

Haleon 2022 Half Year Results Q&A

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Introduction

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Welcome

Good morning, good afternoon, everyone. Thank you for joining the Haleon Half Year Results Q&A call this morning. Hopefully, by now you have all seen the presentation and the video of this on the Investors section of the website.

I am joined today by Brian McNamara, CEO; and Tobias Hestler, CFO for Haleon for today's session. Before handing back to the operator for the Q&A moderation, I just wanted to draw attention to the disclaimer at the front of the presentation listed on our website.

With that, I would like to hand back to the operator for Q&A. Thank you.

Q&A

Guillaume Delmas (UBS): Thank you very much and good morning, Brian, Tobias and Sonya. Two questions for me, please, both on top line. Firstly, on the current consumer environment, I mean, you mentioned, Brian, in your presentation, a bit of down-trading. So maybe could you provide more colour on this and whether you would expect this trend to accelerate or maybe to become more broad-based across categories and geographies going forward? And along these lines, I mean, any categories where you have seen private label gaining shares? Or are you still getting as much traction on your most premium innovation?

And then my second question is on your comment about slower growth expected for the second half of this year. My question here is, to what extent, is it just down to a higher basis of comparison in the second half? Or do you also include a healthy level of caution, given the many uncertainties with the upcoming cold and flu season, the lockdowns in China? So many uncertainties currently prevailing in most of your markets. And I guess what I am trying to get to is, could the bottom end of your 6% to 8% guidance range could prove quite conservative?

Brian McNamara: Thanks for the question, Guillaume. Let me start on the consumer behaviour. So, first of all, just taking a step back, I think the dynamics that we are seeing is different across markets and region. For instance, US and Europe are seeing quite high inflation as we know, where we are still seeing relatively low inflation in Asia Pacific region, more in the 2% to 3% range.

Overall, as we are seeing elasticity has really held up very well. And what I did comment, as you look across categories and markets, there are potentially places where we see a little bit of down-trading or move to private label. But to be honest with you, it is not something that is impacting our business and it is not significant. So for instance, we see a little bit of that happening in the allergy category in the US, but has not really had an impact on us.

Our categories tend to hold up really well in tough economic times. And we are in healthcare, we meet therapeutic needs, brands really matter. We have a lot of trust and loyalty. And

also in the context of what consumers are experiencing relatively low dollar outlay. And then for us specifically, we have very strong brands and strong equity.

So we feel good about the outlook and how the business is holding up. We have not seen really, in the current trading, any impact to speak of and we are continuing to see good growth in our power brands and good growth in our brands across different categories. But holistically, the dynamic is a little bit different market-to-market and region-to-region and a little bit across categories. But overall, I would say nothing on our part that we have seen that worries us.

On the comment on slower growth, it is very much, Guillaume, just flagging we grew 11.6% organically in the first half. If you remember, the first half of 2021 had almost no cold and flu season, so we saw a real bounce back of that in the first half. And I think we flag that respiratory itself contributed 4 percentage of growth to our first half results.

In the second half of 2021, we saw the rebound and that cold and flu already happening. So, if you remember last year in Q3 and Q4, we grew double digits. We grew 10% across Q3 and Q4. So, there is basically a base issue there and that is really what we were just flagging for people as you think about the outlook for the balance of the year. But we feel good about our current trading and how the brands are performing and holding up in this environment.

Chris Pitcher (Redburn): Thank you very much. A couple of questions for me. Firstly, could you talk in a bit more detail about the competitive environment in Therapeutic Oral Health, specifically sensitivity and gum health? Have you seen any more aggressive competitor activity recently? And in terms of the marketing behind Parodontax, is that at all incremental? You are not seeing people switching from other of your brands?

And then secondly, on the litigation. Obviously, you have given us the comment on Zantac. Can we assume, therefore, there is no change to the PPI litigation? Certainly, our reading is there are mixed positions across the indemnifications between Prevacid and Nexium. Any clarity or update you can give on that would be most helpful.

Brian McNamara: Okay. Thanks for the question, Chris. And I will answer the first on the competitive environment, and then, Tobias, I will throw it to you on PPI question.

So, listen, first of all, Chris, I would say that there is no question that Therapeutic Oral Health is a competitive place. It is a category, GSK, we, now Haleon has created over 10 years ago, 10, 15 years ago. And it has done extremely well, and we have done extremely well. So, we see interest from our other competitors in this space. That is not new.

