Haleon Q1 2023 Trading Statement

Wednesday, 3rd May 2023

Introduction

Sonya Ghobrial

Head of Investor Relations, Haleon

Welcome

Good morning everyone and welcome to Haleon's conference call for our first quarter trading statement. Thanks all for joining us on what I know is a busy results day. 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 on the call 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 the 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.

This morning we will run through a small number of slides before opening the call for Q&A. For those listening to our webcast if you would like to ask a question, please use the dial in details on page two of today's press release. As you will have seen, two weeks ago we provided an update with our AGM. Normally we would expect our Q1 trading statement to be before our AGM. This year was an exception, due to the impact of the date of incorporation of Haleon.

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 including for organic revenue growth in the appendix. For information, we do not intend to provide quarterly profit data 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.

Q1 2023 Trading Statement

Tobias Hestler

CFO, Haleon

Q1 2023 Highlights

Thanks Sonya and good morning everyone. Let me first start with our first quarter highlights. As you will have seen from our AGM trading update a couple of weeks ago, we had a strong start to the year with 9.9% organic revenue growth driven by a healthy combination of both positive volume mix as well as increased price. This performance is particularly impressive considering that we lapped the 16% growth in Q1 last year. Our Power Brands continued to deliver good growth of around 10% with strength from parodontax and our respiratory brands Theraflu and Otrivin along with a recovery in Voltaren. Our Local Growth Brands were also strong, up 14% with double digit growth from Fenbid, Contac, Robitussin, and Flonase, just to name a few.

Growth was underpinned by the exceptional execution across our teams with a number of new innovations including PanaNatra in Australia, the expansion of our Gummies range for Centrum and the launch of Emergen-C Crystals in North America. Our growth was profitable, with inflationary cost pressures offset by price and efficiencies across the business resulting in strong operating leverage. Given the strong start to the year and as you saw in our AGM trading update, we were pleased to increase our organic sales guidance to be towards the upper end of the prior 4-6% range shared previously. All other guidance remains unchanged and we are on track for our deleveraging target.

Q1 Key Financials

Turning now to our first quarter results. Revenue of £3 billion reflected 9.9% organic revenue growth. Adjusted operating profit increased by £60 million to £691 million, up 3% constant currency, and resulted in a 23.1% margin, down 140 basis points constant currency. Margin was down for two reasons much as expected from one, adverse transactional foreign currency and two, higher standalone costs given we demerged from GSK in July last year. I will come back to this shortly. Turning to the drivers of revenue growth in more detail.

Q1 2023 Revenue Growth

Strong pricing with positive volume/mix

Revenue increased 13.7% to £3 billion on a reported basis. There was a 380 basis points benefit from translational foreign exchange, mainly due to the year-on-year sterling weakness compared with our major trading currencies including the US dollar and Euro. All in all, we delivered 9.9% organic sales growth with 2.8% volume mix and 7.1% price. It is worth bearing in mind that the 2.8% growth in volume mix cycled the ERP systems cutover and distribution model change last year, which fully reversed in Q2 last year, and the 7% price increase included the annualisation of pricing taken last year along with a one-point benefit from hyperinflation economies, for example, Turkey and Argentina. Looking now at performance across our categories.

Q1 Organic Growth

Looking at the quarter, I was particularly pleased that Oral Health revenues grew 6.6% or up more than 8% excluding the systems cutover. Sensodyne was up high-single digit underpinned by continued share gains, benefiting from innovation and strong growth across a number of markets including Middle East and Africa. In the US, Sensodyne was up double digit reflecting consumption growth and pricing, along with normalising retailer stocking patterns. Our other growth driver in the category, parodontax, was up double digit.

As expected, VMS organic revenues declined 3.7%, largely due to a decline in our immunity brand Emergen-C which had a tough comparative in Q1 last year from the Omicron wave. Centrum, where consumption patterns are more steady, saw high single digit revenue growth globally. Pain Relief revenues were up 11% with Panadol and Advil up low and high single digit respectively. Voltaren saw high single digit growth with strength in Central and Eastern Europe, China, and the US. Respiratory revenues were strong, driven by increased consumption from cold and flu incidences along with the rebuilding of inventories given low levels at the end of last year.

