Haleon Q3 2024 Trading Statement

Thursday, 31st October 2024

Q3 2024 Trading Statement

Tobias Hestler

CFO, Haleon

Introduction

Good morning everyone, and welcome to Haleon's conference call for our third quarter trading statement. I am Rakesh Patel from the Investor Relations team, and with me today is Tobias Hestler, our CFO.

Just to remind listeners on the call that in the discussions 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.

Today we will focus on revenue performance, and we have also provided Group profit and margin detail on both a reported and an adjusted basis, with a full reconciliation including organic revenue and profit growth in the appendix.

Following Tobias's remarks we will take your questions. For those listening to our webcast who would like to ask a question you can find the dial in details on page three of today's press release.

With that, over to Tobias.

Performance Highlights

Thank you Rakesh and good morning everyone.

I'm very pleased to report another strong quarter of consistent delivery driven by continued share gains from our portfolio of exceptional brands, combined with strong in-market execution.

Organic revenue growth was 6.1%, balanced between price and volume mix Our Power Brands grew 5.4%, with broad based growth across our regions. Our developed markets grew 4% and encouragingly, North America saw an improved performance. In emerging markets, we delivered 11% growth with China up double digit.

Equally important, our growth algorithm continued to deliver. Operating leverage, particularly from organic gross margin expansion, together with strong investment into our brands, resulted in organic profit growth of 7.4%. This takes us to 9.7% organic profit growth for the first nine months.

In the quarter, we continued to make good progress against our capital allocation priorities. We announced an agreement to increase our stake in the China Joint Venture by 33% - so we will own 88% with a clear pathway to full ownership. This comes after successful divestments of ChapStick and the Nicotine Replacement therapy business outside the US. Together these transactions demonstrate our commitment to optimise the portfolio through active brand management. We completed our £500 million share buyback allocation for the year through an off-market purchase from Pfizer. As a result, we have now returned over £1bn of capital back to shareholders this year. Finally, during the quarter, we raised around £900m in bonds at attractive rates with strong demand. The proceeds will be used to re-finance the $1.75bn bond we have maturing in March next year.

Our numbers today are evidence that we are well on track to meet our full year guidance – which I remind you is to grow organic revenues by 4-6% and organic profit by high single digit.

Strong Q3 organic revenue growth

Turning now to the detail of our third quarter results.

Looking first at the drivers of revenue growth. Revenue of £2.8bn reflected 6.1% organic growth. This was made up of 3.3% price and 2.8% volume/mix. As we expected, pricing in the quarter was stable relative to the second quarter. Volume/mix accelerated, with good improvement in North America and in Asia Pacific as the Fenbid comparator fell away. Importantly, all three regions delivered positive volume/mix, consistent with the expectations we had previously set out for the second half of 2024.

Net M&A represented a headwind to reported revenue of 1.8%, as a result of the disposals of Lamisil and ChapStick. As a reminder, the divestment of the NRT business outside the US closed at the end of the quarter and will impact our Q4 reported revenues, as I have previously guided.

Lastly, foreign exchange had a significant impact on reported revenue, reducing this by 4.9% including one point from hyperinflation economies after we implemented capping from the start of this year.

The overall translational impact in the quarter reflected Sterling strength against the US Dollar, and a number of emerging market currencies. This effect was more pronounced as around 40% of our sales in the quarter occur in September, in part due to cold and flu sell-in, when Sterling was particularly strong.

Taking these factors together, reported revenue declined 0.6% in the quarter.

Strong volume/mix with pricing normalising

Coming back to the make up of revenue growth between price and volume/mix.

As I have said previously, we expected growth to be a bit more weighted towards price this year. Thus, 2024 would be a stepping stone towards reaching the healthy balance of price and volume mix that we would normally expect. This is exactly what you have seen as we moved through the year with growth in the third quarter now being more balanced. To be clear, we will continue to take price as needed, and remain confident in our ability to do so given the strength of our innovations, brands and market positions.

Turning now to our performance across the categories.

Portfolio delivering robust growth

We delivered broad-based growth across the categories which demonstrates the strength and diversity of our portfolio. Organic growth was 6.1% in the quarter and 4.4% in the first nine months.

Looking at the detail, starting with Oral Health where revenues grew 8.2%, taking our total for the nine months to 9.3%. Our key growth drivers in this category continue to deliver, with Sensodyne growth underpinned by continued share gains. Our latest innovation, Clinical White is performing well and is attracting a younger demographic to the brand. parodontax grew double digit. Denture Care growth normalised, as we had predicted. in line with our expectations.

VMS grew 3.7%, underpinned by Caltrate, which was helped by our Bone-Up programme in China which is centred around the treatment and prevention of osteoporosis. The step down in VMS category growth from the first half of the year related to Centrum comparatives. You'll recall that Centrum grew by 14% in the US and 22% in China in Q3 2023 and against those tough comparatives, Centrum sales were broadly flat with the US flat and China down. Performance in China also reflected some channel dynamics which I will come back to later. Importantly, Centrum continues to gain share in both these markets and also globally.

