Brian McNamara: Welcome back and welcome to the Q&A portion of our Capital Markets Day. I am joined by my team who presented today with one exception, Keith Choy, our Head of AsiaPac, broadcasted his presentation from Singapore, so as a result, he is not here with us today.

Before we get started, I do want to comment on the shocking and tragic events in Ukraine. Our focus is supporting our people in Ukraine and for their safety. We are also involved in initial relief efforts and engaged with NGOs like Save the Children and key UN agencies. There is no justification for the invasion and the harm that it is doing to the people in Ukraine and I, personally, hope for a quick and peaceful resolution.

Let's move to the Q&A. As Sonya said earlier, the Q&A will be over the phone but also on the online platform. I see that we already have questions from the online platform, so I shall start there and move to the phone calls later.

The first question: the business has historically delivered growth below 4.4% CAGR for ‘19-’21, how confident are you, that you can sustain this higher level of growth at your 4-6% medium-term going forward target?

First, let me say I am very confident in the 4-6% medium-target we gave today, along with the other outlooks we gave. One of the reasons for that confidence is the fact that we grew this business 4.4% over the last two years, with a net COVID headwind, and while we were doing an integration and planning a separation, all during a pandemic.

Now if you look at the historical performance of this business, the last two years are the most relevant. Those are the two years where we had the portfolio that we will take forward as Haleon. As Tobias took you through in his presentation, there has been a massive transformation in that portfolio. We have entered the vitamin and mineral supplement category, which is a faster-growing category and even more relevant with the pandemic, and with a leadership position. We significantly increased scale in the two largest markets in the world and have leadership positions in the US and China. We have also divested 50 growth-dilutive brands.

Starting with that portfolio, with what we have outlined today in our competitive capabilities, our clear strategy to drive growth and our sources of growth around penetration, around
expansion of channel, geography and portfolio, along with our sustainable model that allows us to invest in growth and invest in A&P and R&D as we move forward, it makes me extremely confident - and I speak for my team - in delivering that 4-6% medium-term outlook going forward.

It looks like we have another question from the platform: you have a great portfolio of power brands, can you elaborate on the role local strategic brands play, and is there an ambition to convert them to power brands over time?

First, talking about power brands, we have nine power brands, as you know: 60% of our sales account for 80% of our growth. Now these are brands with significant scale, they are in multiple markets around the world with significant distribution, they have higher gross margins and very strong equities and a right to win. However, they are complemented by our local strategic brands that, as we talked about earlier, are, in their own right, iconic and very strong brands and very strong equities. Many of those brands are driving growth in local markets. In the last year, we had double digit growth on brands like Tums in the US, or Bactroban in China, or Grand-Pa in South Africa. We have penetration opportunities across those brands along with the power brands.

Now, that said, we have no necessarily stated strategy or ambition to increase the number of power brands over time, but we are always looking for opportunities for portfolio expansion and taking brands to additional markets where we see the opportunities arise.

It looks like we have one more question from the platform and then I'll go to the phone: what will you lose by not being part of GSK?

The first thing I would say is that, in the last seven years while we were part of GSK, the portfolio transformation that I talked about happened and we were able to do two of the largest transactions in the sector in the last seven years, which created this portfolio that we are now talking about. Therefore, I would say that GSK, and now Pfizer, have been great owners of this business.

That said, I believe this is more about what we can do going forward and not about what we are losing from GSK. This is a great business and the opportunity in front of us is to create our own distinct consumer-centric and performance-driven culture.

It is about even sharpening our focus on growth. We have an opportunity to streamline systems and processes that are more fit-for-purpose for a Consumer company and help drive more agility in our business.
Of course, as a business of £10 billion, it is right that we have our own capital allocation priorities going forward, and as we said earlier, our number one priority for capital allocation is to invest in the business and drive growth.

I think we have a question from the phone.

Guillaume Delmas (UBS): Thank you very much, afternoon all. A couple of questions for me, please. The first one is on the foreign exchange impact you refer to, which was one of the factors preventing you from achieving around 25% operating margin last year. Could you shed some light on what seems to be a recurring negative transactional impact coming from FX, and I guess more importantly, going forward, should we model a continuous FX drag on your margin development? I have also noted that your medium-term margin guidance is in constant currency, so does it mean that on a reported currency basis, your margin could actually go backward?

Then my second question is on your geographical split: you are combining EMEA and Latin America, this is a relatively unusual combination, so I’m wondering the rationale behind this – is it just down to having a strong right-led growth in LatAm, partly compensating for the muted growth in Western Europe, or any other reason behind that?

I guess if I can squeeze one more in, more for Filippo: if we exclude North America, I guess a 2019-21 CAGR of 1% for your mature market, so do you think you can accelerate your growth in Western Europe, or is flat to low single digit a realistic ambition there? Thank you.

Brian McNamara: Great, thank you for the questions. What we’ll do is Tobias, maybe you could first address the FX question, and Filippo, I’ll come to you for the two questions, the EMEA-LatAm and the question on growth.