Finally, Digestive Health and Other revenue was up 7% with strong growth across Benefiber, and Tums along with mid-single digit growth in Eno. Smokers health was up low single digit and skin health brands were up low teens with Chapstick performing well. Let me now move to look at geographic segment performance.

Strong Q1 Revenue Growth Across Regions

We delivered strong organic revenue growth across all our regions. Our emerging markets saw 17% growth, which included a 3% benefit from pricing taken in hyperinflation economies. Emerging markets made up 35% of our revenue with growth led by China, up nearly 30%, along with broad based growth in other emerging markets. Developed markets grew 6%. Looking at each region in more detail starting with North America.

North America

Strong performance across categories; VMS down mainly driven by Emergen-C

Organic revenue increased 5.1% with 3.6% price and 1.5% volume mix. The region saw low single digit growth in Oral Health and a 20% decline in VMS, lapping the comparative from strong Emergen-C demand last year. As I have said before, one thing we have observed is that Emergen-C demand has been skewed towards times of Covid demand. Having said that, innovation remains strong and we recently launched Emergen-C Crystals which allows consumers to use the product without water. Whilst it is early days, initial feedback has been strong.

Pain Relief was up low double digit driven by pricing and continued strong demand for Advil. Voltaren was also strong, up mid-teens percent. Respiratory health was up in the low 30%s benefitting from sustained cold and flu incidences and re-stocking following low levels of inventory at the end of last year. This was underpinned by continued uptake for successful new innovations including Theraflu Max Strength and Flonase Headache and Allergy Relief. Turning to Europe, Middle East, Africa, and Latin America.

EMEA & LATAM

Strong broad-based performance

Organic revenue increased 13.1% with 12.6% price and 0.5% growth in volume mix. As you will recall, this region was the most impacted from the ERP cutover last year. Excluding this impact, the region would have shown mid-single digit volume growth. There was strong growth in Middle East Africa helped by Sensodyne and Panadol. In Europe revenue was up double digit with broad based growth, including Germany which was up mid-single digit. Across the categories, Oral Health saw good growth largely driven by Sensodyne, up high single digit and parodontax which was up low teens percent. We are seeing good consumer uptake for a number of brand innovations including arodontax Gum and Breath.

In VMS, the region saw a mid-single digit decline reflecting capacity coming on stream last year and a temporary decline in some Local brands. Having said that, Centrum was up high single digit reflecting our continued activation and strong execution across the region. Pain Relief revenue was up high single digit reflecting good growth from Panadol and Voltaren. Respiratory sales were up in the mid 30% range driven by a strong cold and flu season, significantly ahead of last year. Theraflu and Otrivin saw particularly strong growth helped by new innovations including Theraflu Pro Naturals. Digestive Health and Other saw sales up high teens with good growth across most of our brands. Finally, turning to Asia Pacific.

Asia Pacific

Strong volume/mix growth supported by price

Organic revenue increased 11.7% with 3.4% from price and 8.3% from volume mix. Growth from pricing was lower than our other regions given a less pronounced inflationary environment. As a reminder, this region was not impacted by the ERP systems cutover. China, our second-largest market overall, was up nearly 30% following the easing of Covid related restrictions and subsequent rise in cases. Elsewhere, as we expected, Australia and New Zealand declined high-single digit given the high comparative last year from Covid related demand.

Looking across the Asia Pacific region as a whole our Local Growth brands performed particularly well. Within the categories, Oral Health saw low single digit growth, underpinned by strong growth in Denture Care and parodontax. Sensodyne saw good growth in Japan and India offset by weakness in China. In VMS, we saw high-single digit growth underpinned by successful consumer campaigns for Centrum and in Pain Relief, Fenbid revenues more than doubled and Voltaren saw strong growth following the re-opening of China. Respiratory revenues were up in the mid-30%s driven by Contac in China which also more than doubled.

Turning now to our operating performance.

Q1 Adjusted Operating Profit Growth

+3% at constant exchange rates and +10% at actual rates

We delivered £691 million of adjusted operating profit, an increase of £60 million. Adjusted operating profit was up 3% constant currency. I am pleased to report strong execution with pricing and efficiencies helping to offset inflationary cost pressures, with positive operating leverage from strong revenue growth. During the quarter we saw the impact of the prior year ramp up of the stand-alone costs which had approximately a 180 basis point negative impact. As you will recall, in half one of last year we were a segment of GSK and so incurred a very limited amount of these, which then subsequently ramped up through the year as we built out our teams and infrastructure to be a standalone company.