Pain Relief returned to growth in the quarter, up 3.1%. Advil is benefitting from our ongoing investment in North America, including the launch of our new topical, Advil Targeted Relief. Panadol sales declined reflecting consumption trends against a strong base last year, but the brand continues to gain share. Voltaren revenues were flat due to a more competitive market situation. Across our local growth brands, Grand-Pa in South Africa saw strong performance.

Respiratory health revenue was up 9.1%, with strong growth in Theraflu and Robitussin. As you'll remember in the first half, we pro-actively ran down our inventory in the US of oral products containing PE. During the quarter, we shipped reformulated cough and cold medicines not containing PE in time for the season. In addition, Otrivin performed well helped by continued strong uptake of our Nasal Mist innovation. The decline in allergy reflected a normal destock after a weak season.

Finally, Digestive Health and Other was up 5.9% after we lapped the destock in North America last year.

Let me now move to look at geographic performance, starting with North America.

North America: Continued share gains with overall market improving

Organic revenue grew 4.8%, made up of 2.4% price and 2.4% volume/mix. This included the impact of carry forward pricing which now rolls off. Growth in Oral Health was led by Sensodyne, which was underpinned by share gains from the launch of Clinical White.

VMS also continued to gain share, with Emergen-C up low-single digit and a broadly flat performance in Centrum.

Pain Relief grew mid-single digit, driven by Advil and Voltaren.

Respiratory health was driven by shipment of re-formulated cold and flu products and new innovations, including Soft Chews for Theraflu and Robitussin.

Turning to Europe, Middle East, Africa and Latin America.

EMEA and LatAm: Strong performance supported by pricing

Organic revenue increased 6.1%, made up of 5.3% price and 0.8% volume/mix.

Pricing in Europe was up around 3%, running slightly above the rate of inflation. Looking to 2025, I would expect price growth in Europe to moderate as inflation comes down. Emerging markets saw stronger pricing as you would expect.

Across this segment, there was double digit growth in Middle East and Africa helped by our Oral Health brands, Centrum and Otrivin. Latin America grew high-single digit.

Performance in Europe was more mixed, with high-single digit revenue growth across Central and Eastern Europe, mid-single digit growth in Northern Europe and Germany and Southern Europe was relatively flat.

Looking at it by category, in Oral Health we saw strong performance from Sensodyne and parodontax. We continue to see good consumer uptake for a number of brand innovations including Sensodyne Clinical White and parodontax gum strengthen and protect.

In VMS, Centrum was up strongly, helped by continued activation and strong in-market execution.

In Pain Relief, we saw strong growth from Grand-Pa in South Africa offset by a decline in Panadol against a strong comparative last year and some shipping delays in Middle East & Africa. Voltaren was down given softer consumption trends particularly in Germany.

Finally, turning to Asia Pacific.

Asia Pacific: Strong growth as adverse *Fenbid* comparative falls away

Organic revenue increased 8.2% and was made up of 1.1% price and 7.1% volume/mix. Growth in volume/mix benefitted not only from the passing of the Fenbid comparative, but also from good underlying performance driven by share gains.

China was up double digit, with continued strength in Caltrate and Fenbid. India grew double digit while Australia and New Zealand grew low-single digit.

Looking at performance by category, Oral Health was underpinned by strong growth in Sensodyne, particularly in India. We also recently launched parodontax in the e-comm channel in China and initial consumer feedback has been encouraging.

In VMS, we saw strong performance in Caltrate. Centrum declined against the tough comparative in China last year. It's also worth noting there has been some weakness in the multi-vitamin category in the pharmacy channel, which is being partly offset by strength in the e-comm channel. As I mentioned, Centrum share performance has continued to be strong.

In Pain Relief, sales were driven by Fenbid and Voltaren which saw strong growth particularly in China while Panadol declined.

Building on strong performance in China

I want to take a moment now to expand on our business in China which is our second largest market after the US.

We have a strong position as the number one multi-national in the country and have delivered consistent share gains resulting in attractive growth. This reflects the resilience of our overall portfolio, which capitalises on our local production footprint, our innovation capabilities and our strong route to market including our e-commerce business, which now makes up around 30% of our revenues.

As shared earlier, we have agreed to buy an additional 33% stake in the China JV, for around £0.5bn from our JV partners, with an option to acquire the remaining 12%. We anticipate the deal to close by the end of the year and be accretive to EPS.

Full control of the OTC business will have a number of benefits to Haleon, including flexible manufacturing across our two sites in the country and optimised routes to market. And at a higher level, it further strengthens our position in a huge market where we continue to see exciting growth potential and where we have continued to outperform.

Strong Q3 2024 organic profit and margin increase

Turning now to our operating performance. Our growth algorithm is delivering with 6.1% organic revenue growth resulting in gross margin expansion, which enabled strong investment into our brands.

This resulted in 7.4% organic profit growth, or 30 basis points of margin improvement, despite the benefit of a tax credit in North America last year.