Tobias Hestler: As you’ve seen in my presentation, we had a negative currency impact of one percentage point between 2019 and 2021, but you have also seen the strong operating leverage that we’ve driven through that period, that we more than offset those headwinds.

Going forward, I can’t speculate on what currencies are going to do. I think 2021 is a good base for what we expect to happen in 2022, but again, with recent events, very hard to predict, and what we’re going to do, going forward is we’ll give you more guidance on what currencies are moving.

Maybe if you take a bit of a step back, our biggest foreign currency is the US dollar, that’s both from a sales and from a cost perspective, it’s our largest business, with local manufacturing also in the region. The second currency is the Euro, given we have a strong
presence in Europe, again both from a sales and also from a manufacturing base. Then the third one is the Chinese RMB, given China is our second largest business, and also here I think there is a good balance because we manufacture locally and also R&D.

Then from a pound sterling point of view, large cost base but not that much sales; then the fourth currency is probably the Swiss franc, given we have our categories and also production there.

So, I think overall, a bit of natural protection, but again I couldn’t speculate what currencies will do into the future.

**Brian McNamara:** Thank you Tobias. Filippo.

**Filippo Lanzi:** Thank you Brian. Let me start with the question about the set-up of the region. We have a balanced region with 44% in developing markets and 56% in developed markets. I personally see benefit in having realities like LatAm, Middle East, Africa versus the most mature market. Why is that? First of all, there is a mutual benefit in leveraging the learnings and the key success factors from both ways, because we have countries in different life stages, and therefore more developing countries can really benefit from the learnings from the more mature ones. But also, if we look into the developing markets, we have a lot of success stories. If you look at what we have been able to achieve in Middle East/Africa, there are a lot of great learnings that can be scaled up for the benefit of the rest of the region. I am very confident that this is a positive set-up, and there is a mutual benefit, as I said.

To the second question, which is more about Western Europe. Western Europe is part of our developed market. When you look at the last three years, the CAGR of Western Europe is in low single-digit growth, so it is still in growth. Of course, the dynamics of Western Europe, as you know, are different from developing markets, but what I think is important to notice is that we have scale in Western Europe; we have a strong portfolio of brands which are leading very strong leadership, competitive positions, and the scale of Western Europe allows us to be competitive in Western Europe.

That said – final comment – I still believe Western Europe comes with growth opportunities, because when you saw my presentation about Sensodyne, about Voltaren or about VMS, it is clear that penetration opportunities are still valid in the Western European countries, it is not only valid for the most developing ones.

**Brian McNamara:** Okay, thank you, Filippo.

We will stay with another question on the phone, please.
Iain Simpson (Barclays): Good afternoon, Brian, two questions from me, please. Firstly, what are distribution and logistics costs as a proportion of sales? Do you book those in COGS or other SG&A? Then, secondly, just thinking about Rx to OTC, are you able to give any indication as to what those switches you expect in a few years’ time are? Are they currently parent GSK brands or any commentary on category? Then, sticking with that theme of Rx-to-OTC switching, Voltaren has clearly gone very well. How much has Voltaren contributed to group organic sales growth in the last two years, please? Thank you.

Brian McNamara: Great, thank you. I am going to go back to Tobias after I have answered the other two questions. Tobias, is that okay on the distribution costs? So, on the Rx-to-OTC switch, what we laid out is that we have two switches in the pipeline. As I said, each one we would think would impact about a point of sales in any given year, and it is not included in our medium-term guidance.

We aren’t sharing the details of the switches and what they are for competitive reasons, and that’s because they are in the public domain and we want to keep it that way as we work to deliver those switches, and I feel great about our ability to deliver the switches, not only from a commercial perspective, certainly from an R&D perspective, as Franck took you through our capabilities there.

On Voltaren, it was a very successful switch in the US, but there is a bit of a dynamic on the incremental sales that were delivered.

As part of the deal, the joint venture with Novartis and GSK - what came over was the Rx of Voltaren Emulgel product, and we had a licensing deal with Endo, who distributed that, so we did book sales on Voltaren Emulgel in the US business in 2019. When we did the switch, that Rx product came off the market so the incremental sales driven by that business wasn’t fully realised by the business because we lost some revenue from the Rx product. So long story short, if you look at the impact of that switch on our growth rate over the last two-year CAGR, it is about 20 to 30 basis points up to the positive, but the switch was much bigger than that, and much more important than that in the marketplace and for our consumers.

Tobias, the question on distribution?

Tobias Hestler: Yes, on the distribution and the logistics cost, we have the costs, the final step of the logistics chain, so shipping to our customers and retailers are in other SG&A. Those are around 3% of revenue for us.
All the costs and logistics to move the product between manufacturing sites or getting active ingredients shipped to us in our manufacturing sites sit in costs of goods sold.

Brian McNamara: Okay, thanks, Tobias. We will take one more question from the phone.