Hence, we had a large year-over-year impact of these costs in the first quarter. We expect the negative margin impact to reduce from Q2 as we cycle over the comparators which included more of these costs. As expected, we also incurred £25 million in transactional FX losses largely from the US dollar and our Swiss cost base. This had a 90 basis point adverse impact on our Q1 margin. This effect will continue in the second quarter. From Q3 we will cycle over the base effect from last year when the impact of the Swiss franc depreciation was more pronounced. Finally, there was also a £39 million benefit from movement in foreign exchange on a translational basis. Taken together, this resulted in a 10% reported increase in adjusted operating profit and a 23.1% margin.

Outlook

For full year 2023

As I mentioned earlier, at the AGM we increased our organic sales guidance. We now expect to achieve organic sales growth towards the upper end of our 4-6% range in line with our medium-term outlook. All other guidance remains unchanged.

Before opening to Q&A I would like to provide you with some information to help with modelling between the first and second half of this year. On revenue we expect organic revenue growth to be higher in the first half of 2023 as we move through the year and annualise pricing. On margin we would expect a lower margin in the first half than for the full year. Whilst we continue to expect positive operational leverage in 2023, it is important to keep in mind a couple of factors which will impact the year-on-year movement in the first half.

First, we have guided to adverse transactional foreign exchange having an impact on the full year of around 40 basis points. As you know, we started to see the impact of adverse foreign exchange in the second half of 2022 and therefore this will continue into the first half of 2023. Second, we shared last year that the standalone costs were around £200 million. We expect a similar amount in 2023 but the phasing of these costs is different year-on-year. In 2022 standalone costs were skewed to the second half of the year with around 70% of costs incurred in the second half of 2022. However, in 2023 these costs will be more evenly balanced through the year and as such there is an adverse impact year-on-year in the first half on margin.

Conclusion

So, to sum it up, Haleon has delivered a strong first quarter performance with strength across both our Power Brands and Local Growth Brands. We delivered operating profit growth and strong positive operating leverage across the business. This gives us confidence that we are on solid foundations to deliver our full year guidance. 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 results release.

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

Q&A

Iain Simpson (Barclays): Good morning everyone, a couple of questions from me if I could. Firstly, I wondered if we could dig a little bit into Oral Health and the growth rates there. As a whole it grew 6.6%. You have said that parodontax grew double digit. You have said that Sensodyne grew double digit in the US. I was just wondering what the drags on growth in Oral Health were because obviously something has got to be growing significantly below that double digit to get the division as a whole coming out at 6.6%. Any help there to unpick it would be great. Then secondly in Respiratory I appreciate that it is difficult to know for sure but any thoughts as to where inventory levels in the distribution were in Respiratory as we exited Q1 and whether that restock across Respiratory, and I guess to a lesser extent Pain, had pretty much normalised or whether we should expect to see any restock benefit in Q2 as well. Perhaps any attempt to quantify the restock benefit in Q1. Thank you very much.

Tobias Hestler: Sure, thanks Iain for the questions. Let me start with Oral Health. On Oral Health there was a bit of a drag in China so, as I mentioned, weakness there. The overall market is down and also some work for us to do on our execution there. We are confident that also this will come back. Secondly we still have what we call a family Oral Health business branded mostly under Aquafresh which I think had a weak quarter. It is, as you all know, not strategic for us so we are de-prioritising that and I think that is ultimately the delta to the drag of the growth and pulled it back to the overall results, which in my view were very strong with 6.6% reported and over 8% if you normalise the impact of the systems cutover. On the systems cutover, on the categories it was mainly in Oral Health and a little bit in Pain Relief. Across the regions it was mostly in EMEA & LATAM, a little bit in the US and nothing in the APAC region.

On your second question on Respiratory, as we do every year, we manage down our inventory towards the end of the season. We believe by end of Q1 that inventory levels in Cold and Flu are at the right level so they are healthy. Healthy in the way that they should be as we are getting out of the season in the Northern hemisphere. Talking to our regions I think they have managed that well, so I do not expect any shift between Q2 and Q1. There was a bit of help on that in Q1 because, as you remember, Cold and Flu demand largely driven by Covid really spiked up massively in late December, both in China with the change in the Covid policy and then secondly in the US which means shelves got wiped out and there was probably a bit of restocking happening very early in the year from that demand that was created in December. Then as we went through the quarter the teams have done what they have always done, managed demand down so you exit the season at a healthy level.

