

H1 2024 Results Haleon Aide Memoire

Haleon has prepared this pre-announcement aide-memoire, which includes statements made in previous public communications by Haleon. All statements in this aide-memoire have been extracted from their original source and, therefore, by definition, they should only be taken as speaking as at the date they were initially made, and they do not reflect subsequent or recent events, circumstances, or developments. Any updates to these and other previously made statements would only be included in further communications by Haleon to the market and the inclusion of the extracted statements herein should not be taken to indicate that they will not be updated in the future. This includes the items listed under “Overall revenue performance comments” “Category performance comments”, “Geographic regions” and “Other comments for consideration” below, which you may wish to consider in modelling Haleon plc’s financial performance ahead of the First Half results on 1 August 2024. Please note that the items listed below are not exhaustive and that other factors may affect the comparisons for Q2/H1 2024 versus the same period last year.

This Aide-Memoire contains certain statements that are, or may be deemed to be, “forward-looking statements” (including for purposes of the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements give Haleon’s expectations and projections, as of the date such statements are made, about future events, including strategic initiatives and future financial condition and performance, and so Haleon’s actual results may differ materially from what is expressed or implied by such forward-looking statements. Please see the “Cautionary statement note regarding forward-looking statements” sections of the FY 2023 results regarding the forward-looking statements from such documents that are extracted in this aide-memoire. Forward-looking statements should, therefore, be construed in light of such cautionary statement note and undue reliance should not be placed on forward-looking statements.

Please also read the definitions and reconciliations for non-IFRS measures on pages 22-31 of the 2023 Full year results, and pages 43-52 in Haleon’s 2023 Annual Report and Form 20-F.

No statement in this document is or is intended to be a profit forecast or profit estimate.

Outlook

With the FY 2023 results on 29 February 2024, and the Q1 trading statement on 1 May 2024, we provided the following guidance in the release and on the call:

Revenue

- FY 2024 organic revenue growth of 4-6%
- On both the FY 2023 and Q1 2024 conference call the CFO said that in FY 2024 “more of our growth will come from price than from volume”, and with the year a stepping stone in moving back to something more balanced but not balanced yet.
- Haleon’s organic revenue growth calculation caps pricing in excess of 26 percent per annum for countries experiencing hyperinflation. For Haleon in 2024 this will apply to Argentina and Turkey.

Organic profit growth and adjusted operating margin

- FY 2024 organic operating profit growth to be ahead of organic revenue growth
- On the FY 2023 results call the CFO said that we expect gross margin to grow ahead of the rate of sales growth and to expect growth in A&P higher than in FY 2023, when it increased c. 3% constant currency. The CFO said on the Q1 call that A&P in Q1 was up strongly compared with sales which saw solid growth
- On the productivity programme at FY 2023 results we said that we were on “track to deliver annualised gross cost savings of c. £300m largely in FY 2024 and FY 2025, with around one third of the benefit expected in FY 2024 and the remainder in FY 2025. These savings are expected to be partly reinvested in digitalisation, automation of processes, systems improvement, as well as increased brand investment and clinical R&D.”

- In Q1 2024 Haleon reported organic profit growth of 12.8% with margin up 220bps organically. On the Q1 call, Tobias commented that “as you have seen in prior years, the quarters are very volatile, and as such, neither the Q1 absolute margin nor the organic profit growth should be extrapolated for the full year.”

A reminder of other FY 2024 guidance, as shared with FY 2023 results and Q1 2024 trading statement:

- Net interest expense of c. £320m
- Adjusted effective tax rate of 24-25%
- Expected restructuring costs c.£150m in FY 2024 in relation to the productivity programme
- At Q1 2024 we also said that the proposed closure of our manufacturing facility in Maidenhead, UK was expected to result in a total restructuring cost of c. £90m between FY 2024 and FY 2026, the majority of which is non-cash, and will deliver cost savings once completed, which the CFO said on the Q1 call were incremental to the £300m savings from the productivity program.

Impact of divestments

- The disposals of Lamisil and ChapStick will dilute FY 2024 revenue and adjusted operating profit by c. (1)% and c. (3)% respectively, unchanged from prior guidance. This assumed ChapStick completed in Q2 2024 and consistent with this guidance the disposal closed on 31 May 2024.
- On 26 June we announced the disposal of Haleon’s nicotine replacement therapy business outside of the US to Dr Reddy’s for a total consideration of £500m with additional proceeds from disposal of inventory. This divestment is expected to dilute FY 2024 net revenue and adjusted operating profit by c. 0.5% and c. 1% respectively. The disposal of this business is expected to complete in early Q4 2024.

