

Q3 2024 Trading Statement 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 Third Quarter Trading Statement on 31 October 2024. Please note that the items listed below are not exhaustive and that other factors may affect the comparisons for Q3/9M 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 H1 2024 results on 1 August 2024, we provided the following guidance in the release and on the call:

Revenue

- FY 2024 organic revenue growth expected to be 4-6% which the CFO commented implies “5% to 9% in H2.”
- Within the H1 2024 presentation, the CFO said “in Q2 we delivered positive volume/mix growth and pricing started to normalise. As we move through 2024 and into 2025, we fully expect this positive volume momentum to continue, with a gradual return to more balanced growth between price and volume/mix.”

Organic profit growth and adjusted operating margin

- FY 2024 organic operating profit growth expected to be high-single digit.
- On the H1 2024 results call, the CFO said that we expect “positive operating leverage not just from accelerating volume mix in H2, but also from the changes we are implementing to be more agile and competitive. All of this, as we continue to invest in both A&P and R&D.”
- Regarding the productivity programme, at H1 2024 results we reiterated our expectation to deliver around £300m of gross annualised savings with about a third to come through in 2024 and the rest in 2025. We noted on the call that “we are re-investing part of these savings in A&P and we’re also investing in clinical and real-world evidence studies to support new and differentiated claims, giving our products a strong competitive advantage.”
- In H1 2024 Haleon reported organic profit growth of 11% with margin up 160bps organically. Within this performance, the gross margin increased by 170bps organically. A&P increased 9% (at constant currency). On the H1 2024 results call, the CFO noted that H2 2024 organic profit growth was expected to be below that in H1 2024

primarily due to phasing of cost inflation and higher growth in A&P and R&D spend. In addition, we noted that an employee tax credit in the US in Q3 2023 would not repeat.

A reminder of other FY 2024 guidance, as shared with H1 2024 results and Q1 2024 trading statement

- Net interest expense of c. £320m.
- Adjusted effective tax rate of 24-25%.
- For minority interest, we commented that “H1 is actually a pretty good run rate for the rest of the year.”

Impact of divestments

- At H1 2024 we noted that the net impact of M&A will dilute FY 2024 revenue and adjusted operating profit by c.(1.5)% and c.(4)% respectively. This reflects the disposals of *Lamisil*, *ChapStick* and the Nicotine Replacement (NRT) business outside the US. This guidance assumed the NRT disposal would be completed in early Q4 2024.
- As noted on 30 September 2024, Haleon closed the disposal of its NRT business outside the US.

Overall revenue performance comments

- H1 2024 organic growth was +3.5% with +4.3% price and (0.8)% volume/mix. Within this, Q1 2024 organic growth was +3.0% (+5.0% price; (2.0)% volume/mix) and Q2 2024 organic growth was +4.1% (+3.4% price; +0.7% volume/mix).
- Q3 2023 organic growth was +5.0% (+6.6% price; (1.6)% volume/mix) and 9M 2023 organic growth was +8.5% (+7.2% price; +1.3% volume/mix).

Category performance comments

- **Oral Health** – H1 2024 organic growth was +9.9% with strong growth across all three Power Brands supported by innovations including *Sensodyne Clinical White* and *paradontax Gum Strengthen and Protect*.
- **VMS** – H1 2024 organic growth was +9.2% driven by double-digit growth in *Centrum* and *Caltrate* growth supported by activation of scientific claims and strong execution in market. As a reminder, Q3 2023 represents a challenging comparator for *Centrum* due to double-digit growth in China, the US and Middle East & Africa.
- **Pain Relief** – H1 2024 organic growth was (4.4)% as a result of tough prior-year comparatives for *Fenbid* in China and *Advil* in Canada. In addition, *Panadol* declined due to tough comparatives in MEA and a weaker market in Australia.
- **Respiratory Health** – H1 2024 organic growth was (2.3)% primarily reflecting lapping the strong cold and flu comparative in Q1 2023 of +33.0%. Additionally, performance was impacted by proactive inventory management in the US of oral products containing phenylephrine (PE) which had a (2)% impact on category growth (corresponding to a (0.5)% impact on Group organic revenue growth).
- **Digestive Health and Other** – H1 2024 organic growth was +4.9% and was broad based, with low-single digit growth in Digestive Health and Smoking Cessation and high-single digit growth in Skin Health.

Geographic regions

- **North America** – H1 2024 organic growth was (1.3)%, comprising +3.2% price and (4.5)% volume/mix. Strong growth in Oral Health and VMS was more than offset by three main factors: reduced trade sell-in, with stock levels c.1 week below average levels; the deliberate reduction in PE shipments, which impacted volume/mix by c.1% and the elevated base in Q1 2023 which featured very strong sales of cold and flu and Pain Relief brands. On the H1 2024 results call, we noted that the overall US market is improving, albeit still in slight volume decline, and Haleon achieved positive volume growth in H1 2024, gaining share in value and volume terms.
- **EMEA and LatAm** – H1 2024 organic growth was +7.9%, comprising +6.4% price and +1.5% volume/mix. Growth in volume/mix was broad based. In addition, pricing benefited from carry forward from 2023 (albeit at a reduced level in Q2 2024) along with incremental pricing taken in H1 2024. As noted previously, the benefit of pricing of countries experiencing hyperinflation (Argentina, Turkey) is now capped at 26% per annum.
- **Asia Pacific** – H1 2024 organic growth was +3.5%, comprising +2.2% price and +1.3% volume/mix. Overall performance was impacted by the high comparative from *Fenbid* and *Contac* in China. Outside Pain Relief, growth was broad based across all other categories. Growth was driven by a number of key markets such as India, North Asia, SE Asia and Taiwan, but held back by a decline in Australia/New Zealand and the tough comparative for China.