Iain Simpson: Very clear, thank you.

Tobias Hestler: Thanks Iain.

Guillaume Delmas (UBS): Good morning Tobias and Sonya. I had a couple of questions. The first one is on the slide in your appendix. I think it is slide number 20 where you provide some colour on the key moving parts affecting your quarterly organic sales growth this year. When I look at Q2 I see a couple of pluses, the reversal of the cutover and China, but no minuses. Would it be fair to assume another strong print in Q2 maybe at or above the level of Q1 or have you seen any material changes in your trading environment in April that will make us a little bit more cautious? Then my second question is on VMS specifically. Sequentially there we see an improvement for both Centrum and Caltrate in the first quarter. Should we see that as evidence that the VMS category is reaccelerating already or is it more down to some significant share gains for both brands? Related to that, on Emergen-C can you maybe remind us how much of your revenues in VMS are derived from Emergen-C? Will it be fair to assume that Emergen-C will be far less of a drag to your VMS performance from Q2 onwards? Thank you.

Tobias Hestler: Yes, thanks Guillaume. Let me start with your VMS question first, working backwards. Yes, Emergen-C is going to be less of a drag on growth because it was up massively in Q1 of last year and I think you might remember from the full year results where I had shown the total US demand. There was this massive spike from the Omicron wave and we have always seen Emergen-C with the immunity claim pretty much correlating with that and relating directly to that. I think this year we should start a reversal of it, that it came down again against this very, very high base in the prior year. Emergen-C is often a little bit more seasonal and we are moving out of the season and as we get into the summer months. Yes, Emergen-C less of a drag.

Yes, as you have seen, Centrum and Caltrate are both very healthy, exactly what we have always said. Geographic expansion, activation of Centrum around the world, further innovation on the product as well as the ability to take price. Also Caltrate doing well in

China. That covers the three largest brands in the category. I think then we have some local VMS brands. They had a bit of a mixed performance in Q1. We had for example a brand like Scotts in Southeast Asia where again we are cycling in Southeast Asia over a lot of Covid-related demand last year. That came down. There is another brand we have in Italy where there is a different shipping and promotional pattern this year. Those are temporary declines that will come back.

If you take a big step back on VMS, looking at a four-year stack on it, 7% growth over four years on an annualised basis shows you that we have been able to continue to grow. The consumers that came into the category are staying, in addition to us driving growth from innovation and expanding the brand.

Now, in respect of Q2 we are not giving any growth guidance for quarters. What we put into the appendix is just a few things to keep in mind. I think the plus last year was improved sales from ERP pull forward that declined the sales last year so it is reversing out this year. As I said just earlier, we would expect sales growth in the first half, to be stronger than the second half from a number of factors that I had explained. Thank you.

Guillaume Delmas: Thank you.

Faham Baig (Credit Suisse): Hi, good morning guys, thanks for the question, a couple from me as well. I think you mentioned you had incremental pricing in Argentina and Turkey. Should we expect further incremental pricing in your markets as you look to offset particularly the transactional FX headwind in H1? Whilst we are there, could you also update us on the hedging policy and the potential associated costs with that? Secondly, there was a very strong performance in North America at Sensodyne and Voltaren. Should we see this as a turnaround in performance or are there any short-term dynamics that we should be aware of? Thank you.

Tobias Hestler: Good, thanks Faham. On hyperinflation I think the team has done a really good job in taking the necessary pricing to offset the impact and I think they are probably most pronounced in countries like Argentina and Turkey. Look, it is hard to predict where it is going but I would say from where we sit today I would expect the full year impact or the tailwind from this hyperinflation on the organic growth rate to be less for the full year than it is now because we are starting cycling over some of those pricing actions in the second half of the year. As you saw, we have made it transparent to you how much it was because it just is a tail to the organic growth rate but it will be less as we go through the year.

On your hedging question, as we said, we started hedging for example the Swiss franc over time and also then hedging on the Australian dollar, so currencies that are widely available. I think it is very hard to hedge emerging market currencies so that is one that there will always be a certain impact on that. On hedging more broadly of course it is going to reduce the volatility but at some point it is going to catch up on us because you cannot hedge currencies forever. It is just going to smoothen it out over time and we have started doing that.

