Haleon FY 2024 Results Q&A

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Introduction

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Welcome

Good morning, everyone, and welcome to Haleon's Full-year 2024 Q&A Call. I am Jo Russell, Head of Investment Relations, and I am joined this morning by Brian McNamara, our Chief Executive Officer, and Dawn Allen, our Chief Financial Officer.

Disclaimer

Just to remind listeners on the call about the discussion today, the company may make certain forward-looking statements, including those referred to our estimates, plans and expectations. Please refer to this morning's announcement to the company's UK and SEC filings for details, including factors that could lead to actual results differ materially from those expressed in or implied by such forward-looking statements.

We have posted today's presentation on the website this morning. We have prepared remarks and a video running through the results in detail, so hopefully you have all had the chance to see that ahead of this call.

And with that, go straight to opening the call with Q&A. Thank you, and over to Brian and Dawn.

Q&A

Guillaume Delmas (UBS): Thank you very much, and good morning, Brian and Dawn. A couple of questions for me, please. The first one is on your performance being skewed toward the second half of the year in 2025.

Given the strong momentum you are currently seeing in emerging markets, I am thinking India and China in particular, but also the strong momentum in Oral Health, would it be fair to assume that the soft start to the year will be predominantly attributable to mature markets, I am thinking the US here, and also mostly your OTC divisions? And then look, the second half, what underpins your confidence in some re-acceleration? Is it mostly down to the current sell-in, sell-out discrepancy that will correct or any other factors you would mention?

And then my second question is on Oral Health. How sustainable do you think the current performance of the division is? In particular, how far do you think you are in the Clinical White journey, as in many more opportunities of distribution expansion, geographical rollouts?

And maybe a tricky question for you, Brian, but do you think you have another Clinical White in your innovation pipeline that could be launched soon? Thank you very much.

Brian McNamara: Great. Thanks, Gil. Thanks for the two questions. Let me take those questions. I will ask Dawn if she has any comments on top.

First of all, on the performance, I think a couple of things. What we saw in the dynamic towards the end of the year is a low cold and flu season. Actually, to give perspective, in the US, the cold and flu category, the market was down 15%. It was also down 15% in the rest of the world.

You may remember also that we are a little less exposed to the US for cold and flu, which means we are obviously more exposed to the rest of the world. That has been a benefit. However, both have been down 15%.

So the dynamic that has created is the sell-in happened. The consumption did not happen to the level we were expecting it to. We assume an average season, which would not have been down. So as a result, we have higher inventory levels in the trade. That primarily impacts respiratory health, but it also has a lesser impact on pain release category and also Emergen-C specifically, which is an immunity brand in the US. And that has where that impact is.

What is the confidence on the full year? We are confident, let me start there, with the 4-6% growth. I think part of it is, Gil, listen, the business underlying is performing well. 71% of the business gained and maintained share for the full year.

We feel good about that. We feel good about the innovation we have. We are launching this year.

And we know that Q1 is off to a slow start because of that dynamic. And also in the US, there is a little bit of an inventory dynamic that is broader, relating to some of the drug retailers, which are really struggling right now.

On Oral Health, just to say, Clinical White has been fantastic. We are going to roll it out in about 12 more markets this year. We have also launched Clinical Repair. Clinical is really a platform on us.

We have launched that in Germany and three other markets. We will launch it in more markets this year. We just launched in the US Clinical Enamel Repair, which launched in February in the US. So actually, think about Clinical as a platform for us on innovation. So I feel great about our Oral Health business because it is not only Sensodyne. You know, we saw parodontax growing healthy double-digit. We saw denture care growing healthy double-digit. It is really underpinned by strong innovation.

Dawn Allen: Yes, I think just maybe three things, three specifics, just to build on that in terms of what gives us confidence in half-two. Brian talked about innovation. And let us be clear, innovation is working really well across all categories, whether it is Otravin Naval Mist, whether it is things like Centrum Silver, or the daily sachets that we have launched, or Centrum Essentials, you know, Sensodyne Kids as an example. I think innovation continues to drive category growth and results in share gain. So I think that gives us confidence.

I think the second piece is route-to-market. So as you know, we are investing in India in terms of our own sales force. We have also obviously done the joint venture investment in China to enhance our route-to-market. So building distribution is also a critical lever.