Overall revenue performance comments

- Q1 2024 organic growth was +3.0% with +5.0% price and (2.0)% volume mix
- Q2 2023 organic growth was +11.0% with +7.9% price and +3.1% volume/mix, H1 2023 organic growth was +10.4% with +7.5% price and +2.9% volume/mix

Category performance comments

- **Oral Health** – Q1 2024 organic growth was +10.6% with broad-based, double-digit growth across all three Power Brands.
- **VMS** – Q1 2024, organic growth was +9.9% driven by Caltrate up double digit, Centrum up high-single digit and Emergen-C up mid-single digit with improved immunity category performance. In Q2 2023 VMS was +2.7%.
- **Pain Relief** – Q1 2024 organic growth was (4.8)% given tough comparatives from Fenbid growth in China in Q1 2023 following the end of lockdowns in Q4 2022 and exceptionally strong performance by Advil in Canada in Q1 2023. In addition, the category was impacted by inventory reduction by some US retailers. On the Q1 call, the CFO noted that “the impact on Fenbid in Q2 2023 was bigger than in Q1.”
- **Respiratory Health** – Q1 2024 organic growth was (2.7)% lapping a strong cold and flu comparative in Q1 2023 of +33.0%.
- **Digestive Health and Other** – Q1 2024 organic growth was +2.4% with Digestive Health up low-single digit, Smokers Health down low-single digit and Skin Health Brands up low-single digit.

Geographic regions

- **North America** – Q1 2024 organic growth was (3.3)% (split +4.5% price and (7.8)% volume mix). We noted that volume/mix was impacted by tough comparatives in Respiratory Health and Pain Relief, with inventory reduction by some US retailers in Q1 2024. On the Q1 call, the CFO commented “Normally what you would expect, and what we saw in Q1 this year, was destocking in the quarter as retailers sell out stock and reduce inventories towards the end of the (cold and flu) season. He also highlighted on the Q1 call that this was also impacted by the swing between a normal inventory burn this year and an inventory build unusual last year, resulting in a much higher than usual year on year change in sell-in and the majority of the volume decline seen in the region. Additionally, and to a lesser extent, we saw some inventory adjustment by some US retailers on other categories which also impacted sell in.” We also highlighted that “looking at consumption data for the market, our consumption increased mid-single digit and both the market and Haleon performance improved in Q1 compared to the last 12 months”.
- **EMEA and LatAm:** – Q1 2024 organic growth was +8.6% (split +7.5% price and +1.1% volume mix). In Q1 2024 pricing in this region partly benefitted from mainly carry-forward pricing taken in 2023 along with incremental pricing taken in the region. The impact of carry-forward pricing from 2023 is expected to reduce going forward. As noted previously, the impact from pricing in high inflation countries is now capped (compared to prior year c.+3% impact in Q2 2023 for the region, c.+1% for the group).
- **Asia Pacific** – Q1 2024 organic growth was +3.3% (split +1.7% price and +1.6% volume mix). Q1 2024 was impacted by tough comparatives in China from Fenbid growth in Q1 2023. The CFO has previously commented that “the impact on Fenbid in Q2 2023 was bigger than Q1 2023.”

Other comments for consideration

Free Cash flow

In H1 2023, we reported free cash flow of £369m. Typically, Haleon’s free cash flow is weighted to H2.

As previously announced, the disposal of ChapStick completed on 31 May 2024 for \$430m.

Debt

Other factors which will impact the Company’s net debt performance include:

- During Q1 2024, Haleon purchased 102m ordinary shares for c. £315m in connection with Pfizer’s global offering as part of the £500m allocation to share buybacks for FY 2024
- As announced with FY 2023 results, the Company re-paid a \$700m bond in March 2024.

Dividend

At FY 2023 results, Haleon reported “going forward, subject to market conditions and Board approval, Haleon expects to grow its ordinary dividend at least in line with adjusted earnings.” As previously stated at FY 2022 results, subject to Board approval, future ordinary dividends are expected to be paid half-yearly with approximately one third of the dividend paid as an interim dividend, following the Company’s half-year results and paid in October, and the balance paid as a final dividend. As a reminder the dividend payout for FY 2023 was approximately 35% of FY 2023 adjusted earnings.