In North America we are very pleased with the performance. Voltaren last year the private label came to the market, as expected, so it stabilised from that. There were a lot of launches into that category and it is very clear that we are winning and gaining share with Voltaren, which is positive. Secondly, on Oral Health also a good performance. I think good launch performance, success with price increases and the brand showing also good volume growth. Prior year they had some movements in trading patterns so that normalised. There was maybe a little bit of an impact from having that normalise. Your weekly order sometimes goes a little bit up or down but I think ultimately good underlying performance on that brand in the US. Thank you.

Rashad Kawan (Morgan Stanley): Thank you for taking my questions and good morning Tobias and Sonya. A couple from me please. The first one is you accelerated obviously your pricing over the quarter, particularly in EMEA & LATAM. I guess a two-part question there. Have you seen any changes in demand elasticity as a result? Then just following up on Faham's question, are you still looking at taking additional pricing this year? Then my second question is around China. Can you talk a little bit more about what you are seeing on the ground there? You mentioned it was up close to 30% with Fenbid growth particularly strong and some Sensodyne weakness. What are you seeing across the rest of the portfolio? How has the recovery come in relative to your expectations? How do you see that play out for the rest of the year? Thank you.

Tobias Hestler: Sure, good. On your question on pricing and elasticity, we have not seen negative reaction from consumers on the pricing we have taken. I think very, very consistent to what we have talked about last year. We believe our products do not have a high elasticity. I think it probably had a lot to do with our brand portfolio being all therapeutic. Secondly, also our products are not in your daily weekly or monthly shopping basket either. I think that makes these products sticky. It is very consistent with prior prices that we have seen. Of course we watched it tightly. Where we have near-perfect data in the US when you look at private label, private label shares over the last year have been stable and actually in the last three months private label has lost share. The branded products have gained share. We are not seeing any widespread move or change of people taking private label off the shelf. If you take it down to subcategories it is the same as we talked about at full year. There is one or two of the smaller subcategories that are more pronounced to private label where there were small moves but we have not seen any broader change in consumer behaviour. The same is also true across our Western European markets. If you think about Asia it is a much less pronounced pricing environment anyway with less inflation. We also have taken less pricing there. Then if you look at our emerging market footprint where we have taken a lot of pricing, I think I will call this more 'business as usual' so the team pricing up to what they can do.

Last but not least I think you have seen volume going up. I think we have continued to deliver volume growth. We did so throughout all of last year and again in Q1, which I think the team is doing a good job in pricing at a level that we are still able to do both growing volume and growing price.

Then about additional pricing, we got the majority of our price increases through. I think the team will do what is needed as we go. Of course, especially in emerging markets that is a bit unpredictable but I would expect the majority of the pricing having been taken. There might be something to come and, as you said, we are cycling over 3% in Q1 last year which then went up so I think you have the base effect that comes in.

In China of course there was this massive spike of Covid-related demand which there is no good official data but if I speak to our teams there we believe probably more than 80% of our employees got sick at some point with Covid or cold and flu-like illnesses. There was a lot of demand. The team actually did a brilliant job of using our local manufacturing there to triple the output and were able to shift to demand which helped us meet the demand on products like Contac and Fenbid. On a product like Fenbid actually part of it is the demand but the other part is also we are coming back with the product because the product was actually pretty much blocked before. When the restrictions were still in place if you bought the fever-reducing medicine then your apps that you needed to use to move around the country freely moved from green to orange to red. Actually it blocked you buying a fever-reducing medicine and that block has removed. I think that our Fenbid product was not selling at all or very, very little. There is the come back of that to normal levels plus then this massive extra demand too that came from the Covid change.

Other brands VMS was up low double digits and the brand of Caltrate also doing well. Centrum doing well and I think then Oral Health was soft. Overall the market is down. There was free product given out so I think for Oral Health, the market is not yet where we want it to be and that is coming back but overall we have done well. We have reacted very, very agile to the change in the policy and we are able to meet our consumer needs doing that. Thank you.

Rashad Kawan: Very helpful, thank you.