And I think the third lever, and you saw this in 2024, we increased A&P investment 10.2% last year, 100 basis points. And we continue to invest in expert, both expert coverage, and the number of samples. So I think you look at the fundamental drivers in terms of the strength of the business and what underpins that confidence moving forward, I would look to those three things.

Guillaume Delmas (UBS): Thank you, both.

David Hayes (Jefferies): Thank you. Good morning, all. A couple for me, one on FX, and one on the balance sheet, I guess.

So just on FX, so obviously you are indicating that there is still this FX headwind coming through in 2025. I think when we were talking to you, and you were talking to investors towards the end of last year, beginning of this year, it felt like it might be a tailwind, a small tailwind, both in terms of top-line and margin. So just trying to understand what may be changed over the last month or two, and whether there is some dynamic here that means that the visibility on the FX effects, is something that is difficult for you to forecast until you are kind of right on top of going into the period.

And then in terms of balance sheet usage, £500 million share buyback reloaded, does that leave you scope for M&A? In a sense, I think with investors is that you have been looking for acquisitions the other side of these divestments to tidy up the portfolio. Is that something that you would say you are actively prospecting, is to look at deals still within that context?

And I guess to tie into Eroxon, you saw Futura saying a few weeks ago that they were cutting their 2025 outlook. Can you give us your perspective on that commentary? Has it been a bit disappointing? And or in terms of M&A, is that a business that you think you could look to actually fully participate in and maybe sort of change the strategy and maybe improve that momentum? Is that something that needs to be done? Thank you so much.

Brian McNamara: Okay, thank you. Thank you, David. Well, I will start with Eroxon, make a quick comment on balance sheet and then pass it to Dawn to answer the rest.

So, you know, on Eroxon, we did launch in October. I have always said this is a new OTC category with a new brand, with a new consumer behaviour. So we always expected it to be a bit of a slow startup.

There is no question that the early trial and results have been slower than we expected. We continue, we believe this is a big unmet need for consumers. We are continuing to look at it and understand what has happened, but there is no question, I want to be clear, it is a bit below our expectations. Now, that said, that is all incorporated in our 4-6% guidance going forward. We are still very confident on the full year.

Just one comment on M&A and balance sheet is our capital allocations are very clear, investing growth, bolt-on M&A, return cash to shareholders. Obviously, we are quite confident in our outlook and our cash flow, hence the increase in dividend and the £500 million of stock buyback. but, we still have headroom to be able to do bolt-on M&A. And the right thing comes on, and it strengthens our portfolio, we will absolutely have the capability and ability to do that.

Dawn?

Dawn Allen: Yes, thanks, Brian. So if I just take your currency question first, just a few things to say on this. So I think the geographical diversification of the Group represents a key strength for us and provides attractive growth opportunities. But the flip side of that is that, obviously, results in currency impact and fluctuations. And obviously, from a currency market perspective, that has something that we do not control. And I think if you look in the year, what we have, whilst we do not guide to currency, we have tried to give our best view on the forecast, and we have taken the Bloomberg forward rate, which gives a headwind on the top line and the bottom line, -1%, -2.5%. And the reason why we have included that as opposed to spot rates is because of the emerging market impact. So what you see in emerging market is a higher level of inflation, but also then that results in a devaluation or the flip side in terms of currency. And if you just take the spot rate, the risk is you do not factor that into account.

Now, if we were still forecasting on a spot rate basis, that would be negative 0.5% impact on revenue and 1% impact on the bottom line. The other thing to say for this year, if you remember what happened in 2024, we saw a large negative impact in Q3. So if I look at the weighting of the Forex impact this year, we expect a bigger drag in the first half versus the second half.

Having said all of that, look, we recognise the frustration around currency. And as I said, whilst we do not control currency markets, we are looking at what are different options. So how can we reduce this? How can we mitigate this? And this is around strategic choices. So things such as supply chain footprint, supply chain optimisation, investment choices in different markets, pricing strategy with inflation and process optimisation, so that we can match more closely revenues and costs. So that is kind of the currency piece.

