Haleon Q1 Trading Update

Wednesday, 1st May 2024

Introduction

Sonya Ghobrial

Head of Investor Relations, Haleon

Welcome & Disclaimer

Good morning everyone, and welcome to Haleon's first quarter trading statement conference call. 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 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.

As usual, we will take you through some prepared remarks before opening the call to Q&A. For those listening to our webcast who would like to ask a question, please use the dial-in details on page three of today's release.

Also, 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 one for organic revenue growth in the appendix.

As a reminder and 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 terminates.

With that, I would like to hand the call over to Tobias.

2024 First Quarter Trading Statement

Tobias Hestler

Chief Financial Officer, Haleon

Thank you Sonya, and good morning everyone. Let me first start with our highlights for the quarter.

We had a solid start to the year, with 3% organic revenue growth driven by 5% price and volume/mix down 2%. Positive volume/mix in EMEA & LATAM and APAC was offset by a decline in North America. However, whilst growth was held back in the US from inventory adjustments by some retailers, Haleon's consumption in the US was up mid-single digit and ahead of the market.

Adjusted operating profit of £707m was up 12.8% on an organic basis, with gross profit up 5% organically, funding strong growth in A&P. As pricing is normalising and cost inflation easing, combined with our productivity programme, you can see that our growth algorithm is delivering even in a low growth quarter, and it is enabling increased reinvestment.

We have made continued progress in the evolution of Haleon to become more agile and competitive, and we are now seeing the results of the productivity programme announced last year.

We also shared in today's release the proposed closure of our Maidenhead manufacturing facility, transferring production to our Levice site in Slovakia over the next 2 years, an important step in Haleon building a more efficient global supply chain.

As a reminder, with our Full Year results in February we announced that we expect to allocate £500m to share buybacks in 2024. To date, we have purchased 102 million ordinary shares for approximately £315m.

The solid start to the year gives us confidence in delivering on our FY 2024 guidance, as stated in our release this morning.

So, let's look in more detail at our Q1 results.

Q1 Key Financials

Revenue of 2.9 billion reflected 3 percent organic revenue growth.

Our strong organic profit growth resulted in a 24.2% margin, up 110 basis points on a reported basis and up 220 basis points organically.

Turning to slide six.

Solid Q1 organic revenue growth

Continued good performance in EMEA & LatAm and APAC; North America adversely impacted by comparatives and retailer inventory management

Coming back to organic revenue, we had guided that Q1 revenue would be just below the lower end of our 4-6% full year organic growth guidance range. However, in this quarter, we also saw some inventory adjustments in the US, resulting in volume/mix a little weaker than expected.

Overall, volume/mix declined 2%, with EMEA and LatAm returning to volume growth after two quarters of volume decline. Asia Pacific also saw positive volume/mix despite lapping tough prior year comparatives in China, following the end of COVID-19 lockdowns, and although North America volume/mix was down, consumption was good reiterating healthy demand for our brands.

Price was up 5%, and included both carry forward price from last year, as well as incremental pricing taken during the quarter. Going forward, we expect the carry forward benefit to reduce a little through the year.

Organic revenue growth was more than offset by a 460 basis points adverse impact from translational foreign exchange. Year-on-year Sterling strength relative to the US dollar and Chinese renminbi were the main drivers. Given how FX rates evolved through 2023, we always expected the impact of foreign exchange to be most pronounced in the first quarter. Therefore, no change to our full year outlook.

Net M&A was minimal, and reduced revenue by 0.6%.

Looking now at performance across our categories.

Portfolio delivering robust growth

Continued momentum in Oral Health and VMS; Pain Relief and Respiratory Health impacted by tough comparatives and some US retailer inventory management

I was particularly pleased that Oral Health revenue grew 10.6%, with Sensodyne, parodontax and Poligrip/Polident all up double digit, further building on last year's strong performance. This was underpinned by a number of successful innovations, such as Sensodyne Clinical White, scientifically proven to whiten teeth by two shades without worsening or causing sensitivity.

VMS revenue grew 9.9%, continuing the momentum from Q4 2023 and demonstrating our brands remain well positioned and continue to outperform. Caltrate was up double digit, with strong growth in China. Strong Centrum growth was underpinned by performance in North America and continued activation of cognitive function claims for Centrum Silver. Emergen-C grew mid-single digit, gaining share and outperforming the immunity category in the US.

Pain Relief revenue declined 4.8%, mainly reflecting tough comparatives from Q1 2023 with Fenbid in China, and also, Advil declined double digit partly due to elevated demand in Canada last year, as well as inventory adjustments by some US retailers. Panadol declined low single digit, driven by a softer performance in Asia Pacific, given the decline in Australia, and Voltaren grew mid-single digit, with strength in Europe.

As expected, Respiratory revenues were down, lapping the strong prior year comparative in Q1 2023 from Contac in China as well as the prior year rebuild of inventories, mainly in the US, given low levels at the end of 2022, when cold and flu incidence spiked late in the year.

Finally, Digestive Health and Other revenue increased 2.4%, with Digestive Health and Skin Health up low single digit. Smokers Health declined low single digit.

Turning to regional performance.

Q1 revenue growth regional detail

Emerging markets, which are 36% of revenue, saw 7.7% organic revenue growth with the benefit from pricing in hyperinflation economies now capped, and despite China being down low single digit.