Celine Pannuti (JP Morgan): Good morning, thank you for taking my questions. My first question is on your top line guide for the year. You seem to say that some of the strong growth in Q1 is in fact reversing in Q2. We still have good growth in Q2 but then a slowdown in the second half. I wanted to understand how much of a flu season variability is embedded in your guidance. i.e. what kind of flu season do you have in there and if the flu season were to be good or bad what kind of variability that would have an impact on the growth in the second half? Then my second question is probably a bit related. You helped us with the H1 margin moving parts. That implies quite a step-up as well in margin in H2 so I would understand that maybe you have no FX transaction and maybe lower standalone costs on a year-on-year basis but at the same time probably a much slower pricing benefit as well as less operational leverage. Can you give us a bit more comfort about that margin expansion in the second half? Thank you.

Tobias Hestler: Thank you. On the cold and flu season clearly Q1 we have done well. We capitalised on the benefits that each of the teams had. I think the strong delivery in Q1 was the key reason we upgraded the guidance for the year because we have delivered on that. For the rest of the year I think it is very much in line with what we said at full year. It is very hard to predict where cold and flu demand will be for two reasons. One is we do not know what is going to happen for out-of-season use. We are going to see that and can probably talk more about it when we talk in early August at the half-year results. What we have seen last year and the last two years is there was a lot of out-of-season use of cold and flu products because we had Omicron having cold and flu-like symptoms. I think this is one we do not know. Right now it is still there but we need to see if that happens. That then has an impact on growth versus last year plus or minus. We are ready if it comes but if it does not it would be a drag. That is unpredictable. Then for the next season, which is then the winter season, in Q3 we would expect to re-pipe the trade, very similarly to what we did in prior years. Then for Q4 we would normally assume an average season. Then it just depends on if you get a spike like we had last year whether there is an early season or not. Normally you cover most of what you do from Q3. Broadly we still think on a full year up to a percentage point up or down from a cold and flu swing which is also I think what you have pretty much seen in Q1. Not all the Q1 gains were seasonal. We also do pricing and we do launches. That is what it comes down to. We will keep you updated on it. We report it as a separate category and give you as much transparency as we can on that.

On the margin being higher in half two I think has again to do with this cold and flu. We ship the seasonal demand for Cold and Flu in Q3 so second half has higher sales, mainly on Respiratory without an associated A&P with it because the A&P has been spent through the season in Q4 and into Q1. There is a mismatch between the spend and when we make the margin and also then these higher sales have an impact on a higher gross margin as you get the benefit from that. I think that is probably the biggest drivers on half one. Of course year-over-year, yes, you will see, as I have done with the building blocks, we are starting to cycle over the negative transactional impact and also the standalone cost in the second half of the year if you do your year-over-year planning.

Sonya Ghobrial: One other thing Celine I would maybe just mention is on that revenue thing as well, obviously we have delivered some really strong growth in China in Q1, which Tobias said around 30%. That benefit of Fenbid and Contac, etc is not going to continue at that rate as we move through the year. I would just keep that in mind as well.

Tobias Hestler: Thanks Sonya.

Celine Pannuti: May I just ask an extra one? You also mentioned some replenishments or restocking in US Oral I believe. How material was that?

Tobias Hestler: Sorry, can you just repeat that? In Oral Health in the US restocking?

Celine Pannuti: Yes, in your commentary during the presentation in US Oral that is what you mentioned.

Tobias Hestler: Yes.

Sonya Ghobrial: What I would say is last year in Q4 in Oral Health we were impacted by some retailers lowering their levels of stock. That has now washed through. You are not seeing that continuing to happen.

Tobias Hestler: Yes, thanks Sonya.

Celine Pannuti: Thank you.

Bruno Monteyne (Bernstein): Hi, good morning. Tobias, I would like to talk a bit more about that margin discussion from just then. If H1 is down by 80-90 basis points that would almost imply the second half is up by that amount. That would mean the exit rate of margin in the second half is around 23.4%. Is that the right level to start thinking about 2024 margin and so the usual operating level comes on top of that? Or is it actually fundamentally H2 margins will always be higher than H1? How do we think? Is that the right starting point, the 23.4% or should we take out seasonality? The second question is more related to the US. Pricing is a lot lower there than in the other regions. Can you just remind me why that is? Did you do more pricing earlier on or why is it so much lower? Can you also comment on the market share performance of Sensodyne? Whether it is in the US or in Europe, are you still gaining market share or not? Thank you.