Crest and Colgate have launched products against those areas over the years, Gum Detoxify in the US four years ago and things like that. So, we are seeing the continued competitor activity. What I do is, I feel good about where we are overall in oral health, and you would have seen it in the presentation. But three quarters of our business gained or maintained share in oral health.

We globally grew share in Denture, Parodontax and Sensodyne. We have been successful in launching good innovations in those products. And I think specifically to Sensodyne, we have seen share growth in eight of our top 10 markets, and that includes US and China, our top two. And we have seen record shares in India and Japan. So, as I said before, I am never complacent with this business. We have competitors that are obviously focused on this space

too. But overall, I feel good about our performance, and we continue to have good plans as we look forward.

Now, on Parodontax specifically, we do see the opportunity in gum health and not much cannibalisation between Sensodyne and Parodontax. Same thing happened when we launched Sensodyne Sensitivity & Gum a couple years ago, which was extremely successful and continues to drive growth that the brands have been limited cannibalisation between the two. And we think both brands have tremendous opportunities going forward and both gum health and sensitivity are spaces that continue to have headroom based on that household penetration I have talked about quite a bit with a third of consumers suffering with sensitivity and a third treating with a sensitivity toothpaste. Tobias?

Tobias Hestler: Yes. Thanks, Chris. So, on the proton pump inhibitors and Nexium, let me maybe just go back and give a bit of the background. I mean, I think this litigation is brought against all manufacturers of prescriptions and over-the-counter products in this space. So, for example, AstraZeneca, Takeda, Pfizer, and all named co-defendants in connection with those products.

Now, clear to say, Haleon does not believe that the body of the scientific literature considers any evidence that there is an association between PPI usage and the injuries that were alleged by the plaintiffs.

And then secondly, also, the FDA continues to approve Nexium and Prevacid as safe and effective and has not mended any changes to the labelling of those over-the-counter products. So that is maybe the background.

Secondly, the litigation is predominantly focused on prescription medicines, and the products we have involved in the litigation are both over-the-counter medicines. We filed motions to dismiss several hundred cases. Those remain pending before the court.

And also, you ask about the liability. So, for Nexium, the liabilities are with us because we have marketed that, and so since it was launched OTC. For Prevacid, it is a bit different. Here, the liabilities are with us for the duration of the Novartis joint venture. Any pre-Novartis joint venture liabilities would go back to Novartis because it was under their watch if it is above a certain minimum or de minimis threshold.

So here, we, of course, would be working with Novartis if there would be any liabilities coming to us. So, I mean, overall, no change. The cases have been around for a while, so nothing new on that either in the recent history.

Olivier Nicolai (Goldman Sachs): Hi, good morning, everyone. Just a quick question actually on Sensodyne, just more follow-up from previous questions. But in Q2, you flagged a bit of a slowdown in the brand. I think you mentioned China at the time. I was just wondering if you could give us a bit of an update on the current trading on the brand, and if we can assume that Sensodyne can go back towards its double-digit growth rate, which it has enjoyed for the last few years?

Brian McNamara: Thanks for the question. Yes, a couple things about Sensodyne, first to look at the first half. So, we grew 8%, well, on oral care and obviously Sensodyne being a big piece of that. We grew 8% in Q1, 2% in Q2. Now, as you may recall, in Q1, we had a pull-up from Q2 of 2% on the overall business, and that was driven by the systems cutover

we did. That did disproportionately impact the oral care business because the oral care business leans much towards mass market.

Then, I would say the balance of our business, which is quite a pharmacy-driven business in places like Europe. So, I would say that one thing. So, it is probably more important to look at the first half numbers than it would be to look at Q1 versus Q2.

Separately on China. Absolutely, China is an important business for us and a good business for us on Sensodyne. And during the lockdowns in Q2, we definitely saw the market begin to contract a little bit, overall market. We did grow share in the context of a distracting market, but that had an impact on our growth rates in Q2.

As far as current trading, I feel good about Sensodyne in the back half, no question. There are some dynamics just to be aware of between Q3 and Q4. If you remember, last year we flagged that we took pricing in October of last year in the US, and we saw some forward buying into Q3 last year. But if I look at the back half of the year, I feel good about how the business is trading and the outlook. And it is a big focus for us. This is a great brand and great category.

Tobias Hestler: Yes. And Olivier, maybe just from my side, on the medium-term outlook, we had said in the Capital Markets Day that between Oral Health and VMS, we believe those categories together to grow mid to high-single digit. So, I think that is for us sort of the guidance we have been given on that.