Developed markets grew 0.5 percent organically.

Looking at each region in more detail, starting with North America.

North America

Volume/mix adversely impacted by prior year comparative and inventory management by some US retailers; consumption up mid-single digit with share gain

Organic revenue declined 3.3%, with positive price, up 4.5%, and volume mix down 7.8%.

Oral Health grew mid-single digit, driven by Sensodyne. VMS was up double digit, and Pain Relief and Respiratory Health both declined due to challenging comparatives and inventory management by some US retailers.

Let me take you through this in a bit more detail. Whilst some inventory management is expected through the quarters, this quarter was a little unusual. You will remember that the cold and flu season had an early and strong spike in Q4 2022, very much towards the end of the year, and this resulted in restocking of depleted inventories in Q1 2023. Normally what you would expect, and what we saw in Q1 this year, was destocking in the quarter as retailers sell-out stock and reduce inventories towards the end of the season. As a result of this, and given the comparative, there was a much higher than usual year on year change in sell-in, resulting in the majority of the volume decline seen in the region.

Additionally, and to a lesser extent, we saw some inventory adjustment by some US retailers on other categories which also impacted sell in.

However, looking at consumption data for the market, our consumption increased mid-single digit and both the market and Haleon performance improved in Q1 compared to the last 12 months. More importantly, Haleon outperformed the market both in value and volume demonstrating consumer demand for our brands remains healthy.

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

EMEA & LATAM

Strong performance with broad based growth across all categories

Organic revenue increased 8.6%, with 7.5% price and 1.1% growth in volume mix. Pricing partly benefited from carry forward from 2023, and also the benefit of incremental pricing taken in the first quarter. Volume/mix was positive, despite some offset from a decline in Middle East and Africa.

Across the categories, Oral Health saw double digit growth, driven by all three Power Brands. VMS increased mid-single digit, with good growth in both Centrum as well as local brands. Pain Relief in the region saw mid-single digit growth, reflecting good growth from Voltaren and Respiratory sales increased mid-single digit, despite lapping a challenging prior year comparator.

Finally, turning to Asia Pacific.

Asia Pacific

Continued good momentum despite China declining low-single digit due to a tough comparative.

Organic revenue increased 3.3%, evenly balanced between price up 1.7% and volume/mix up 1.6%, a really good performance, particularly given the expected decline in China in Q1.

Within the categories, Oral Health saw double digit growth, underpinned by strong growth across key markets, including China and India. In VMS, we saw high-single digit growth, underpinned by Caltrate. Respiratory health grew high single digit, despite the challenging comparative and Pain Relief declined.

Turning now to our operating performance.

Strong Q1 organic profit growth

We delivered £707m of adjusted operating profit, an increase of £16m. Solid revenue growth, with pricing, easing of inflationary cost pressure and efficiencies from the productivity programme allowed us to strongly invest into the business and in A&P.

Net M&A had a negative impact of £12m and was a 30 basis point drag on adjusted operating margin.

Finally, there was a £59m or 80 basis point adverse impact from translational foreign exchange. This mainly reflected movements against the US dollar and Chinese renminbi.

Taken together, this resulted in a 2.3% increase in Adjusted Operating profit, and a 24.2% margin. Remember, as you have seen in prior years, the quarters are very volatile, and as such, neither the Q1 absolute margin nor the organic profit growth should be extrapolated for the full year.

Continued progress in company evolution

We continue to evolve and implement change across the business to become a more agile and competitive organisation. The productivity programme is delivering the expected savings and is funding increased investment in the business and driving growth. In addition, we announced plans for the proposed closure of our manufacturing facility in Maidenhead, which is expected to result in a total restructuring cost of around £90 million over the next two years, the majority of which is non cash.

There is no change to the Lamisil and ChapStick impact which I guided at with the Full Year results, but I can confirm that we expect ChapStick to close in May 2024.

Also, in the quarter, we completed a share buyback of around £315m for 102 million ordinary shares, all of which were subsequently cancelled, reducing the number of shares in issue by c.1.1%. This was part of the £500m share buy back we expect to complete in 2024, announced with our Full Year results.

The expected impact of translational FX remains unchanged, with an adverse impact of 2% on FY 2024 revenue and 3% on adjusted operating profit. This assumes rates as at 31 March 2024 hold for the rest of the year.

Outlook

All other FY 2024 guidance remains unchanged.

Conclusion

So, to sum it up. Haleon delivered a solid first quarter performance despite lapping challenging comparatives.

We delivered organic profit growth ahead of organic revenue growth, benefiting from improved gross profit, as well as efficiencies in the business.

Our business is evolving as we implement change to improve agility and our competitiveness.

Finally, following Q1, I remain confident that we are well placed to deliver on our full year guidance.

Before we move to Q&A, I wanted to briefly say a few words on my own personal news from last week.

As you'll have seen, I'll be leaving Haleon at the end of the year. It wasn't an easy decision to make, but I'm really proud of the strong foundations we've built and what we've achieved. It's been an amazing period both professionally and personally.

I was very open about wanting and needing to create more balance in my life, not least because as you get older, managing Type 1 diabetes becomes more and more important – so that's been a driving factor in my decision. I'll be focusing on advisory and non-executive work from next year, which is an exciting new phase for me.