Tobias Hestler: Great Bruno. On the half two margin I think I would always expect half two margins to be better and higher and that really comes from the manufacturing, shipping, and selling the Cold and Flu seasonal demand in Q3 and early Q4. Then really only activating our advertising and promotion spend on that income and sales later in Q4 when the season actually starts hitting. From November onwards you are starting to go on air with those products and then you are going to advertise those throughout the whole winter months. While the inventory sits there and gets depleted towards Q1. That is probably what is seen historically in the prior businesses as well. I do not think half two margin is a guide for half one. Plus of course because we want to have the agility to invest behind launches as well so it might change a little bit on that as well.

Then on your US question the pricing in the US in Q1 was lower and a bit lower than it was before because we sold some short-dated inventory. On a number of brands we had some short-dated inventory. There are special customers that you are able to sell that through at a discount. That depressed the pricing number for Q1 and that is temporary in nature. That is why you get a slightly lower headline number on pricing for North America that we put out. Other than that I think the team has done what we said in the pricing they put through. They have done well and I think there is no concerns on our ability to take price in the market.

Then on market share in Oral Health also in the US I think it is good. We had a good Oral Health performance globally. I think we are in my view doing well against gaining share. Now, what you have to be a little mindful of is that pricing was different across the players. You also have to look a little bit at volume because I think pricing strategies are a little bit different across the players. As you know, our pricing philosophy has been we price up only as much as we need to make up the cost of the inflation and in order to maintain volume gains. Other players might have different philosophies of pricing more but accepting volume declines as well. However, overall I feel good about where the US is and also when I look at the launch plans as well as what is coming through in terms of innovation as well. We will give you the market share numbers at half year. We believe you need at least six months in order for them to be meaningful so we will do them at half year and full year always. You are going to see that when we put out our half-year results.

Bruno Monteyne: Could I just come back on that first point? Obviously, your company is quite new so we are not used to the usual level of seasonality in margin. At a Group level is the seasonality between H1 and H2 as big as 100 basis points? Is it materially bigger? What should we think the order of magnitude is for seasonality difference?

Tobias Hestler: Look, I would not give you that detail. I think you just see sales being always higher in the second half of the year, particularly on Respiratory products. I think you see that also when you look historically in the numbers that we have reported, half one, half two and especially on the Respiratory side.

Bruno Monteyne: Okay. Thank you.

Tom Sykes (Deutsche Bank): Morning everybody, just coming back to your comments on inventories, I know you said you had run them down as usual but you also said that you do not really know whether you are going to get the out-of-season demand or not. Would you say the inventories are where they should be expecting decent out-of-season demand or where they should be expecting a normal low season, please? Then could you just repeat the comments you made on the Power Brands versus the Local Brands, please? I think you said Local was up 14%. Obviously, there is China, hyperinflation, etc in that figure. Could you just give what your longer-run expectations are for Local versus Power again, please? Thank you.

Tobias Hestler: Sure, Tom. On the Cold and Flu inventories we believe we are in a healthy place towards the end of season, as it normally would be. Ultimately there is only so much we can influence. If a retailer decides they want to hold more or less stock that is ultimately up to them. We just make sure that we are not overstocked because we do not want to be caught up in Q3 when the big restocking happens and they say, 'By the way, there is still a lot of inventory.' Look, it is usually easier to do when you have large retailers where we buy the data and we know exactly how much they have. When you go into markets where we sell to individual pharmacies that is a big job of the salesforce to do to ensure that the pharmacies that ran down have the normal base amount that they need to get through the summer. It is not that there is no cold and flu through the summer. There has always been a base amount. The question is, is there a little bit more than that? This is not spiky. When you look at the last two years the out-of-season demand did not come in the cold and flu waves. It was a consistently slightly higher demand that went through the summer, if you remember the charts that I put in at full year. It is not the winter season where you have to be ready for these massive demand swings that spike up or suddenly the weekly demand goes up three or four times and then comes down again. It is more this question of throughout the summer is it going to be higher than lower than we had in prior years

Then on the Power Brands what I said is that in Power Brands we are up 10% and the Local Growth Brands were 14%. Overall I think between Power and Local Growth Brands these are our growth drivers. We would expect them to drive the majority of our growth because that is where we allocate our A&P. That is where we have our innovation and these brands need to drive our growth. That Local Growth Brands in a quarter did a little bit more can happen and I think this time it just happened because there is a number of Respiratory brands in there that have done particularly well. Also we had some brands where we re-piped. On Tums you remember we had a recall last year. We re-piped that so I think that also benefitted the Local Growth Brands.