Net M&A had a £30m, negative impact, mainly from the divestments of Lamisil and ChapStick and was around a 70bps drag on margin.

Finally, there was a £69m or 120bps adverse impact from translational foreign exchange. This impact was greater proportionately than the revenue impact given the geographic mix of costs relative to revenue.

Taken together, this resulted in a 7.2% decline in operating profit and a 23.0% margin for the quarter.

On a year-to-date basis, we have grown organic profit by 9.7%. This puts us firmly on track to deliver our guidance for high single digit growth for the year.

Disciplined capital allocation to deliver growth and attractive returns

Moving on from the quarterly financials, I'd like to take a moment to re-visit our capital allocation priorities and our delivery against these.

We remain committed to investing in the business, and this remains our priority to drive sustainable long-term growth. As you have seen, during the year, we have invested in A&P at a healthy rate, - up high single digit, alongside new innovations and a number of projects to drive growth and efficiencies. We are supporting these investments with our productivity programme, which remains on track.

Secondly, I have said that we would look at M&A where it is commercially compelling and consistent with our strategy, and that we would be active in portfolio management. We have done exactly that, with the divestments of ChapStick and the NRT business outside the US…. and we have recycled the capital into increasing our stake in the China JV.

Thirdly, we are committed to building our track record of delivering attractive shareholder returns…. and I was pleased to complete the £500 million we allocated to buybacks this year, with over 85% of this being bought from Pfizer.

Outlook

Turning now to our 2024 guidance.

Based on our good year to date performance and momentum as we enter the fourth quarter, we are confident in our full year outlook.

We continue to expect to achieve organic revenue growth of between 4-6%.

We expect another year of positive operating leverage, translating to organic profit growth in high-single digits.

We continue to face FX headwinds, which, as we previously guided to, will have around a 4% adverse translational impact on revenue and a 6-6.5% impact on adjusted operating profit. This assumes FX rates as of October 3rd hold, but we remain mindful of the ongoing volatility in the currency markets and will update as usual in our next Aide Memoire.

There is no change to our net interest expense or tax guidance.

Building our track record of performance and delivery

As I come to the end of my time at Haleon, I am proud to see that we are delivering strong results and that we are continuing on the trajectory we set over the last three years. Our growth algorithm is clearly delivering… we have achieved attractive and above-market growth in revenues, with resilient volume/mix coming to the fore. This has meant that our profit growth algorithm has delivered, particularly over the last few quarters. This in turn has driven strong cash generation, which has supported our ability to de-lever.

This strong delivery, combined with our disciplined capital allocation actions, has resulted in total shareholder return outperformance…. which we aim to continue as we deliver against our medium-term financial objectives.

Conclusion

So, to sum up. We had another strong quarter of consistent delivery driven by continued share gains from our portfolio of exceptional brands combined with strong in-market execution.

We delivered 7.4% organic profit growth in the quarter, which takes us to 9.7% for the nine months, and this leaves us well placed to deliver high single digit growth for the year.

We're also making good progress on our capital allocation priorities including investing in the business at a healthy rate, proactive portfolio management – recycling capital from lower growth areas into higher growth markets such as China and finally returning over £1bn to shareholders through dividends and share buybacks.

Finally, I want to share my personal thanks for the support you have given me over the last few years, and to share my reflections as I look back on my career as the CFO of the consumer businesses since 2017 and at Haleon.

It's been a unique experience, to say the least! I feel an enormous sense of pride looking back on what we've achieved, delivering consistently strong results while standing up a new FTSE 20 business. It's the very definition of building the plane while you're flying it, but we did it! And Haleon is all the stronger for it.

I've learnt a huge amount along the way, both before separation as well as over the last two and a half years. For sure, we've had challenges, and it hasn't always been plain sailing, but it's how you navigate challenges and change that I think really defines you. I've learnt something from every experience I've had here – the good and the more challenging!

I'm excited about what lies ahead for Haleon. The opportunity ahead is enormous. Haleon is fighting fit and is going from strength to strength. For my own part – I'm pleased that I'm leaving having delivered on what we promised and having put the "overhangs" firmly in the rear-view mirror.

The business in in excellent hands with Dawn and Haleon's Executive Team – and I'll be here until the end of the year to support a smooth transition for Dawn and the Finance function. But after that, I'll be cheering the business on from the sidelines, knowing that I was one of its founding members.

All the very best to you all – thank you. And now let's turn to questions, operator, please can you open up the lines.

Q&A

Guillaume Delmas (UBS): Well, first of all, Tobias, congrats on an absolutely fantastic job over the years at Haleon. Thank you very much for your kindness, your insights, and also when it comes to me, your patience dealing with me and my questions. So on to my two questions. The first one is on your outlook for 2024. I mean, in the press release, I think Brian indicates that you are well on track to deliver your FY 2024 guidance. Should we interpret this as you being quite comfortable with current consensus expectations that are for almost 5% organic sales growth and 22.5% operating margin for the year?

And related to that, with only two months left, what are the key sources of uncertainty? I mean, is it mostly cough and cold and foreign exchange? Or any other factors we should take into account?