Iain Simpson (Barclays): Thanks very much. Couple for me, if I may. Firstly, on Panadol, start up in the mid-20s, you flagged the UK. But I just wondered if you could give some colour on what other geographies were driving that, and also how the supply chain is holding up, given those growth rates in Panadol?

And then, secondly, Caltrate, that was clearly a brand that you have had high hopes for. I was just wondering, is there any drag from China lockdown on that H1 growth number? And what would success look like over the next couple of years for Caltrate, given that it is currently growing a little bit slower than wider VMS, and I get a sense that perhaps longer term you are expecting it to do a bit better.

Brian McNamara: Great. Thanks, Iain. Appreciate the question. So let me start with Panadol. So, Panadol did grow in the mid-20s. We actually saw a pretty broad-based growth. It is a really strong brand for us in Asia, in places like Malaysia and Philippines and others. In Australia it is a big brand. And we flagged it in the presentation, but we did a campaign behind Panadol, the "We Care" campaign, which really educated consumers on the role that Panadol can play post-vaccination.

So, we saw that really gave quite a boost to the brand and the growth was quite healthy. Share growth was really strong in Panadol. And, again, we also flagged the UK as a market that did quite well on Panadol.

As far as supply challenges, listen, demand has been high. And like most supply chains, we are working to meet the demand. We have done a pretty good job. We have been able to support that demand. But there is no question that the supply chain is under some pressure in that area, and we are reacting appropriately and ensuring that we can meet the demand going forward.

On Caltrate, listen, no question that, in China we saw an impact of the lockdown across a number of brands across the portfolio. The lockdown dynamic was such that people were literally not able to go to stores and get their products. So, I would say there was an impact broadly across China and certainly in Q2 and for the quarter.

What I did not say on the Sensodyne comment though that I should have honestly, which is, we are seeing, in current trading, that China is bouncing back. So, the market overall was in negative consumption growth in Q2. We are seeing that back to growth. We are seeing our growth ahead of that. We grew overall our share in China during the lockdown period, and we continue to do that.

Would not give you a growth estimate on what we expect Caltrate to do going forward. But we are still very bullish about the VMS category in China and the role that Caltrate can play in China. I also think we flagged in the presentation some stuff that we have been doing with consumers there around mobility in calcium and osteoarthritis and educating them. And as we said before, very in line with the China 2030 Health Initiative, where osteoporosis is one of the pillars for them.

Faham Baig (Credit Suisse): Hi, good morning, guys thanks for the question. I will stick with the motto of two as well. Firstly, on the Zantac litigation. What has provided you with the increased confidence to now reject GSK and Pfizer's request for indemnification compared to last month when you released a statement suggesting that you may be required to indemnify if certain conditions were met?

And the second question is on pricing. Would you say the majority of your pricing is now in the market or should we expect a further acceleration in pricing year-on-year in the second half to offset any additional costs you may be facing? Thank you

Brian McNamara: Great. Thanks for the questions, and I will answer the Zantac question and then pass it to Tobias on the pricing.

Listen, I will take an opportunity to maybe give the broader perspective on Zantac. And so, obviously, it is important to remember that we are not a defendant in any of these lawsuits. As people know, other companies are defendants. Haleon or the GSK-Pfizer joint venture never marketed Zantac in the US or Canada. So, we have been consistent in saying that the liability has not been determined and we never said we accepted the liability.

And it is our view that we do not have any liability, given the indemnity obligations relate to GSK and Pfizer businesses that existed at the time when the JV was formed, and that was in 2008. And at that time, the Zantac OTC business did not exist in the US or Canada. So, we confirmed that in a formal response to GSK and Pfizer, that is what we had shared today. We noted that in the announcement. We thought it was important that we clarify that stance not only for GSK and Pfizer, but for all our shareholders.

And a formal response is pretty customary in a situation like this. So, I know there is a lot of interest in Zantac. There is not a lot more that we can say today. It is a legal matter. It is our view. And we feel very strongly about our stance with that position that we do not have any liability.

Faham Baig: Brian, you meant 2018 or 2008?

Brian McNamara: Yes. You know what? I apologise. I just got a note that said 2018 on it and now I know why. Apologise. Yes. The JV was formed in 2018 and it was at that time. So, apologise for the mistake. Tobias?

Tobias Hestler: Good. So, on pricing, I mean, first of all, I mean, we have done 3.7% pricing in half one and then you have seen this go up. So, we did 2.7% in Q1. It went up to 4% in Q2. So, you have seen the price increases come up and increase as the businesses have driven pricing actions to offset the impact from the inflationary headwinds. So, I think we feel good about that.