You'll also have seen we announced that Dawn Allen, currently the CFO at Tate & Lyle, will be joining at the end of October to succeed me. She's an exceptional leader and will bring deep consumer and international experience to the business. Haleon is in good hands.

In the meantime, it's very much business as usual. I will be leading us through Q3, and then working with Dawn for a couple of months handover before leaving at the end of the year.

Anyway, with that, let's now move to Q&A and I will hand back to the operator to open up for questions.

Q&A

Rashad Kawan (Morgan Stanley): Good morning, Sonya and Tobias. Thanks for taking my questions and congrats, Tobias, on all that you have achieved at Haleon. A couple questions from me, please. First, from a volume/mix perspective, I guess you shouldn't have much noise in Q2, outside of the cold and flu dynamics in China and North America, should be clean. Is it fair to assume that we should expect volume/mix to be positive for the remaining three quarters? And in terms of pricing, notice obviously some more incremental pricing being taken, which is consistent with what you have said at the full year. Are you broadly done for the year, or is there more selective pricing to take?

And then a just second question on the Maidenhead facility if I can? How should we think about the phasing of the £90 million restructuring over the next two years, and what level of cost savings are you expecting? Thank you.

Tobias Hestler: Great. Thanks. Hi, Rashad. Thank you. Thank you very much.

So, let me start with your volume question on Q2. So, in Q2, as you mentioned, there is still the noise or prior impact on Fenbid in the base. And remember, last year for Fenbid, China went into their second wave of COVID infection, so actually the impact on Fenbid in Q2 was bigger than in Q1. So that is pretty much what is left in the base.

I think all the Respiratory swaying, also the US swaying, is a base effect that impacted Q1 that is behind us. On your question for volume for the year, I think we are confident in volume growth for the year. I am not going to guide to the quarter, but you would expect the big gap is behind us from the base, that you see an improving trend from Q1 forward.

Then on pricing, overall, I think very pleased with the pricing, how it started. I think very much on track what I had guided for the full year, where I said that from a price-volume mix, 2024 is a stepping stone, and also said we would not be at a 50-50 mix between price-volume in 2024. I think we are going to get back to that, but not in 2024. So last year as a reminder, 15% was volume driven, 85% was price-driven. 2024 should be a stepping stone to more balance, but not the balance yet.

We have taken the majority of the pricing in Europe. For example, European retailers, you do that once a year. So, most of these negotiations have completed, and we are very much on track on what we expected.

But then, of course, we have countries like in the US, where we take pricing not at a given time in the year, but you try and do pricing together when shelf resets are done. So, we will see how the situation evolves, and you might see pricing here or there come through. And then, of course, in the emerging markets, we take pricing on a more regular basis to be aligned with that.

And then on Maidenhead, so the £90 million, it is largely non-cash. I would assume probably roughly half-and-half for 2024 and 2025. 2024 is mainly the write-down of the assets, and then you would have the severance cost roll through a bit later on.

The savings are incremental to the £300 million productivity programme, and they will start to come over the next two years as we ship production to Levice and to third parties as well. So, thank you.

Rashad Kawan: Thank you very much.

Guillaume Delmas (UBS): Good morning, Tobias and Sonya. I have got two questions. The first one is on the volume contraction in Q1 in North America.

Tobias, could you maybe provide a bit more granularity on how much of this Q1 weakness in North America was attributable to Advil in Canada, to the last year's unusual reordering pattern in the US, and then this unexpected, from the sound of it, inventory reduction in the quarter? And I guess related to this, I would expect the first two factors, so Advil in Canada and last year's unusual ordering pattern, to be a non-factor in Q2, but do you expect further inventory adjustment affecting your Q2 performance, or do you think retailers' stock levels in the US are now quite low, or at least healthy? So any indications on when sell-in and sell-out should be a bit more aligned would be helpful.

And then my second question is on your gross margin improvement in the first quarter because it was quite significant, despite what I would think was negative mix with OTC down, negative volumes, FX headwinds. So, what were the key drivers behind this improvement? And would it be fair to assume that mix, FX, operational leverage, should all improve at the gross margin level going forward? And if so, is your current mindset that most of this gross margin benefit should be reinvested, particularly in A&P spend? Thank you very much.

Tobias Hestler: Thanks, Guillaume. So, let me talk to volume. On the volume point first, so as I said in my remarks before, the large majority of the volume decline in North America is driven by the two things you mentioned, which is the Advil Canada and in the US, it is the swing between an inventory burn normal this year and an inventory build unusual last year.

So that is the vast majority of the swing and as a result, that is in the base and will not repeat going forward. So I think from that point of view, we know we are leaving that behind us. Then, as you said, and as I mentioned, there were some additional inventory adjustments by some retailers that impacted other categories.

Look, I think what we have been seeing is that retailers are focusing more on working capital. I mean, when you look at the drug channel, clearly their overall situation, that does not surprise you, that you focus more also on the cash side, on the working capital. And also I think what we have seen over the last six to nine months is that the supply chains, not just for us, but in general, are much, much more stabilising. Volumes are much more stabilising. So, I think that allows you to better and improve your inventory management. And that is what we have seen retailers do.