And then my second question. It is on your VMS business. There was a bit of a slowdown in the third quarter. Can you just confirm this deceleration is entirely down to a tough comparator for Centrum, and therefore that we should expect some sequential pickup as early as Q4?

And also, if you could shed some light on current category growth for VMS, particularly in the US, and against that, your market share development, as in, do you continue to gain shares, thanks particularly to Centrum Silver?

Tobias Hestler: Thanks, Guillaume. Only two questions from you? Picking on you. So let me start with the 2024 outlook. So, look, I think, as you pointed out right, you read in Brian's quote, he said we are well on track. I think we are really confident about the year and where we are. I think the Q3 results you have seen balanced between price-volume, 6% growth, I think, bodes well for the future.

You have also seen we continue to gain market share, so I think we are doing well against the market as well. And we are also investing heavily in the business, so high single-digit growth in A&P, so we are investing behind our brands, we are investing behind the growth. So, I think, overall, I think I would say, very confident in our ability. And you will understand I am not commenting on where the consensus sits overall, but I think these words were all very, very carefully chosen. And you pointed them out very rightly so.

Now you asked about uncertainties for the rest of the year. So look, I mean, we are guiding to organic, so FX is not a consideration. I cannot plan FX. If I could, I would not be working here. So, I think it is going to be what it is going to be.

From what we said on FX is very, very clear. We put in the aide-memoire 4% on the top, 6% to 6.5% on the bottom. That is unchanged. So, no concerns here from that perspective and, of course, we will update you with what happened then compared to 3rd October rates, as we put out the next aide-memoire at the beginning of the year.

So, what are the uncertainties against the organic growth? I think cold and flu is an up and down. It could be a bit better. It could be a bit less. You do not know. I mean ultimately what has driven cold and flu is if there is a spike in December or not, that drives small up or downside. It is going to be what it is going to be. We are ready for the cold and flu season. We have good and healthy sell-in, so that is, I think, all we can do. And then we see how many bugs are going around.

The other thing that you do not know about is what US retailers are doing, so I think we had a surprise in Q1. We have not seen any movements in Q2 and Q3. So, I think, from that point of view, it has been stable, but this is another one that I think is a little bit outside of our control to manage. So that is probably the bigger things out there, but again, we see continued performance and we expect continued outperformance against the market growth rate.

Then moving to your VMS question. So yes, VMS was slightly lower in Q3, but take a step back nine months, 7.3% growth overall in the category. Centrum up in the upper end of mid-single digit, Caltrate up double digits, so I think strong year-to-date performance. And you rightly pointed out the big comparators, and those comparators are gone. They would not be there for Q4, which ultimately means VMS is going to be better in Q4 than it was in Q3.

And from a share point of view, we continue to gain share. So, I think both globally but also in the key markets. And, by the way, in a healthy category. So, the VMS category still grows around mid-single digit and we are outperforming that, so it is very much on our long-term growth algorithm. And also, our nine months sell-in with 7% is exactly where it should be growing ahead of the category.

David Hayes (Jefferies): I will just go for two, I guess, as well. So just firstly, on the FX leverage effect. In the quarter, obviously, it was running at about 2 times the sales effect at the operating profit level. At the full year, you are guiding to about 1.5 times effectively. I know we have been through this before a little bit, but just to understand, is there anything specific in the third quarter that accentuates that fall-through? Or is it just the absolute numbers being bigger? Or should the effect on the operating profit level be smaller in the fourth quarter for some specific reason?

And then the second question, just on the China OTC changes. Does anything change in terms of your visibility and running of that business? And I guess what I am getting at there is have you got visibility on levels of inventory in the market at the moment. And is that something that you may have to look at as you get more control or maybe run that at a leaner level so we get some destocking early next year? Anything like that at all that you would flag that is going on in terms of ongoing due diligence in that process?

Tobias Hestler: Thanks, David. So, on FX, you are correct, the multiplier was about 2 times. I mean, first of all, I think you should view that as an outlier, and I will explain in a moment why that is. So then ultimately the multiplier reflects a bit the geographic mix of the translation, and that, of course, against where the mix of costs sits as well.

And what made Q3 a bit unusual is probably three things. One is, in Q3 and particularly in the September month, when you look at the biggest exchange rate pair we have, which is the dollar against the sterling, you had last year the lowest points reached in Q3 and actually in the month of September, and this year, we reached pretty much the highest points. You have about a 10% FX difference on the dollar between that. And then what makes this particularly painful for us is that our sales are weighted to September. So, we sell a lot of the cold and flu products in the September month, so we get an overproportionate impact on that, and of course, these cold and flu sales are profitable sales.

Then you add to that, that there is no A&P against that because we are shipping that stuff being ready for the season, but then we are advertising for it in Q4. And that is also, as a result, Q3 has the highest profitability in the year. So you get higher sales from shipping in, you get better profitability, but you do not get the cost protection from it because you are not advertising it. And I think that is what is, I think, particular to Q3, so I would see it as a bit of an outlier because normally you get in the other quarters a bit of more natural hedge on the costs line to offset it.

