delivered on our strategy and continued to outperform. We did that by growing the categories we compete in and by developing new innovations and driving household penetration.

During the year, we made significant strides in transforming Haleon into a more agile, competitive and consumer-focused organisation. We also advanced our Responsible Business agenda, with good progress on both our environmental and social impact goals.

FY Performance: Key Messages

Now, let's take a look at our results in more detail.

Organic revenue growth was up 5.0% for the year and in Q4, our growth was even stronger at 6.8%. Our nine Power Brands were up 6.3%, contributing around 3/4 of the Group's growth. I'm talking about brands like *Sensodyne*, *paradontax*, *Otrivin* and *Centrum*.

Continuing the momentum we talked about at Half Year, 71% of the business also gained or maintained share. That's a strong performance and it shows consumers are continuing to choose our brands.

Our growth was also profitable. Organic profit was up 9.8%, with our margin up 100 basis points on an organic basis helped by strong operating leverage across the business. On a reported basis, our margin was down 30 basis points. That was the result of our divestments and adverse foreign exchange. Dawn will take you through the detail shortly.

We generated strong cash flow during the year and our net debt leverage now stands at 2.8x. That's after we returned over £1 billion to shareholders in 2024 through our first share buyback programme, as well as the dividends we've paid. We also partially reinvested the proceeds from our divestments in our China Joint Venture, where we now own 88% and where we have a path to full ownership in 2025.

We're confident about the year ahead and confident that we will deliver against our medium-term guidance. In addition, we are also announcing today a £500m allocation to share buybacks this year.

I'll now take you through our performance by category.

Oral Health: Outperformance through continued strength in Power Brands

Oral Health was again the standout performer, outpacing the market and delivering another strong performance across the portfolio. Organic revenue was up 9.6% for the year and 10.6% in Q4, continuing the momentum we saw in the first half. he highlight was the performance of our three Power Brands – *Sensodyne*, *parodontax* and *Polident/Poligrip* – which all performed well and gained share.

Our strong performance in Oral Health was supported by a series of successful innovations, which as well as driving our own performance also helped grow the category.

Take *Sensodyne* Clinical White. It's the "one product" scientifically proven to whiten teeth by two shades, while also providing care for sensitive teeth. Within 12 months of its launch, Clinical White has become the #1 Oral Health innovation in the U.K. in terms of consumption value. It was also the #1 Oral Health innovation in the U.S. in 2024. So far, we have launched Clinical White in over 10 markets, including the UK, US and France. We continue to see real opportunity for our Clinical range, which includes Clinical Repair, which we've launched in Germany with strong consumer feedback and plan to roll out to a number of new markets in 2025.

parodontax is another example of where we've innovated to drive growth, as well as to expand the category. *parodontax* Gum Strengthen and Protect is a new multi-format range across toothpaste and mouthwash. In addition to daily oral care, *parodontax* Gum Strengthen and Protect helps prevent the accumulation of plaque-forming bacteria around the gum line. So far, we have launched it in a number of markets across Europe, Middle East and Africa, including Italy, UK and Turkey, and it has helped parodontax achieve record market shares.

Clearly, new innovations are important, but we're also attracting new consumers to our brands at lower price points. The launch of a new 20-rupee *Sensodyne* pack in India is a good example of what I mean. That price point is where the vast majority of the toothpaste market sits in terms of volume. Having only launched in May, it is already in around 300,000 outlets across India. We expect to reach around 800,000 outlets in 2025 and over 3 million outlets in the next few years.

Vitamins, minerals and supplements: Share gain momentum underpinned by claims activation

Now let's look at Vitamins, Minerals and Supplements. Our differentiated VMS portfolio has continued to deliver growth. Building on the momentum in the first half, we delivered organic revenue growth of 7.6% for the year, and 8.2% in Q4.

Centrum continued to outperform the multivitamin category globally, helped by the activation of our cognitive claims which are backed by clinical studies.

We also expanded our *Centrum* Essencials range in Brazil to include single sachet serving, focused on energy and immunity – a key need for consumers. Initial performance has been positive. In fact, half of consumers buying *Centrum* Essencials are completely new to the category.

OTC Pain Relief: Performance impacted by comparatives

Moving now to our over-the-counter Pain Relief category. Organic revenue was relatively flat at 0.1% for the Full Year and 7.4% in the fourth quarter. We saw a strong performance from *Voltaren* in China and our Local Growth Brands, notably *GrandPa* in South Africa. As we expected, *Panadol* and *Fenbid* were down due to tough comparators.