It has very hard to predict what they are going to do because they are not going to tell you exactly what they are doing. I cannot tell you if this is all done. We are watching it very tightly.

What I can say is that at the moment we are having about one week less of inventory compared to what we have seen historically. So, I never felt the inventory was too high, at least compared to historical trend, and it is about one week lower than what I have experienced in the past. So, I think it is in a pretty normal level from what I can say. However, we will keep you updated on it.

But, look, most importantly, I think is really the US consumption, it was strong. We were growing mid-single-digit. We are outgrowing all the categories that we are playing in, in the US, and also we see the market a bit improving in the US. The market was in quite a bit of volume decline last year, which I had shared at full year. It is now still in a small volume decline, but we have been growing volume in that market, which I think speaks to the performance of our brands and our execution in the market that is moving in the right direction.

Then, let me move to your gross margin improvement.

As you say, we had a strong start to the year. Gross margin improved by bit more than 100 basis points, which is great, off a combination of easing inflation, pricing is coming through and the efficiencies we’re driving. Mix is not really a factor, Guillaume. I think Oral Health has done very well. Oral Health has very similar margins to OTC, so that helps us carry through. Over 10% increase in Oral Care carries us, especially on very premiumised products like the ones we have launched as well.

Now, also, take a look back at last year. Last year, Q1 was the quarter when we took the biggest hit because we had exactly the opposite effect happening last year. We still had the impact of increasing inflation. That then from the second half of the year, that really came through to the

P&L in Q1, coupled with not all the pricing yet being in place. So, I think you see a bit the offsetting effect.

As we have said, we believe gross margin will improve for the full year. Very much on track with that. We have done that in Q4. So, in Q4, it came up 70 bps. We have had another gross margin improvement in Q1. But, of course, then by the end of the year, we also start cycling over that a little bit. And then, yes, absolutely. The intent is to continue to invest in A&P. We have increased A&P, investing strongly in Q1, and we intend to do that going forward to really capitalise on the opportunities we have in the market, and also to drive continued growth for the rest of the year. And that gives us confidence in the 4% to 6% outlook.

Thank you.

Guillaume Delmas: Thank you very much.

David Hayes (Jefferies International Limited): Hi. Good morning, all. I have one follow-up and two questions if I can. Just following up, you mentioned the 50-50, midterm on price volume. I think you said 40-60 is what you were thinking roughly when you talked at the full-year stage. Just a question, whether that is what you did say and whether that is changed at all, based on what you have seen in the first quarter?

And then the two questions are on the Maidenhead closure, two things on that. I do not think, as I missed it, apologies, that you quantified the savings from that closure, but also, is this part of a bigger plan that is going on in terms of a supply chain savings initiative beyond the £300 million, as you talked about under the new supply chain head? Should we expect more of these kind of announcements to come over the next couple of years? And is that something you could maybe quantify, roughly, as additional savings over the next couple of years?

And the final one for me, just in terms of the price increases in the quarter, was there any pre-buying at all ahead of price increases through the period? And were those price increases across the regions, or was it mostly focused on Europe? And again, apologies, if I missed that. Thanks so much.

Tobias Hestler: Sure. Thanks. Thanks, David.

So, on your follow-up question, what I have always said pricing and volume, it is about half-and-half. So it could be 40-60, or it could be 60-40 in a year. It depends on when do you take volume and when do you take price?

So, I would say anything that is between 40% and 60%, in either year, in either direction, is sort of the approximate balance between the two. It has not an accurate 50-50 balance, but somewhere between those two, and that is what we have seen historically and I think we are going to get back to this broad balance over probably the next two years or so. However, thanks for the clarifying question on that.

On Maidenhead, first of all, the savings are incremental. We are not specifying them, but I think there are good savings. I mean, it is a site with 430 people in Europe. We are shifting that to a much bigger site in Levice in Slovakia, which is our key manufacturing site for Oral Care products. And as a result, it will have a very fast payback on the one-time cost or the cash costs that are associated with that.

We are doing that. We said that, I think, even at the Capital Markets Day, that there will be a phase where I think we are going to make Haleon, and we are in the middle of this, a more agile and more competitive company. And that is part of that, that we look at where there are opportunities to make this a business and where can we free up resources to then reinvest in the business and with that to accelerate growth?

So, it is part of this programme, but I think given it is incremental to the £300 million productivity programme, we also announced that separately. So you see that there are additional benefits that we are delivering, but also against the incremental one-time costs that are coming through.

And then on price increases, we do not tend to see massive forward buying, and also we try and limit that. And I think, also, do not forget, a lot of our sales are to a lot of individual pharmacies and customers. So I have not seen any trends on that. And you see, look, most of the pricing was taken in Europe, the pricing in the US is taken at different times throughout the year. And then look, APAC also, I think has a much lower inflation environment and also the pricing was lower. So I think no concerns about anything spiky from pricing increases, that does not tend to be the case in our business. Thank you.

Iain Simpson (Barclays): Thank you very much. A couple of questions from me, but, Tobias, very sorry to hear the news of your departure at the end of this year, and the support you have given the analyst community since spin will be much missed. So quick questions for me, if I can.