Then the last thing is as a reminder. We implemented hyperinflation accounting from Q1 of this year, we did not do it last year. We could have restated last year, but it was not material for the Group last year because it only started in Q3 and Q4 and we spared ourselves and all of you the pain of doing a restatement of last year. But this means it wasn't there last year. It is there this year now, so you get about a 1% impact on the revenue that comes from this difference. We will leave that behind us once we are in Q1 of next year as well.

On China OTC. So, the good news is, on this, we have been running that business, David. It is a joint venture, it has a joint venture Board, we have the joint venture partners of the Board, but it was operationally run by our team. I mean, we had control of the business given being a majority owner, but secondly, we ran it operationally.

So, I think from that point of view, we have been tracking the sell-in performance, the sell-out performance. We have been setting the sales practices in the market, so I think, from that point of view, what you normally expect in an acquisition where you acquire a business that you have not known, we know this business. By the way, we also run the full accounting on this business, all the finances, everything operationally is done by us, but of course, we share the profits of it and had to agree strategic directions and bigger decisions with the joint venture board.

What we will do in China now, what this integration allows us is to merge the field forces. So, I think what we have to go through now is an integration of two separate field forces into one. We believe this will be beneficial, but that is probably the short-term noise we have to work through. That is where the focus is on this integration, which by the way is already underway.

Iain Simpson (Barclays): Just to echo those comments, thanks for all your help and support over the years. I very much hope that you have a fantastic time doing something a little bit different in the years to come. Two questions from me, if I may. I wondered if there was anything systemic happening with Panadol? Because it just seems to be struggling a little bit in quite a few markets. I think you called out Middle East, Africa, some bits of Europe, Australia. I think, maybe somewhere in Asia Pac. I was just wondering if there is anything, like competitors turning up the dial or whatever or if it is just a coincidence that a lot of Panadol markets seem to turn south at the same time.

And then my second question is around Eroxon, where clearly that is launched pretty recently. So I am guessing you do not have much in the way of sell-out data yet, but fascinated to hear what you do have. But are you able to share anything on retailer uptake of Eroxon? How broadly distributed is it in US stores versus your expectations for this point in the launch?

Tobias Hestler: Great, Iain, thanks very much. So let me start with Panadol. So Panadol, the good news is, in the vast majority of markets, we are gaining or maintaining share, so that number is well above the 80% mark. From a competitive standpoint, I think we are doing fine, not worried about that.

What we did not get right as we were planning for this year is we did not realise that there was still more use of Panadol last year because there was still a tripledemic, RSV, COVID, and cold and flu was going around. So, there was more use of those products than we thought there was. So, we got a bit surprised by that dynamic this year because we had underestimated that. I think that has normalised now, so that is now out of the base. And ultimately the data point on us gaining and maintaining share tells you it is a market dynamic that hits the overall market and not just us.

And then, look, there were some niggles here or there about Middle East with some shipping delays given the geopolitical and some shipping lanes being blocked, so smaller things like that. And in Australia, we had one of the retailers destock a bit, but I think these are small, tiny points. So, no concerns on Panadol and its performance, more a normalisation that has happened this year, and admittedly a bit bigger than we thought it was going into the year.

On Eroxon, yes we launched. We started shipments pretty much the first day of the quarter. We pre-launched it for e-comm a few days earlier, but really shipments started very early in the fourth quarter. Way too early to tell, I mean I have talked before, right, we are building a new category in a new part of the shelf.

Uptake by retailers has been very good. So we are well above 80% and sometimes even higher percent of distribution in our biggest customers. All of our big retailers, all the big customers have taken it, so I think there has been good uptake on the product. They were also ready to do a shelf reset outside the normal time, which shows there is support. There is good retailer support also in terms of placing of materials in the trade because the retailers agree this is an attractive and unmet consumer need.

We fully launched advertising towards the middle of October and we used the NFL as the big kick-off, as we did big advertising during the NFL games. That is then directly translating, especially on the e-comm side, into demand. So we are starting to see sales come through. So look, distribution is there. We are activating now, so all of that has gone, I would say, execution has gone very well. Then we will see what comes from it. I think excited about it but way too early to say where this is going just given it is a new category.

Rashad Kawan (Morgan Stanley): Thanks for all the help through the last few years. Wishing you all the best going forward. Just a couple from me, please, on the US. So, in the slides, you mentioned the overall market in North America is improving. Can you speak about what you have been seeing there in terms of underlying trends and what is driving the improvement?

Then the second, just on cold and flu. I know, Tobias, you touched on it a little earlier. It seems early reads are suggesting a slightly weaker trend versus last year and especially if you look at one of the slides that you guys put through. I know it is still too early to make a call on the season, but what have you seen in terms of retailer purchase patterns in Q3? What type of season are you guys planning for internally?

Tobias Hestler: Thanks, Rashad. For the US market overall, you remember the last few quarters, I said the market is in volume decline and is showing small value growth given the pricing that was rolling through. That has improved. The market on a year-to-date basis is now flat in volume, so it has come back to flat, which means that in the more recent weeks, it has gotten to volume growth because the volume decline is offset.