We've made good progress innovating across the portfolio and that positions us well to drive future growth.

Take *Panadol* Dual Action, a new innovation that combines paracetamol and ibuprofen. Since launching Panadol Dual Action in Pakistan in November, we've taken it to a number of markets across Central and Eastern Europe. In developing the new product, we leveraged patented technology from our market-leading *Advil* brand to leverage its superior functionality. This is an exciting innovation that has significant potential for growth as we roll it out globally.

OTC Respiratory Health: Performance impacted by weak cold & flu season

Now, for Respiratory Health. Here, organic revenue increased 0.9% in the year and was down 1.3% in the fourth quarter. Performance was impacted by tough comparatives in the first half of the year. There was also a softer cold and flu season towards the end of 2024. Dawn will cover this in more detail.

Outside of this, performance was once again underpinned by innovation and strong commercial execution.

Here, *Otrivin* Nasal Mist is a good example. Our innovative new dispensing technology, which is unique to Haleon, is continuing to drive share gains. We have taken the product to a number of markets, including the U.K., Sweden, the Netherlands, Finland and Denmark and we're looking forward to launching it in more markets globally in the coming months.

OTC Digestive Health and Other: Organic growth across all three sub-categories

Finally, let's turn to Digestive Health and Other, where organic revenue was up 5.5% for the year and 6.6% in the fourth quarter.

Digestive Health was up mid-single digit for the full year as well as during the fourth quarter. That performance was underpinned by strength in *Tums* and *Benefiber*, as well as *ENO*, which benefited from the launch of *ENO* Chewy Bites and *ENO* 3 in 1 in India.

Smoking Cessation grew low-single digits for the full-year. But, it declined double-digits in the fourth quarter, due to the softer market conditions in the U.S.

Skin Health was up high single digit for both the full-year and the fourth quarter. *Bactroban* in China continued to be a key growth driver.

Eroxon, which we launched at the end of September in the U.S., is the first and only over-the-counter FDA-approved topical erectile dysfunction treatment. As a reminder, *Eroxon* is a new brand in a first time OTC category, which requires a new consumer behaviour.

While we knew it would take time to build the brand, uptake has been slower than we had expected. We're working closely with our retail partners to build awareness with the right demographic and we will update on progress in the coming months.

Strong Execution and Financial Discipline

Now, I'd like to turn to our strong execution and commitment to financial discipline. That includes driving ongoing operational efficiency, managing our manufacturing footprint, and evolving our portfolio.

Two years on from announcing our productivity programme, we're on track to fully deliver the £300m in annualised gross savings that we committed to in Full Year 2025. We delivered roughly half of that £300m in 2024.

We have also driven further efficiencies and productivity across our supply chain, where we continue to see significant opportunity.

We have reinvested part of our savings into fuelling innovation and driving growth. By that, I mean investing in A&P, R&D, Clinical Trials and Real-World Studies.

Finally, we remain pro-active in managing our portfolio for growth. We completed the disposal of *ChapStick* in May and at the end of September, we closed the divestment of our NRT business outside the U.S. At the end of the year, we reinvested some of the proceeds into our OTC China JV.

With that, I'll turn it over to Dawn to take you through the numbers.

Dawn Allen

CFO, Haleon

Thank you Brian and good morning everyone.

It's great to be here talking to you for the first time as Group CFO of Haleon.

I've been on board now for a few months and in that time I've visited our sites across the world and met with lots of stakeholders. I have been very impressed by the strength of our brands, our world class science and our expert coverage across key markets. I am confident in our strategy and excited about the growth opportunity ahead. And of course, I am also looking forward to getting to know all of you over the coming months.

So, turning to our 2024 results.

We delivered another year of strong performance, continuing on the trajectory we set over the last few years. On an organic basis, we achieved good growth across revenue, gross profit and operating profit, which also translated through into strong cash conversion, enabling us to reduce leverage.

Our business continues to be resilient and we're building a strong track record of sustainable growth, despite a more challenging economic backdrop. We feel confident as we are well placed for the future, with the company's well established growth algorithm continuing to deliver.

Turning to revenue.

FY 2024: Financial Highlights

Organic revenue grew 5.0% driven by pricing of 3.7% and volume/mix of 1.3%. Organic gross profit came in ahead of organic revenue growth, up 8.1%, primarily driven by the strong performance of Power Brands and productivity initiatives. Strong gross profit performance enabled us to continue to invest in our growth agenda, with A&P up 10.2% and R&D up 3% in constant currency. After these investments, organic operating profit grew 9.8%, which translates to 100bps of organic margin expansion.