Firstly, just thinking about the moving parts going into Q2, I think you have got a slightly tougher comp in China, but clearly a significantly easier US comp. Would it be reasonable to expect Q2 being back in that 4% to 6% medium-term range then? And just as a kind of adjunct to that, I think you made a comment about where inventory levels were versus pre-COVID, but I was not clear if inventory levels were a week more or a week less than they were pre-COVID, so any clarification there would be very helpful.

And then secondly, just looking at Oral Care and VMS, 10% growth in the clean parts of your business is pretty impressive. I wondered if you could provide any colour as to how much of that 10% was pricing that we might expect to see fade a bit as the year progresses, and how much of that 10% was volume growth from all the usual stuff of share gain, rolling out into white space and innovation and all those things? Thanks very much.

Tobias Hestler: Good. Thanks, Iain, and thanks very much for the initial comment. Appreciate that. However, we will have eight months together to celebrate and toast, and we will see each other along the way, so I think that is the time for that.

However, going back to business. So, it is one week less of inventory than what we had historically seen. So, I think right now, when I look at my week of stock coverage, it is one week down. So that means one week less sitting in the retailers and in the store compared to where it was historically, and what I have experienced over a very, very long time, which gives me a bit of confidence that I do not think it is overstocked. However, clearly, as I said, retailers are now more focusing on it, where they are. So, we will keep you updated on it, as we track this. You can imagine, we track this very tightly with our retailers.

On the moving parts in Q2, I think you mentioned tougher comp in China, due to cycle over, and a much easier comp in the US. So, I think clearly an improving trend from Q1, but I do not want to get into guiding for quarterly growth rates. Ultimately, you should take some comfort into us having very much confirmed our 4% to 6% guidance for the year.

And then look, thanks for also asking a question on the stuff that is going great. So Oral Care, a really good quarter with 10.6% growth. What has driven that? Partly was driven by the launches we had. A really strong innovation come through, and that is on top of innovation we had pretty much a year ago. So, I think last year we launched Pronamel Active Shield in the US, also in Q1. We now had another big innovation within 12 months. The more normal thing is probably 18 or so. So, I think we got two big innovations through.

Of course, there is still growth coming from that innovation that we launched a year ago, so that continues to go well. And then, of course, now we launched on top, Sensodyne Clinical White, and also taking that to other markets. So, there is a bit of sell-in and piping impact on that.

And then overall, I think, look, it was both. It was volume, and it was price, and it was more volume than price for Oral Care. And I think it is just a combination of launches, good execution, and then also I think Denture Care still benefiting from the innovations we had in the last 12 months in that business too. So, it is like now, I think all the three big brands really firing from all cylinders, which is of course great to see.

And then look on VMS, I mean, we have always said very consistently that we believe this is a category that is growing. The category growth is now back to mid-single-digit in Q1, which we always said it would. And then we also said we believe our brands are doing well and are well-positioned in that. And that is exactly what happened in Q1. By the way, very similar to the numbers I shared at full-year, when I shared with you this sell-out on the three brands.

And of course, very much as expected, the drag from Emergen-C on the vitamin C category has now ended. So you have all the three brands going well. We got a little bit of help in China with a competitor that had some supply issues, so the team was able to capitalise on that. But, in aggregate, I think really good performance. And, you know, it is a mid-single-digit growth category that we are playing in, and we are outperforming that category. And that is where we would love to see that.

I hope I answered all your questions.

Iain Simpson: You did. Thank you very much.

Tobias Hestler: Thanks, Iain. Appreciate it. Thank you.

Bruno Monteyne (Bernstein): Hi. Good morning, Tobias. We hear a bit less these days about Voltaren and the growth rate. And necessarily, as they were historically, but together with Oral and VMS that you just discussed, it should be one of those engines that pulls Haleon forward. Is there a need for more innovation in Voltaren? Is something like that coming, like you have done with Sensodyne and new product varieties? Can you comment on that?

The second one, I think you did talk about A&P being up, but I am not sure if you quantified as a percentage of sales, how much is it up? Is it comparable to the increase in gross margin that you talked about as percent of sales for the group?

And last but not least, I think there is still some hope or expectations for the erectile dysfunction cream to land in the US, I think, in quarter four. Is that on track, and is it still set for some good additional volume growth towards the back end of the year, on top of the usual run-rate? Thank you.

Tobias Hestler: Thanks, Bruno. On your last question, I did not get the topic, so could you just repeat the third one? The other two I got. Yes?

Bruno Monteyne: Yes. The erectile dysfunction cream that you meant to launch in the US, I think at the end of year. Is that on track, and should we still expect some good volume from that?

Tobias Hestler: Perfect. I did not hear ED cream. That is good. Thank you. I got it.

Look, let me start with Voltaren. Mid-single-digit growth, a brand in growth. Always, we said it is a brand that topical pain relief, usually if there is a lot of cold and flu going around, people take a lot of Panadol or Advil, then they use a bit less topicals. I think now, also that is stabilising, usually gives us a bit of a benefit on Voltaren. So, it has been an offset in the portfolio with that. So, I think, pleased to see the performance being good on Voltaren in the quarter.

From an innovation point of view, I think given its OTC, this has much slower innovation cycles. The last big innovation cycle we did with Voltaren was the double-strength or extra-strength formulation, which I think is now nearly everywhere in the world, but not fully. So, there is a few more markets to go with that.