So, I think that is positive, we are coming back to volume growth, so people are probably beyond the destocking on their pantries. And again, our products are bought on a need basis, so I think we are seeing that supporting the market. And of course, you still have price growth, but of course, that price growth is moderating as we and I think most of the competitors are starting to roll off the price increases they took. And also in the US, price increases are usually taken at different points in the year, usually aligned to shelf resets, so you do not have this once annual pricing that you have in Europe. So, in the US, it takes a few quarters to stepwise roll off.

I think overall, I think, still the market is flat in volume but on an improving trend, which is positive. And we have outgrown the market both in volume terms, and of course, in value terms as well. So, we have been gaining share in the US on a vast majority of our portfolio. So, I think again that is positive. The Q3 numbers also put sell-out and sell-in in the same range with each other, which is a positive development, from my perspective. But look, it is still early. I would say first signs of an improvement, but I would not call that victory yet.

On cold and flu. I put the US slide in the appendix of my slide deck. The last few weeks, the first two weeks of the season, it is a little bit up, a little bit down, honestly. Through the summer, it was slightly higher and then the early weeks were slightly lower, but it is in the minutia.

When you look at the slide, ultimately what makes the season is the spikes that come and whether there are two spikes, three spikes. These spikes are double, triple the weekly demand as they spike up, and that is what is going to make the season. So, I think, from my perspective, way too early to tell.

The US might have been a bit less the first few weeks. We have other markets across Europe where it has been a bit better. Do not forget, the vast majority of our cold and flu sales are outside the US, so I would not read everything into US data.

The sell-in has been good. I think you saw 9% respiratory growth globally. You know the PE effect, that reversed out. That is 4 points on the category for the quarter, so then it is probably mid-single-digit. And that, by the way, includes a destocking on allergy as well. So, I think very healthy sell-in, which actually tells you we have done the right job in March and April and taking the inventory out after the season, so retailers were ready to buy ahead of the season in very similar terms as they have done in the prior year. That is all we can do, we can sell-in already for the season, we shipped, we have stuff in our warehouse. And then the rest, the bugs will tell us on how they go around and affect some of us more and some of us a bit less.

Celine Pannuti (JP Morgan): Congrats, Tobias, on all your career, and best of luck to you. My first question is on the volume-mix balance that you are mentioning. As we look into the fourth quarter, I would just like to understand a bit the moving parts. So, it seems that you are flagging that pricing will normalise from Q4. Am I right in thinking that? And then it means therefore that probably we should see a step-up in volume in the fourth quarter, could help us understand the key drivers? Because from what you just said, it seems that there was what, a 40 basis point benefit on volume in Q3 from that non-PE product sell-in. So, could you help us understand where the volume step-up will come from? And especially, as I look at Europe, can you help understand why the volume was quite low versus expectation?

My second question may be a bit related, but it is on the margin outlook for the year. In the first half, your organic margin was up 160 basis points. In Q3, it was up 30 bps. You are flagging more A&P, I believe, in the fourth quarter, in terms of the flu and Eroxon side. I was wondering whether we should expect a similar path in margin for the fourth quarter on an organic basis versus what you delivered in H1.

Tobias Hestler: Thanks, Celine. Happy to go through those. So, on the moving parts of price and volume, I think my comments on pricing coming down are probably more for 2025. I do not think there is a stepping stone in price expectation for Q4. The reason is Europe has been very stable, the step down in Europe was Q1, where you still have the rollover from prior year. Then all the pricing is largely set for the rest of the year, so you should expect that to be stable going forward. Asia has been pretty stable and I think also in the US is fairly stable. For bigger markets, you might have a point up or down, which depends on the mix you do. It depends on the gross to net you have running through, so I think, small moves quarter-by-quarter, I would not get overly excited about.

But I think the most important message for me is about you've seen us coming back to a balance between price and volume. It is exactly what we predicted that volume growth comes and picks up, and that has happened, and we see that trajectory continuing into Q4. That is why I have, also in my slide, given you a bit of the history as we have entered the year.

Then I would expect going into 2025 much more balanced between price and volume. And look, balanced, again 40-60, 60-40, it is not exactly a 50-50. But we are getting back to that longer term algorithm that we think there is. For 2025, look if you go back into history longer term, pricing usually was around where the inflation was. So I think, as inflation comes down, we would also expect the price impact to recede.

Then secondly, of course, we had this rollover effect in Q1 2024, which will not repeat in Q1 2025. So, look, very confident in the volume step-up. We have the Eroxon launch, we are heavily and healthily investing into our brands, our A&P investments are good, our key growth drivers are delivering, and we are also leaving some of the comparator drags in Q3 behind us. So, I think that all bodes well for continued volume growth going into Q4.