Probably just one other thing to say on the balance sheet, obviously, every year we do an exercise where we look at what has the available capital that we have, and what has the most optimal use of that capital. And actually, if you look at the track record over the last few years, we have been really good in terms of capital allocation.

We obviously did that exercise this year. We thought the most optimal use of that cash was to return £500 million surplus cash to shareholders. And to Brian's point, given that we have strong free cash flow in the business, and this remains a key focus for us moving forward, that enables us also, that gives us optionality should there be an opportunity in terms of bolt-on M&A.

David Hayes: That is great. Great. Thank you.

Rashad Kawan (Morgan Stanley): Good morning, Brian and Dawn. Thanks for taking my questions. Just a couple for me.

So first one, if I can ask about VMS, obviously, high-single-digit growth in 2024. How do you see the category from here? Do you feel like outside of the Emergen-C volatility, it is back to where you expected it to be a few years ago back at your CMD? And maybe talk a little bit about the innovation pipeline that you have there.

And then second question, just again on the second half weighting point, I know you flagged inventory revaluation, I think is part of the reason why maybe profit growth will be second half weighted. I do not recall that being discussed last year. Can you remind us of what that relates to, and how much of a benefit it was last year, and how that impacts the base this year? Thank you.

Brian McNamara: Great. Thanks, Rashad. I will take the VMS question. I will pass it to Dawn on inventory reval and the savings across the year.

So yes, I do believe that the VMS category is back to kind of where we would have expected it to be when we initially had our Capital Markets Day, which was three days after Russia invaded Ukraine and the entire world changed and inflation came in. And obviously, there was other spikes in COVID and all that kind of stuff.

So I think the category is back. You are right, though, that Emergen-C is a brand that has performed well for us. It is a great subcategory, but it does have a bit of a seasonal element to it. And we certainly saw that with the extreme spikes in Emergen-C during COVID and during the different variants and stuff. So outside of that piece of seasonality, we feel good about that business. And as we have always said, we have a very unique asset in Centrum being really the only global VMS brand in the world in over 68 countries, fantastic footprint in China with Caltrate and Centrum.

We feel good about that category, and we feel like it is in a more stable place where we would expect it to be, outside of that bit of seasonality.

Dawn?

Dawn Allen: Yes. So I think in terms of first half, second half weighting, two factors on that. One, we have obviously talked about the seasonality impact in terms of cold and flu. That has the first impact in terms of first half, second half on the bottom line. Second impact, as you have said, is the inventory valuation. And I think what's important on this is that we are confident in delivering the full-year guidance as we have laid out for this year. And any lapping impact in terms of inventory valuation is baked into that guidance. So that's the first thing to say.

The reason why we are calling it out is because it impacts the phasing because this was a benefit in the first half of last year. And just to give you some context, we have not done inventory revaluation since the demerger, so 2024 was the first year that we did it. If you think about where inflation has come from, in years 2022, 2023 inflation was higher. So obviously, it does have an impact in the year. Moving forward, this is something that we will do annually each year. And we have done in 2025, and there is minimal impact. but, as I said, I think what has the most important thing is that we are confident in the guidance for this year.

Rashad Kawan: Thank you very much.

Chris Pitcher (Redburn): Thanks very much. A general question, please. We are talking about retailer stock levels and things like cold and flu. But, could you just give us a sense more broadly across the retail landscape in the US? Because we are hearing from lots of HPC companies that shipments are perhaps lagging underlying demand. Is there something a bit more deep-seated in terms of your customers looking to save on cash? Have they become a bit more conservative on the consumer?

And then a question for Dawn. A good performance on working capital. Now that you have been there a bit, how big an opportunity do you see in terms of working capital efficiencies to drive out? I know this is the last year of the operating efficiency programme, but is there more to go for there? And if there is, could you help quantify? Thanks.

Brian McNamara: Great. Thanks for the questions, Chris. I will take the first question on US retail environment, and then I will pass it over to Dawn.

Listen, I think there are a couple of retailers that are struggling in the US in the drug channel openly. And we do see some more pressure on inventory levels there. They have full-year results at the end of February. They are managing their full-year results. I do not think there is anything particularly deeper seated there or a massive shift happening. But, I think we just have a couple of retailers that are struggling a bit more, and they are working to manage their cash.