I think the hyperinflation impact is not particularly different on the Local Growth Brands compared to the Power Brands because when you look at countries like Argentina and Turkey they are selling a high portion of Power Brands as well. The mix is not significantly different on those.

Tom Sykes: Okay, many thanks.

Tobias Hestler: Thank you.

Olivier Nicolaï (Goldman Sachs): Hi, good morning Tobias and Sonya, just two questions, please. First of all considering the strong start of the year and the better profitability in Q1, could we expect another strong year of cash generation and therefore net debt to EBITDA to be very close to 3x by year-end? Related to that as a second question, one of your main shareholders commented in the FT that they will start selling in a slow and methodical manner. Considering such strong cash generation but despite your highly level of net debt to

EBITDA today, would you consider participating in any potential placing or should we rule this out at this stage? Thank you.

Tobias Hestler: Thanks Olivier. Look, on cash generation we are very confident that we are going to de-lever to less than 3x during 2024. We are on track with that so from that point of view no update on that but the year started well and overall we are confident in our ability to meet the targets that we have set out on that.

On the Pfizer interview that popped up, really we cannot comment on it. I saw it also in the press this morning. You would need to ask them about that but I think ultimately it is not a surprise. They have always said it is not strategic to them. They want to monetise it in an orderly and a reasonable fashion. Given that the selling window is opened and the lock-up is over, that would happen over time. For us, the capital allocation priorities we set out at the beginning of the year are number one, investing in the business, two, de-leveraging and strengthening the balance sheet, then three looking and exploring inorganic growth opportunities and then as a fourth bucket looking at dividend and share buybacks.

Now, you know from the AGM that we have the authority to do that but clearly, I think any decision would follow the priorities we have laid out, which are the four that I just quoted.

Olivier Nicolaï: Thank you very much.

Chris Pitcher (Redburn): Hello, apologies if my questions have been asked because I had to drop off the call. I will be quick. On parodontax given the comments you have made around the strength of growth in Asia and EMEA and backing out the other stuff, the brand looks to have grown 20-30%. Is that excessive? If not, could you talk us through where the new marketing and the products are getting particularly good traction by country and whether you are seeing any noticeable cannibalisation from Sensodyne? Then the second one on Skin Health, growth there has been improving sequentially. Now you are through the divestments should we reconsider the growth of that subcategory? I appreciate it is small but it does appear to be emerging as quite strong growth. Did you give specific Chapstick growth? Thank you.

Tobias Hestler: Yes, Chris. On parodontax overall I think the growth is in the teens which is good. That is where we expect it to be given the geographic expansion and also some of the launches that are happening. We are not concerned about cannibalisation of Sensodyne because ultimately when you look at what the consumers need you have a prevalent need. I think the prevalent need is either sensitive teeth or it is bleeding gums. Ultimately you want to solve those needs. Really the goal for us is bringing consumer into the franchise. If you are predominantly concerned about bleeding gums can I give you a parodontax and then also you are worried about sensitive teeth I can give you in the combination product that additional benefit. On parodontax when you look at bleeding gums and breath I think it is also one where we make it more transparent to users what the consequences are of bleeding gums or gingivitis that it has a much bigger consequence. We believe there is more people into the category and household penetration that can be created through parodontax.

On your question on Skin Health it is a little bit of an up and down but I think what happened in Q1 of this year in Skin Health is Chapstick did well so a good start there. That has helped. The products we have are good. They follow our go-to-market model so from that point of view we are happy to take the good result but this is not a strategic category for us overall.

Most of these brands tend to be more local or in the example of Fenistil a little bit more of a regional brand.

Chris Pitcher: Thank you very much.

Tobias Hestler: Thank you. Great, thanks everyone for your questions, for your engagement. I look forward to continuing the dialogue and we will speak soon again. Thanks very much and have a lovely day today. Bye, bye.

Sonya Ghobrial: Thank you.

[END OF TRANSCRIPT]