We would expect to see continued price increases. Now, of course, it is geographically a little bit different. As Brian mentioned earlier, Asia Pacific, lower inflation environment. What is really key for us is that we are also driving volume mix and we have done in Q2 a 4% volume mix and in Q1 we did 13%. So, I think, for us, this is really a matter of moderating the price increases in order to enable still volume growth. So, I would expect pricing to continue to increase.

Also, do not forget in half two, especially in Q4 last year, we took massive price increases in the US between 5% and 10%, about half the portfolio. So, there is also base effect you are going to hit later in the year. But I mean, more broadly, our intent is to offset the impact of inflationary headwinds with the combination of price increases and efficiencies that we drive through the portfolio.

James Edwardes Jones (RBC): Good morning, everyone. Two, again, I am afraid. So, on Zantac, just to come back to it, you project the GSK and Pfizer to question indemnification. Now, if they do not accept your rejection, what do you expect to happen next?

And secondly, are you able to say if Hurricane Fiona is going to have any material impact on your supply to North America?

Brian McNamara: Okay. Thank you, James. Listen, on Zantac, I do not really want to speculate on what happens from here. What I can say is, we are very clear in our position. That is why we made that statement today, informed GSK and Pfizer, and let our broader shareholder base know. So, what happens from here, I do not really want to speculate.

Tobias Hestler: Good. And then on your question on the hurricane in Puerto Rico. So, as you now might know, we have a significant factory there. So, one of our sites that supports North America is there. Now, happy to report what we have heard back over the weekend, no impact to any of our employees. So, they are all safe. Also, no damages to our factory.

There is a little bit of flooding in the surrounding areas. And, of course, I mean, as the whole island was out of power, we were too. So, I think the team is working there to bring the site back up.

Now, I mean, all of our people are safe. And I think from our perspective, I think we are used to that. You have a hurricane here and there. So, we do not think it has a major impact of our business, assuming that the overall power in the island is going to come up for sure in the next days.

Karel Zoete (Kepler Cheuvreux): Good Morning, thanks for taking the question. I also have two. The first one is on your performance in Germany. You mentioned it was back a bit. And more broadly, can you speak about Voltaren's performance in Europe? The other

question is on the cough and cold season and your flu products and pain in APAC. What are the early signs of the upcoming flu season? Is there anything you can read into what you are seeing in Australia and how are discussions going with the retailers in the Northern Hemisphere early in the season?

Brian McNamara: Great. First, the performance on Germany. We did flag that Germany was a bit softer for us. We are seeing a bit of a turnaround in Germany, and we are actually seeing our consumption growth now ahead of the market. The market is not growing particularly strong to be clear, but we are ahead of the market growth.

Now, on Voltaren, the dynamic in Voltaren is interesting. If you think about the pain relief category, there is both topicals and systemics. We are the largest topical player in the world, and Voltaren is the number one OTC topical pain reliever in the world. What happens in high cold and flu seasons is you tend to see systemics do quite well, systemic pain relief pills, things like Panadol and Advil and topicals not do as well.

So, we have definitely seen higher growth in the overall pain category, but lower growth in the topical category, and that, obviously, impacts Voltaren. Now we have been able to benefit on Panadol and Advil on the systemic side of the category. So, our portfolio is kind of a natural hedge in a way to that dynamic.

But absolutely, the slower growth in the topical category, hence you are seeing lower growth in Voltaren. Still a fantastic brand, one we are very focused on and believe will be a key part of the portfolio for time to come and it is an excellent brand.

In cold and flu, listen, it is just hard to speculate now because the world has changed so much between what happened in cold and flu a year ago and Omicron acting more like cold and flu. But absolutely what we have seen is extremely high instances in Australia in the past that does tend to link to higher instances in the Northern Hemisphere. We are seeing customers interested in ensuring they have enough products for the cold and flu season. So, no question about that.

But also remember that last year was a relatively high incidence of cold and flu in the US, in Europe, as it was already the beginning of the bounce back from the year before when we saw very little due to social distancing and mask wearing and things.

Brian McNamara: Okay. Well, first of all, thanks, everyone. We appreciate the time to connect with you today. Hopefully, you see the first half reiterates that the business is doing well, and we are well on track to deliver on our guidance and our strategy is delivering good growth. So please contact the IR team with any follow-up questions and hope you all have a good day. Thanks again.

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