Then on your margin outlook. So look. I think, yes, we had more margin growth in H1. In Q3, just to point out, we had the one-time benefit from the tax credit or the employee tax credit we got in the US. That was material for the quarter, it was not material for the year, so from that point of view, that is why the 30 bps in Q3 was a bit less than what you would normally see coming through. But yes, you are right. We are investing in the business and there is also a bit of timing of efficiencies. So, efficiencies came through quite strongly in the first half, so I think that was a bit more front-loaded than backend loaded.

Ultimately, I would say take a step back, 9.7% operating profit growth year-to-date. Very well on track for the year-end guidance. I would take the year-to-date performance more of an indicator on 9.7% organic profit growth.

Celine Pannuti: Can I just ask on Eroxon? What kind of a number are we looking at for the first quarter where you are launching? Are we looking at a run rate of £100 million for 12 months? Is it like £25 million per quarter we should be thinking about?

Tobias Hestler: Celine, I wish it would be simple to model. The answer is simply I do not know. I think the good news is the retailers have taken the product, it is on shelves, so you get the shelf build that we have done in October and that is positive. That gives you a nice distribution and the first pop in sales.

Now it is a question of are we seeing the reorders, are we seeing the repeats, is that coming back? And it is a new category that we are building, and that is what is the piece that is hard to estimate. From my perspective, I think, way too early to indicate that. We will tell you in the full year results what happens, but I do not think this is one that you can exactly guide on and model.

I said before in investor meetings and with you guys that the reason we are doing this is because it is an unmet consumer need. And we believe it is worth building a single market brand to do that. We would only do this if we believe there is a potential of $100 million+ in revenue, but that does not mean it is going to come tomorrow or in the first quarter. This will be a slow build because you are not going to build a new US brand for $20 million or $30 million of revenue. That is not enough to sustain a brand in the long run. So, I think we have an ambition that it is $100 million or more, but that is what we have to see as we execute on our plans.

I think the execution so far has been good. If you have time, look a bit of the advertising that is out there. I think the team has done a really good job in starting to land that, but it is a new category for us, for the retailer and for the consumer and that will just take a little bit of time.

Victoria Petrova (Bank of America): Tobias, all the best to you and thank you for all your help. I have a couple of small clarification questions. First is on Pain Relief outside of what we already discussed. First of all, are you happy with your Advil market share? Who are you gaining against, specifically in the US? Is there any more dynamics to expect? How should we think about market share in Voltaren? The performance is mixed, is there anything in the base just to keep in mind? Or maybe Advil topical launch impacts it as well?

And my clarification question is about the benefit of a tax credit in North America. How much was it? I am not sure I could find it in your last year press release. How should we adjust for it in the third quarter and what would the adjusted number be? And you said it is not material for the full year, but again, does it suggest like some incremental basis points in Q4 versus Q3 on the operating margin side?

Tobias Hestler: Good. Thanks a lot, Victoria. Look, on Advil in the US, I mean you might remember a year ago, we had a bit of issues and we said we needed to reinvest the brand, reignite it and get to a turnaround. That is what the team has done, over the last 12 months. On a year-to-date basis, we are gaining share. Initially, going into the year, we were still losing share, which is actually really good because that means in Q3 we are actually outgrowing the market. The Pain Relief market in the US is healthy and we are growing against it. By the way, that, of course, goes against the powerhouse in the US, which is Tylenol by Kenvue, so it is highly competitive. We are winning again, with Advil, which is important. And yes, there is new launches coming like topical which we need to land, but ultimately the most important thing was getting the core brand back to share growth. That is what has happened.

Then you asked about Voltaren. Yes, Germany is not going well right now, but I think that is what you always have. It is a little bit like what happened with Advil last year, and we turned it around. In a portfolio like ours, you always have a brand in a market or a brand in a couple of markets here or there where you have something happening that is either specific to the market or specific to a few markets that then you have to fix. Sometimes it is your own execution, sometimes it is competitive pressures or a combination of these. I think that is totally normal. The strength for us is the strengths of this portfolio, as ultimately the whole category was still growing 4%, even with one or two not doing well. That is the benefit, so from that point of view, there is nothing to be concerned about.

Our policy is we just want to be open about what is going well and what is not, so you can get a bit of colour around what is happening. We are on it and we will update you as it goes, but I do not think there is a fundamental issue in the Pain Relief category or anywhere to be concerned about.

On the tax credit. No, we have not disclosed what the numbers are, so you could not find it, because we said it was not material for the year. But, we wanted to point it out for the quarter because for the quarter, it was a more material number, and that is why the margin accretion was "only 30 bps" in the quarter. So that is just to keep in mind. And yes, this was a Q3 event last year, so this drag is not there for Q4.

Karel Zoete (Kepler Cheuvreux): Thanks, Tobias, for all the help over the years. I have two questions. The first one is coming back to the currency impact. We know it is difficult, but what prevents you from basically building up more fixed cost structures outside US, Europe and China, where the bulk of your fixed costs are? Recently again a big investment project in oral business in England, why not somewhere else? Is Haleon less able to find the right talents in these markets? Is it infrastructure? What prevents you from having a more global footprint in other markets?