The bigger impact for us is a seasonality impact versus that. But, that is something that we are not immune to either. But, ultimately, it is a seasonality impact, which impacts primarily respiratory, but there is a couple of other categories that I pointed out.

Dawn?

Dawn Allen: Yes, I think on working capital, I think we made really good progress in 2024. We improved working capital by 13 days, and a portion of that is driven by reduction in inventory. I think the opportunity on working capital, there is still a large opportunity, whether it is around payment terms with suppliers, whether it is around optimising receivable days in terms of our processes, around cash collection.

And I would say the biggest area is inventory. Whether it is around optimising our demand planning, our supply chain planning processes, our supply footprint, or whether it is around the number of SKUs and formulations that we have, I think there is actually a big opportunity across the piece. And that is something that, like we did in 2024, we will continue to focus on to unlock that opportunity.

Chris Pitcher (Redburn): Thank you.

Tom Sykes (Deutsche Bank): Yes, morning. Thank you. A couple of questions.

One, just firstly, as you have taken over full ownership or increased ownership of the China JV, is there anything in terms of accounting or oversight or so that you would pick out as something different to when you had a lower level of ownership at all? And are any of the inventory revals, can you say anything geographically, is any of that in China, please?

And then just on M&A and perhaps the innovation cycle that you have. You are obviously doing very well in Oral and you are doing well in product, which is more a want rather than a need. And so therefore, when you think about your M&A, is it going to be focused on innovation? Is it focused on health, if you like, or is it focused more on more regular consumer purchases such as Oral, maybe VMS, functional nutrition, etc.?

Brian McNamara: Okay. Thanks for the question. Maybe a couple of things. Let me comment on the China JV. You had a question related to China JV, I think on inventory evaluation if there is any impact there. And then I will just comment on, and I will ask Dawn to comment on that, and then I will comment on M&A question.

First of all, on the China JV. So we have been, just for perspective, the China JV was on 40% of our business in China, which was the OTC business. The other 60% of the business we ran. We own completely, I should say. However, we ran 100% of that business. The opportunity for us in owning that business, obviously EPS accretive, as you have seen, financially made a lot of sense for us, but also having 100% control of the business allows us to drive a much more efficient and effective organisation.

Because of the JV structure, for instance, we had two sales forces that were, frankly, calling on the same customers. We needed to keep that separate because it is separate accounting and things like that. So there are efficiencies that we can drive in the business. And as you know, during these past few years, and I continue to be optimistic about China and the opportunity we have with China and our portfolio in China.

Maybe just throw it to Dawn. I think, Tom, you were asking about inventory revaluation and that had a specific impact on China or not.

Dawn Allen: Yes, I think, maybe just a couple of things to say. I think obviously, what I talked about in terms of historic impact of inflation, remember the biggest impact of inflation was in Europe. So when I think about the inventory valuation piece, I think about that benefit more weighted to Europe, because that is obviously where the biggest inflation was. Clearly, from a China perspective, it is not that much.

The other thing probably just to build on Brian's point from a China perspective and accounting, to Brian's point, we have been running this business. So I think in terms of knowledge of the business, the control environment, we have got a really strong team there. We have got a strong internal audit team. So I think those would be the factors I would highlight.

Brian McNamara: Yes, great. So back on the M&A question, just Tom, a chance for me to just talk about, and I will use Oral Health, because you used that example as a why not a need. What we see is because these products are delivering real benefits, so we talk about Clinical White and we are getting dental recommendations. It really is incredible that we have seen in consumers really leaning into these innovations and new categories, and that is why they have been so successful.

Listen, I probably will not comment specifically on anything we are looking at in M&A, but obviously bolt-on is something we said we are interested in. We will evaluate things as they come. If they strategically strengthen the business, and they financially make sense, we would obviously move forward–but we will share more if there is ever a moment where there is something imminent to talk about.

Tom Sykes (Deutsche Bank): Okay, thank you.

Brian McNamara: Okay, great. Listen, thanks so much for joining us. I look forward to catching up on upcoming roadshows and meetings, and please feel free to reach out to our IR team with any questions. And thanks for your continued interest and support in Haleon. Have a good day.