Our free cashflow generation was strong, increasing to £1.9bn in 2024, driven by improvements in working capital, lower interest costs and proceeds from the sale of *ChapStick*. Strong cashflow, combined with proceeds from the sale of the non US Nicotine Replacement Therapy business, allowed us to increase our stake in the China OTC Joint Venture and to return over £1bn to shareholders through share buybacks and dividends.

Looking to the year ahead, we expect to deliver organic revenue growth of between 4-6% with organic profit growth ahead of this, consistent with our medium-term outlook.

Turning to the results in more detail.

FY Revenue Growth

Organic revenue grew 5.0%. Reported revenue declined (0.6)% to £11.2bn impacted by the headwinds from foreign exchange of (3.7)% and by the divestments of (1.9)%.

The FX impact resulted from Sterling strength against all key currencies during the year.

FY Organic Profit Growth

Organic operating profit was up 9.8%, driven by the factors I outlined earlier. Adjusted operating profit of £2.5bn was down (1.9)%, impacted by divestments of (5.2)% and the FX translation of (6.5)%. This resulted in an adjusted operating profit margin of 22.3%, down 30 bps versus the prior year.

Now let's look at each region, starting with North America.

North America

Organic revenue for the year increased 1.1%, as pricing of 2.3% more than offset a (1.2)% decline in volume/mix.

In Q4, the region delivered 2.4% organic revenue growth, with 0.5% price and 1.9% volume/mix. Performance in the fourth quarter was mainly driven by continued strong growth in Oral Health, underpinned by new innovations including Clinical White. This was partly offset by a softer cold & flu season compared to 2023. Also in the quarter, whilst small, we started sales of *Eroxon*.

For the year, organic operating profit was down (2.1)%, with the benefits of price and productivity more than offset by increased investment in A&P spend, alongside lapping a one-off tax benefit in the prior year. As a result, adjusted operating profit margin was 24.7%, a decrease of (80)bps on an organic basis or (170)bps overall versus the prior year.

Cold & Flu

I wanted to take a moment to come back to cold & flu, which is a more seasonal part of our portfolio in Respiratory Health, and which also impacts certain brands in VMS, especially *Emergen-C*, our vitamin C immunity product.

This chart shows weekly industry sell-out data for the US. As you can see with the grey line, sell-out in Q4 was running around 10% below prior year levels, reflecting the lower level of respiratory infections. While consumption at the start of 2025 has improved on the Q4 run rate, I would still expect our respiratory health performance to be softer in the first quarter 2025 due to higher trade inventories at the end of the year for these seasonal products.

Moving to EMEA and LATAM.

EMEA and LatAm

Organic revenue increased 7.9%, driven by price, up 5.9% and volume/mix up 2.0%.

Q4 organic revenue growth of 9.8% was evenly balanced across price 5.5% and volume/mix 4.3%. Performance in the quarter reflected broad based growth across the categories, with Oral Health delivering double digit growth, VMS growing strongly driven by geographical expansion and in market launches, and Pain Relief benefiting from strong sales in *Panadol* and *Voltaren* in the Middle East.

For the year, organic operating profit increased 20.2%, as pricing, productivity and a benefit in the first half from inventory revaluation more than offset an increase in A&P. This led to an adjusted operating margin of 22.8%, up 240bps organically and overall 50bps versus the prior year.

Now moving to APAC.

Asia Pacific

Organic revenue increased 6.0% in the year, driven by 1.9% price and 4.1% volume/mix.

The region delivered strong growth in Q4, with organic revenue up 9.9%, comprising 1.9% price and 8.0% volume/mix. This was driven by double-digit growth in Oral Health across both *Sensodyne* and *parodontax*, along with VMS which also saw strong growth with continued momentum in *Caltrate*. These positive drivers were partially offset by a slight decline in Respiratory Health, following a weaker cold and flu season and softer pain relief market conditions in Australia.

For the year, organic operating profit grew 12.6%, with operating leverage and cost efficiencies more than offsetting increased investment in A&P spend. As a result, adjusted operating margin increased 130 basis points organically and was flat overall against the prior year at 21.1%.

Let's now look at the bottom half of the income statement.

Adjusted EPS Growth

Adjusted diluted EPS grew 3.5%. In addition to the operating profit drivers I already outlined, EPS growth also benefited from:

- A lower net interest charge, driven by debt reduction and higher cash balances
- Lower non-controlling interest
- A lower share count thanks to our £500m share buyback.