These innovation cycles take a bit longer. It took us eight or nine years to roll this out globally, whereas an innovation like in Oral Care, you get rolled out probably within 12 months or 18 months across the world, at least to the markets where it makes sense to have that innovation. Of course, what is happening on Voltaren is in smaller innovations, on packaging sizes as well. So I would always expect much less innovation in the OTC brands and then the continued fast-paced innovation in Oral Care and also in VMS, which I think we are both delivering.

On A&P, we have not specified at the trading update. We carefully used the word 'strong', after taking guidance from Sonya on what 'strong' means. She told me all of you will be able to translate that, and it means more than sales growth because sales growth was solid. And also, I think we reinvested a good part of the gross margin expansion back into A&P, so I think, really executing on what we promised we would do there.

And then on Eroxon, the erectile dysfunction cream, we had said at full-year that we would intend to launch it in 12 months. So that means now, within ten. We are making good progress on ramping up and building the production, so all these plans are tracking along nicely. And then sort of once we get closer to the launch date, we would, of course, inform you about it. So, excited about it. It progresses very much as planned. So next ten months, this should come to the market then as well.

Bruno Monteyne: Thank you.

Tobias Hestler: Thanks, Bruno.

Victoria Petrova (Bank of America Securities): Thank you so much. My first question is on Advil US market share. Last time we talked, you commented that your market share has stabilised. Were you seeing any improvement in Q1? How should we think about it into the end of the year?

And my second question, once again, let me try to ask it slightly different. How should we think about the volume shape of recovery? We still have sort of a negative impact from comps in China in Q2, but it is obviously much smaller than all, in Q1. And then we should have very positive support in comps in the second half of the year. Is it fair to assume that volume will turn positive immediately? And should we also think about it in terms of matching your comps on sell-out in North America in Q2 with what you saw in Q1, only on the sell-out part when you commented on mid-single-digit dynamics. Should we see it already in the second quarter on your results? Thank you very much.

Tobias Hestler: Thanks, Victoria. So let me start with US Pain Relief.

So we gained share in US pain relief in Q1. And this means the green shoots we have been seeing have continued to progress. Overall, I think we were able to gain share in the Pain Relief segment in the quarter, which I think is positive. Advil is back to growth. So I think that is good to see. However, look, it is early in the journey, right? I mean, this is two quarters into a turnaround plan. So I think let us be cautious on that. Also, given the overall environment in the US with inflation continue to be high. So I think we just have to be mindful of that.

That probably answers then also a little bit your second question, right? I think we are very pleased to see that sell-out is good in the US driven by, I think Oral Care, driven by the VMS brands, and also, us gaining share across the other categories. However, again, I think I would not immediately roll this forward into the next quarter, just given the overall situation.

And then on your volume shape of recovery, I think it is a gradual setup, so it will be better than Q1. So it is a gradual improvement. However, of course, I think more phased to the second half of the year as we always expected because we have to still cycle through Fenbid. I think you should take some comfort from Europe, EMEA, LATAM being back in volume growth, which was a drag in the second half of last year. And also I think APAC, which had a good quarter. And then we will see where we get to with the US, and also on the inventory side as well.

Victoria Petrova: Thank you very much. And Tobias, you will be missed. Thank you so much for all your help.

Tobias Hestler: Thanks. Thanks, Victoria. And I am around for eight more months to help, and look forward to seeing you.

Victoria Petrova: Thank you.

Celine Pannuti (JP Morgan): Yes. Good morning. I have a follow-up and two questions. My follow-up is about pricing. So you had the strong pricing, which was the rollover plus new incoming. Can you just help on how we should think about the phasing or the step-down on pricing through the year? I mean, was it really a Q1 benefit and then slowly we have a step-down into Q2? Is it a progressive normalisation?

My two questions. Number one, I wanted to understand if you could give what growth rates you had in China and within that, the volume performance. You mentioned that Fenbid, maybe it has a comp in Q2. However, if you could, was China's volume negative, and if you could flesh out the different business performance.

And then you just mentioned Europe, Latin America, that was back in volume. Can you talk about where that volume comes from and what you saw from the category perspective? Thank you.

Tobias Hestler: Good. So let me maybe start with your pricing question. Yes, pricing was good in Q1, right? I think we expected good pricing going into the year, and I think that came through, which I think is positive. So I think what we have planned for the year is coming through, through the pricing negotiations, as I mentioned earlier. So I think that is encouraging.

Of course, there is still some rollover pricing looking at when Europe took pricing, so I would not expect 7.5% price growth in EMEA for the rest of the year. So that is the one that probably comes down, whereas I think in the others, I mean, it is probably more stable there. I think APAC was not that high and/or it is normal. And then I think also the US is pretty stable. However, again, in the US it is a bit more spiky because we take pricing at different points of the year and depending on when we roll over. However, it is really EMEA, LATAM that, I think, would expect to come down slightly from the levels they have been. However, again, if you take the bigger step back, I think for the full year, we will not be in this roughly half-and-half split, where I think consensus currently sits. I think. I think that is an important message for me, that I think there is more pricing this year than compared to what the consensus is seeing.