Other comments for consideration

Free Cash flow

In H1 2024, we reported free cash flow of £831m. Typically, Haleon's free cash flow is weighted to H2.

The disposal of the NRT business completed on 30 September 2024 for an upfront payment of £458m (with further deferred, performance-based consideration of up to £42m payable during 2025 and H1 2026).

On 27 September 2024, Haleon announced an agreement to acquire an additional 33% interest from its partners Tianjin Pharmaceutical Group ("TPG") and Tianjin Pharmaceutical Da Ren Tang Group Corporation Limited ("DRTG") in the joint venture Tianjin TSKF Pharmaceutical Co. Ltd ("TSKF"), through which Haleon conducts its OTC business in China, for RMB 4,465m (c.£0.5bn). This will result in Haleon having an 88% interest in the JV. TSKF accounted for c.40% of Haleon's China revenues in FY 2023. Subject to customary closing conditions, including the approval of DRTG's shareholders and applicable regulatory clearances, the transaction is expected to close by the end of FY 2024 and to be accretive to EPS.

Debt

As at 30 June 2024, Haleon's net debt stood at £8,415m, equivalent to 2.9x net debt/adjusted EBITDA.

Other factors which will impact the Company's net debt performance during 2024 include:

- On 3 October, Haleon announced completion of the off-market purchase of 60,526,315 of its ordinary shares from Pfizer Inc. for an aggregate purchase price of £230m. Of the total, approximately £114.6m (representing 30,161,278 shares) was allocated to buybacks and the shares were cancelled. Together with the shares bought as part of the on-market share buyback programme launched on 1 August 2024, this resulted in the completion of Haleon's £500m share buyback program for 2024. The balance of shares acquired from Pfizer (30,365,037 shares, worth approximately £115.4m) are being held as treasury shares for the purposes of satisfying Haleon's obligations under its existing employee share plans in 2025.
- As announced with FY 2023 results, the Company repaid a \$700m bond in March 2024.
- As announced on 12 September 2024, Haleon issued €750m of fixed rate notes with a coupon of 2.875% due 2028 and £300m of fixed rate notes with a coupon of 4.625% maturing in 2033. We noted that net proceeds were for general corporate purposes including partial repayment of the \$1.75bn bond maturing in March 2025. This does not impact Haleon's guidance for net interest expense of c.£320m in 2024.

Number of shares

Following the purchase and cancellation of the shares from Pfizer and completion of the share buyback programme, both referenced above, the total number of ordinary shares with rights to vote stands at 9,053m as at 3 October 2024.

Foreign exchange

Assuming exchange rates as of 3 October 2024, the estimated unfavourable translational foreign exchange impact on FY 2024 would be c.(4)% on revenue and c.(6-6.5)% on adjusted operating profit. This is higher than the expected impact that we last shared with the H1 2024 results of c.(2.5)% on revenue and c.(3.0)% on adjusted operating profit. This largely reflects the movement in the US Dollar and certain emerging market currencies against Sterling.

Period-end FX rates are shown below:

/GBP	FY 2023 currency as % of total revenue	At 30 June 2024	At 30 September 2024	Average rate 9M 2023	Average rate 9M 2024
USD	33%	1.27	1.34	1.24	1.28
EUR	16%	1.18	1.20	1.15	1.18
CNY	8%	9.19	9.40	8.75	9.19
CAD	<5%	1.73	1.81	1.67	1.74
AUD	<5%	1.90	1.94	1.87	1.93
JPY	<5%	203	191	173	192
RUB	c. 10%	108	125	103	116
ZAR		23	23	23	24
INR		106	112	102	107
ARS		1153	1296	306	996
PKR		352	372	345	356
TRY		42	46	28	40
EGP		61	65	37	55

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	Q2 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)%	1.0%
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%	7.2%
APAC	15.2%	9.5%	9.0%	8.3%	10.6%	11.7%	11.5%	5.9%	6.8%	9.0%	3.3%	3.7%
Total	15.6%	7.5%	8.1%	5.0%	9.0%	9.9%	11.0%	5.0%	6.7%	8.0%	3.0%	4.1%

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	Q2 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%	9.1%
VMS	14.9%	9.0%	(1.4)%	(0.7)%	5.0%	(3.7)%	2.7%	1.4%	3.1%	0.9%	9.9%	8.5%
Pain Relief	18.9%	4.9%	3.6%	8.9%	8.9%	11.0%	14.9%	6.2%	(1.8)%	7.4%	(4.8)%	(4.0)%
Respiratory Health	52.9%	39.7%	30.2%	16.2%	32.6%	33.0%	9.2%	4.2%	10.9%	13.7%	(2.7)%	(1.5)%
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%	7.5%
Total	15.6%	7.5%	8.1%	5.0%	9.0%	9.9%	11.0%	5.0%	6.7%	8.0%	3.0%	4.1%

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