Number of shares

Following the Haleon purchase of c.102m ordinary shares from Pfizer on 21 March 2024, and subsequent cancellation of these shares the total number of ordinary shares issued by Haleon with rights to vote is 9,132,301,104.

Foreign exchange

Assuming exchange rates as of 30 June 2024, the estimated unfavourable translational foreign exchange impact on FY 2024 would be c.(2.5)% on revenue and c.(3.0)% on adjusted operating profit. This is slightly worse than the expected impact that we last shared with the Q1 Trading update of (2)% on revenue and (3)% on adjusted operating profit. The slightly increased impact reflects the adverse movement in the Brazilian Real, the Euro and the Mexican Peso; with minimal change (net) across all other currencies.

FX rates are shared below:

| /GBP | FY 2023 currency as % of total revenue | At 31 December 2023 | At 30 June 2024 | Average rate H1 2023 | Average rate H1 2024 |
|------|----------------------------------------------|------------------------|--------------------|-------------------------|-------------------------|
| USD | 33% | 1.27 | 1.27 | 1.23 | 1.27 |
| EUR | 16% | 1.15 | 1.18 | 1.14 | 1.17 |
| CNY | 8% | 9.06 | 9.19 | 8.59 | 9.12 |
| CAD | <5% | 1.69 | 1.73 | 1.67 | 1.72 |
| AUD | <5% | 1.87 | 1.90 | 1.84 | 1.92 |
| JPY | <5% | 180 | 203 | 168 | 193 |
| RUB | c. 10% | 115 | 108 | 96 | 114 |
| ZAR | | 24 | 23 | 23 | 24 |
| INR | | 97 | 106 | 101 | 105 |
| ARS | | 1030 | 1153 | 262 | 1,088 |
| PKR | | 355 | 352 | 334 | 352 |
| TRY | | 38 | 42 | 25 | 40 |
| EGP | | 39 | 61 | 37 | 51 |

Prior year comparatives and recent performance

| | Organic revenue growth | | | | | | | | | | |
|----------------|------------------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | FY 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | FY 2023 | Q1 2024 |
| North America | 17.3% | 3.9% | 2.9% | 1.6% | 5.9% | 5.1% | 4.3% | (1.5)% | 3.5% | 2.7% | (3.3)% |
| EMEA and LatAm | 14.5% | 9.6% | 12.2% | 6.8% | 10.9% | 13.1% | 16.8% | 10.8% | 10.1% | 12.6% | 8.6% |
| APAC | 15.2% | 9.5% | 9.0% | 8.3% | 10.6% | 11.7% | 11.5% | 5.9% | 6.8% | 9.0% | 3.3% |
| Total | 15.6% | 7.5% | 8.1% | 5.0% | 9.0% | 9.9% | 11.0% | 5.0% | 6.7% | 8.0% | 3.0% |

| | Organic revenue growth | | | | | | | | | | |
|-----------------------------|------------------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | FY 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | FY 2023 | Q1 2024 |
| Oral Health | 7.9% | 2.0% | 6.7% | 5.3% | 5.6% | 6.6% | 15.4% | 9.4% | 11.5% | 10.6% | 10.6% |
| VMS | 14.9% | 9.0% | (1.4)% | (0.7)% | 5.0% | (3.7)% | 2.7% | 1.4% | 3.1% | 0.9% | 9.9% |
| Pain Relief | 18.9% | 4.9% | 3.6% | 8.9% | 8.9% | 11.0% | 14.9% | 6.2% | (1.8)% | 7.4% | (4.8)% |
| Respiratory Health | 52.9% | 39.7% | 30.2% | 16.2% | 32.6% | 33.0% | 9.2% | 4.2% | 10.9% | 13.7% | (2.7)% |
| Digestive Health & other | 4.3% | 2.8% | 8.4% | (3.2)% | 2.9% | 7.3% | 8.1% | 0.9% | 10.1% | 6.5% | 2.4% |
| Total | 15.6% | 7.5% | 8.1% | 5.0% | 9.0% | 9.9% | 11.0% | 5.0% | 6.7% | 8.0% | 3.0% |

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