Then on China, overall, you have seen from some of the commentary, I mean, not surprising. I think Pain Relief was down significantly, given us-cycling over Fenbid. That was a massive double-digit decline on pain, very much expected. And then that would even be a bit more in Q2. And do not forget, Fenbid is one of our top three brands in China.

And then on the flip side, we had really good growth in VMS, so high-single-digit growth across the category. So I think that is positive and good. And then I think Respiratory was slightly down, so despite cycling over the benefit, and then Oral Care had a really good quarter in Q1. You remember Oral Care was a bit struggling in China in half-one. So I said before, while we had all this benefit from Fenbid, there is also a bit of the business not firing from all cylinders last year, and we are starting to see that come through with Sensodyne and a few other brands doing well.

However, in aggregate, correct. China was down in Q1, which again, I think gives you a bit, even despite that, emerging markets were up high-single digit. So it shows you a bit of the strength of the portfolio. Again, that from a geographic basis, even with the biggest market, with a nearly 10% weight of our business, that being down or being a third of our emerging market, we are still able to grow the emerging market at high single-digit, which I think are supportive to the 4% to 6% growth algorithm that we had.

And then on EMEA, LATAM, I think, look, volume growth, I think MEA was down a bit. I think there is a bit of delays from the Red Sea, so we had some shipping delays there. Also, we see a bit consumers under pressure in Turkey, so smaller markets as well. So that means the volume growth really came from both Central Europe but also from Western Europe, which I think is encouraging because that was the areas that we were probably a bit more concerned about consumers and how they are behaving. And I think this just again shows the strength, but also probably the strength of our distribution model as a big part of the business is sold through pharmacies.

Sonya Ghobrial: LATAM was actually slightly positive in volume as well.

Tobias Hestler: Thanks, Sonya. Great. Thanks, Celine.

Celine Pannuti: Thank you.

Tom Sykes (Deutsche Bank): Yes, morning. Thank you. Three quick questions, please.

Firstly, just how much of the revenue line, if at all, is from products that are sold in one currency which is different to the local currency, please? And is there an effect on that on organic growth, particularly given FX moves and particularly in emerging markets?

On COGS and the gross margin, is there much of a gap between when you take price increases and when you see increases in, say, third-party manufacturing costs in particular? And is that anything that would lead to an impact to closing of the gap in gross margin at all?

And then just on the JV in China, can you just let this lapse, or would you have to pay to exit prior to September if you at all wanted to exit? And if you did exit that JV, do you think it makes any difference to your distribution capability, please?

Tobias Hestler: Good. Thanks. So let me start with transactional on the revenue line. No, I think that, look, there might be here or there some of the odd one where we export to a distributor market, but I think we have own businesses in over 45 countries in the world where we sell in local currencies and then this gets translated back. You see, that come through in the translation of currencies. Of course there might be here or there a bit of small market that exports, but I think this is tiny and not a material factor for us, just given the global and large distribution footprint that we have, and that we have maintained, and that we have kept.

Then let me talk the joint venture in China. First of all, the JV agreement expires, right? There is not any payment in either direction. Could we let it lapse? Yes, you could, but there is absolutely no interest for either side to do so. Because I think this is one where I think, and I said that before, we really depend on each other. This brings benefit to both sides and both sides are very, very much, I would not say dependent, but both sides benefit from that collaboration, especially because the skills and the capabilities that both sides bring are complementary. We are bringing marketing skills, we are bringing our brands, we bring IP, we run a good part of the administration of that joint venture.

The other side brings manufacturing capabilities, but we also supplement that with capabilities we bring in globally. So it is very, very much a joint venture. Look, this is an operational joint venture.

It is not a joint venture where you just sort of have an entity and one part owns X percent and the other one. It is not a financial asset. This is a joint operation of the business, and we are in very cordial discussions with the other side to how we continue this going forward. So I think there is no benefit to either side of letting that lapse.

Then, I could not track your question on cost of goods and how pricing impacts third-party pricing. Could you just help me either repeat this or understand, what you are after?

Tom Sykes: Yes, it was just on the timing of any cost increases for your third-party manufacturers. Would you say that is in sync with the pricing that you are taking, or basically, what are the cost increases in third-party manufacturing to be expected this year, I guess, is it?

Tobias Hestler: No. Okay. No, look, I think, as I said before, so third-party manufacturers, they all battle with the same thing that we do, which is labour cost increases because a big part of what they do for us has a big labour cost component. Usually, we have long-term contracts because these are longstanding relationships, given the regulatory environment we are in. And these deals usually have a built-in price mechanism. They are different across the contracts, but it usually hits once a year. So you can actually plan for it, and you can build it into your forecast for the year. So our units know when this is, when this is coming.

It was a bit more extreme, and there was a lot of commodity cost pressure, which were passed on a bit more quickly. However, the general conversion cost increases, I think we have good pre-warning, and we can plan for those. So I do not think there is a significant change in that from a timing point of view when we can take pricing. Yes.

And I think, anyway, on pricing, certain things are more given when you do them. Right? I think the European mass market pricing, you negotiate once a year, that usually happens in Q1. In India, you take pricing once a year because you need to re-stick and label all your products. In the US, you tend to take pricing if and when the shelf is resetting. So you try and combine it together with when the retailers do their work. So it is all a bit, you know, different drivers of that. However, again, I do not see a major time gap in either direction of that. The only thing to keep in mind, with the inventory we have on hand, it takes several months until it hits the P&L, on the negative as well as on the positive as well. Hope that answered the question, Tom.