Briefly touching on the non-controlling interest, the £33m profit attributed to our China JV was approximately half the level of the prior year. This was due to two factors. Firstly, lapping stronger prior-year comparatives due to the easing of China lockdown restrictions in the first half 2023 and secondly, the increase in our Joint Venture stake, as the second half dividend paid was included in the purchase price consideration and hence accounted for as an equity adjustment. Looking ahead, I expect this non-controlling interest expense to be around £15m in 2025.

As a final point, our adjusted tax charge was 24.0%, at the low end of our 24-25% range.

Turning now to adjusting items.

Adjusting Items

Overall, the key items were:

Net amortisation and impairment of intangible assets of £147m, which included a £135m non-cash impairment charge on Nexium, given more challenging market conditions.

Restructuring costs totalled £214m, with around £150m relating to the productivity programme and £60m from the proposed closure of the Maidenhead site, the majority of which was non-cash. As a reminder, the savings and costs related to Maidenhead are incremental to the productivity programme. Both are examples of deliberate actions we are taking to drive a more agile and competitive organisation.

Finally, disposals and others included a £121m gain from the divestment of the non-US Nicotine Replacement Therapy business.

I will now take you through our strong free cashflow generation.

Strong free cash flow generation

We delivered strong free cashflow of £1.9bn for the year. This was driven by a strong trading performance and a reduction in working capital from 8% to 7.2% of sales, largely due to improved inventory management. We continue to see opportunities to improve working capital and improve our cash conversion.

Let's now look at Haleon's debt and liquidity profile.

Leverage reduced to 2.8x

Net debt reduced by over £600m in the year, taking our leverage down to 2.8x net debt/adjusted EBITDA. The primary driver was the strong free cash flow I just highlighted. But other notable moving parts were the proceeds from disposals, which we mostly reinvested into the China JV, and the step up in shareholder returns, with over £1bn returned to shareholders through dividends and share buybacks.

Also in September, we raised €750m and £300m in fixed notes. We expect to use these proceeds to repay the $1.75bn bond that matures in March this year.

As a reminder, around 75% of our bond debt is currently fixed. Our next major maturity after March 2025 is the €850m bond due in March 2026.

With that, I think it is worth spending a moment on our approach to capital allocation.

Disciplined Capital Allocation Framework

Haleon has made great progress with deleveraging and moving towards its medium-term target of around 2.5x net debt/adjusted EBITDA.

We remain committed to investing in the business to drive long term sustainable growth and we will continue to look at M&A where it is commercially compelling and consistent with our strategy.

As you have seen we are focused on building our track record of delivering attractive shareholder returns. Consistent with this, the board has proposed a final dividend of 4.6p which represents a 10% increase in the total dividend for the year to 6.6p, and today we are announcing a £500m allocation to share buybacks for 2025.

Finally, let me turn to our outlook.

FY 2025 Guidance

We expect to deliver 4-6% organic revenue growth. This will be weighted towards the second half of the year given the weaker cold and flu season in North America and Europe. So, organic growth in the first quarter is likely to be slightly below the low end of this range, due to the seasonal nature of cold and flu. We expect organic growth to build through the year.

We also see another year of gross margin progression which will support continued investment in A&P and R&D. This combined with operating leverage and productivity benefits, will result in organic operating profit growth ahead of organic revenue growth. In terms of phasing, I would also expect this to be weighted towards the second half of the year, in line with revenue growth.

I expect net interest expense to be around £270m given a lower net debt position and an estimated tax rate on adjusted profit of around 24.0%.

Conclusion

So, in summary, we achieved strong financial performance in 2024, supported by our proven growth algorithm.

We continued to actively manage our portfolio to strengthen the business and allocate investment and resources to our key brands. Combined with the highly cash generative nature of the business, this allowed us to further reduce leverage and deliver attractive shareholder returns.

For 2025, I am confident we are well placed to achieve another year of strong financial and operational performance.

With that, I will hand back to Brian.

Brian McNamara

CEO, Haleon

Medium term guidance

Thanks, Dawn.

So, our strategy is delivering and we're continuing to build a track record of consistently strong performance. We're well placed to deliver on our medium-term guidance of 4-6% annual organic revenue growth, with organic profit growth ahead of that.

Haleon is a resilient business with a great portfolio of leading brands which have strong market positions. The opportunity ahead is significant and we are transforming Haleon into a high-performing and agile consumer health company.

I'm looking forward to telling you more about the next stage of Haleon's journey at our Capital Markets Day in May, but in the meantime, thank you for your continued support and interest in Haleon.