And then the other question is on Digestive Health. That seems to be much more predictable and robust than historically, at least in the most recent quarters. Why is this? And how much is Digestive Health in that business? Or in other way, are the bigger core brands becoming a bigger part of this business unit?

Tobias Hestler: On your currency question, you are asking about longer term strategic footprint. So first of all, we are doing exactly that, part of the efficiency programme is building up structures, for example, in India, where we shift and we have shifted already quite a few headcount from the central markets there. Just to bring that to life, when we spun out of GSK, our capability centre in India had a headcount of about 100 people, we are up to 700 now. So we are doing exactly that, but these things, of course, take time, you are not doing that overnight.

For us, in the FX footprint, I think the biggest block is clearly you have the sterling fixed cost block that is stable. And we are addressing that with efficiency programme along the way.

On your question on the Oral Care facility. This is the crown jewel of our portfolio. This is about know-how and this is about stability, and I think you want to have that in one place. I think, when we looked at renewing this facility, and by the way, the facility is 60 years old and is not fit for the crown jewel that it is in our portfolio. We made a very conscious decision that this stays in the UK, given the know-how and the expertise we have, and it was not worth risking that.

Outside that, in the UK, we have our headquarters, but our cost base in the UK is not that high. In the other markets, actually, we have a pretty broad alignment because our manufacturing footprint largely is in the same currencies or in the same broader regions where their products are also sold. So the US, over 80% of what we sell in North America is manufactured in North America. China, I think it is over 90% China for China, so there is an alignment. And then by the way, we have done something similar with the debt and the earnings, so our currency of debt is broadly aligned with the currency where we borrow the money. So look, in short, we are doing things, but these things take time to, hopefully, minimise some of these exposures, but you will never be able to make them all go away.

Then on Digestive Health and Other. So yes, you are right. The other part is getting smaller, so now digestive, without other, is around 60% of the revenues in that category, and that is the more stable part of the portfolio. Under digestive, you have brands like Tums which has always been going very well, Nexium not so well, but I think in the aggregate and with Eno, very confident that this is a more stable category, it is a strategic category for us and we are the market leader in it, and that will grow.

Smokers Health has gotten smaller because we divested outside the US. What is left now in Skin is actually over-the-counter medicine, pharmacy sold skin care products like Bactroban in China, Fenistil in Europe. So, core products that sit on the pharmacy shelf, and also those tend to be a bit more stable. It was really the Smokers' Health business that was an up and down, and also ChapStick, which is more a cosmetic product that had the ups and downs. And then of course, you still have the US smokers business, which in my view, is going to carry some variability, but it is a much lower share in that category.

Tom Sykes (Deutsche Bank): I appreciate it is a long call, so I will try and get through this quickly. Just on EMEA and LatAm, Respiratory has been a substantial growth driver within the division. Would you be able to just explain where you have had the most success in Respiratory? It looks like in the last couple of years, it has probably been close to 40% of growth in a very high margin category. So where does the growth come from, please?

Then in your accounts, you released that you previously had reversals of prior year write-downs of inventory. I think, last year, it was about £74 million. I was just wondering what categories has that tended to be in? And is that normally a Q4 phenomenon, please?

Tobias Hestler: Thanks, Tom. So first of all, I think, on EMEA & LatAm. So maybe just to clarify, I did not say 40% of the growth, I said 40% of the business in the US. Our geographic mix on Respiratory is skewed to outside the US and I said this because there is a lot of US market data coming through on cold and flu trends because you get pretty much daily data rolling through from that. I think you should not take, at least for our business, a read across from what the US is doing on a daily or monthly basis.

For us, Respiratory is a core part of the portfolio everywhere. It is a core part of the pharmacy business, which is very big in EMEA & LatAm because the pharmacists need to have these products on shelves. Similar to Pain Relief products, you need all the respiratory products on the shelf. In Europe, we are focusing here on two brands. One is Theraflu, which is sold in the markets under the brand NeoCitran, and then on Otrivin.

On Otrivin, we had a major innovation with nasal mist. You all probably know from your childhood how we all hated nasal drops and nasal sprays because it is like shooting a gun up your nose. We did this new innovation which is a mist, which is much easier to take and should take this barrier of using a spray, that we all experienced as kids and growing up, away. This innovation is rolling out across EMEA & LatAm. That is where the focus is on EMEA & LatAm. I think sell-in was quite normal, we sold-in ahead of the season, as we always do. Now we are ready to go and look how the season will evolve.

And then on your reversal, I am not sure about inventory reversal. We reversed a ChapStick impairment because we had it impaired a bit more in the prior year, and then we got a bit more money for it as we divested it, if that is the one you referred to. If that is not the one, maybe we follow up with Rakesh afterwards, Tom, and we clarify that question for you.

Conclusion

Before we close out the call, I want to formally welcome Dawn Allen to Haleon, who officially starts as CFO tomorrow. Please give her the same warm welcome you gave me when I started as CFO. Dawn will be with us at analyst drinks later today and will be joining me at upcoming investor conferences, so we're both looking forward to seeing you.

Goodbye.