Tom Sykes: Yes, that is great. Thank you very much.

Tobias Hestler: Thank you. Great.

Mikheil Omanadze (Exane BNP Paribas): Morning, Tobias. Morning, Sonya. Thanks for taking my questions. I have two.

The first is on Oral Care. Could you please comment on the market share evolution of Sensodyne in the US and other major geographies? And also, how did Aquafresh perform in Q1?

And my second question is on Rx to OTC switches, if there is any update on the process? Thanks.

Tobias Hestler: Good. So let me work backwards. Rx to OTC switches, as you remember, we had said we had two in the pipeline, but we also said that those were working with the FDA, and those are a bit later than what we had originally said at the Capital Markets Day. We are still working on both of them. Remember that all the switches, ours, but also competitive ones, they all have certain complexities, as do ours, so I think really nothing to update on that.

Also, just a reminder that the switches are outside our 4% to 6% guidance. So when they come, I think in quotation marks, I see them as icing on the cake. We continue to work on them. And the more immediate one that could come is the erectile dysfunction treatment that Bruno asked before, earlier in the call.

And then on Oral Care, look, as I said, I think we gained share overall in Oral Care, which we should with a double-digit growth rate. So the sell-out continues to be strong. I think we are doing well on Sensodyne globally as well.

So I think with the innovations and the launches and good execution, I think there is two things happening, is, one, we grow the market. So some of the growth comes from expanding the market, which actually benefits us, and it benefits the retailer because their share of the pie becomes bigger, which is positive. So it is not just about share. So I think because when you think about Sensodyne, again, what makes this such an attractive proposition is that you have 40% of the world's population has sensitive teeth. Only 30% of those use a sensitivity toothpaste. So this is about getting more people using a sensitivity toothpaste. This is not about fighting for share in an already value established segment.

This is still, you could call it, an emerging segment. Even if Sensodyne is very, very big, there is a lot of penetration opportunity in this brand. So I think that is probably the more important driver than actually looking at, are you gaining, or are you gaining share everywhere? Because it is unlocking the penetration.

And if you unlock that, then people are moving from a $3, $4 toothpaste or $2 toothpaste to a $5, $6, $7, $8 toothpaste. And everybody wins when that happens. The consumer wins because they are treating their condition. The retailer wins because their share and size of the category they are selling is growing. And we are growing because our brands are growing.

And then, look, Aquafresh, I think it benefited a little. You saw that did well last year. Given the overall environment, I think that has come probably down to what is more normal. This is a brand that has been flattish, sometimes slightly declining. So, nothing to particularly call out. If it would generate a major up or down in the category, we would call it out. However, I think it is now back to what it has always done. I think it is a non-strategic brand for us, with the exception of a few markets here or there, and it is rather small now, so it also does not impact the overall growth of the category dramatically.

Mikheil Omanadze: Very clear. Thank you.

Tobias Hestler: Thanks, Mikheil.

Chris Pitcher (Redburn Partners LLP): Good morning, Tobias. Good day, Sonya. Hopefully, you can hear me. I am on a mobile.

Tobias Hestler: Yes.

Chris Pitcher: Tobias, I appreciate you have still got eight months to go and a couple of quarters to deliver, so I will save my thanks and appreciation for the last meeting. It has been noted you have delivered a lot over your time. What has Dawn coming in? What is left for her to do? I mean, clearly there is a productivity programme to deliver. Is there more to do on working capital, where you did make some improvements in 2022-23? Is there M&A? And just could you be a bit more specific, what in her skill set is it that you think made her a good fit? Thanks.

Tobias Hestler: Thanks, Chris.

So, look, I do not think the journey is done, right? Even when we came out at the Capital Markets Day, Brian, and I said, look, there is a phase now that we stand up this company and establish it as a self-standing company.

I think we have done that. We have done that well. And then there is a second phase of making this a more agile and more competitive consumer company. And we are just starting on that phase. Right? I think that is why we started the productivity programme. However, there is way more and much more to do on that journey because that is a multiyear journey, and I think that is something that I am working on right now, and I will continue to do so.

And I think then this is something that I absolutely believe in, that Dawn will be able to continue on that because she brings over two decades of deep, deep, deep consumer experience, even more than I had. She spent her whole career in the consumer world. Given that she has done, and she has had local roles, regional roles, global roles, sales roles, marketing, she is really a deep consumer expert, which I think will be good for the business going forward.

So I truly believe that the business will be in good hands with her as well, and I think the continuation of the journey that the company is on. So pleased with what we have delivered, but I think way more to do and go. And I look forward to catching up with you and seeing you in person, Chris.

Chris Pitcher: Thank you. Cheers.

Tobias Hestler: Thank you.

Thank you, and thanks, everyone, for joining today. Look forward to speaking in the coming days.

And as always, if there are any questions, contact Sonya, the IR team, they are ready and there for you. And I look forward to seeing all of you later in the year as well, in person.

Thanks very much and have a great rest of the day. Thank you.

[END OF TRANSCRIPT]