Martin Deboo (Jefferies): Good afternoon, everybody. I think my question is essentially the same as the first one that came online around the upgrade to the growth guide, so rather than getting you to repeat your answer, let me ask it in a different way.

If you look at the difference in the build-up of the guidance from what you said at the Exane Conference last year, it is coming principally from a much higher rate of growth expectation on VMS, and somewhat, I think, from a higher rate of growth on Oral Care, so I just want to push you a bit harder on those, particularly VMS.

I heard Tobias’ comments on VMS, but you will appreciate that, first, the VMS has probably been a hard category to read through COVID; and, secondly, it’s a category that’s attracting a lot of competitive entry, not least from Unilever and Nestlé, so I think the essential question is: what drives your confidence in VMS being a) growth accretive, and b) being ‘growthier’ than you thought it was a year ago?

And a supplementary on a different topic would be the A&P ratio is notably high and that’s good, but I think given that it’s an important number, can I just ask, is there anything unusual in your accounting for A&P relative to the peer group, or is that a good clean number?

Brian McNamara: Great, thank you, Martin.

So, first, on the growth outlook and the things that we have said today around channel growth, emerging market growth, and then VMS in Oral Health, which we said mid-to-high single digits. You asked about VMS, Martin, and I will get there. I just want to comment on Oral Health first.

If you look at the history of our Oral Health business, we have been able to grow that in the mid-to-high single digits and often high single digits.

The last two years it has been mid-single digits. Part of that is because while we continue to see strength in our Sensodyne, and Parodontax and toothpaste portfolio, there has been a negative impact on denture care as lockdowns have kept people and consumers from socialising as much, and, certainly, that’s an older population and with cost pressure, so we saw a drag on growth that we see coming back and we expect to come back. We are very, very confident in our Therapeutic Oral Care strategy, the brands we have and our ability to drive really good growth there.
On VMS, if you look at the dynamics of the last couple of years - last year the category grew double digits. Let me take that back. 2020, so no longer last year, 2020 the category grew double digits, in the low teens, and we grew 19%, so we had a really good year in our VMS portfolio.

Last year, the category came back to kind of a low single digit growth on that base and we grew mid-single digits. We believe that category will grow 4-5% going forward. It didn't go backwards from the big spike we had in 2020 and what we see where we have four-year data, 22% more people engaged in that category. That consumer behaviour in being more interested and proactively managing their health is real and we see that across our portfolio. We also see tremendous opportunity in our immunity brand Emergen-C in the US.

There is a lot of competition happening in this space, there is no question about it, but that just reinforces the attractiveness of the space. Many of those competitors we compete with today in oral health are big FMCG companies that are very respected and very strong in what they do. I feel really good about it, because of our brands, our brand strength, our ability to drive that growth and, back to some information that Filippo gave you earlier, we also see this as a massive opportunity in Middle East, Africa and other regions to expand that portfolio geographically.

With that, Tobias, I go back to you.

**Tobias Hestler:** Martin, on your A&P question, a health warning first. It is always very hard to compare line item accounting across companies, because it is very hard to see what goes in there and what doesn't. We feel our A&P is at the right level that it needs to be. What might be a little bit different from us is that we also have a large expert channel, so we are detailing and promoting to experts which might be different from what other companies have and that is where there could be a difference. The vast majority of our A&P spend is media, it is the spend that goes in front of the consumer, so I feel good about that.

Also, if I take a step back and think about the model that we laid out, for us it is about growing A&P ahead of the rate of sales growth, as we have done in the last few years: we have grown A&P at 6% and driven 4.4% sales growth. That is the model that we want to drive going forward as well, so we are not looking to hit a certain A&P level in percentage of sales but to continue this model and the growth engine to grow A&P out of sales in order to grow sales at the 4-6% outlook that we have given.

**Brian McNamara:** Thank you, Tobias. I will take a question from the platform, could you share why it is a strength or a weakness to have a stronger presence in pharmacies in Europe, which I understand is a fragmented market, versus a more
mass-market-oriented US? What is the impact on growth, price margin? That would be helpful, thank you.

Thanks for the question. First, I shall ask Filippo to comment on that but I would just say that, overall, I do believe it is a good thing and a strength in our business that we have a pharmacy-driven business in Europe. Filippo, do you want to provide some context?

Filippo Lanzi: I definitely believe it is a strength and there are a couple of reasons for that. First of all, it is a channel that, over the last three years, has been growing despite all the changes in terms of landscape in the different countries. Second, it is a channel that has been evolving because, if you look at our e-commerce business, e-pharmacies are the No.1 driver. It is a channel that is in transformation and still relevant because let us not forget that the pharmacy is the first point of care for most consumers, not only in Europe but also across the region, so it is a relevant channel.

Then if you look at our presence in the channel, it accounts for 60% of our sales, it is our No.1 channel, where we have a strong scale and footprint. Just to give you some datapoints, we are 1.6 times bigger than the second OTC competitor in the channel. We have reached 85% weighted distribution across the region, not only in Europe. The reason why we are successful is because I believe we have a very effective integrated model where it is not only about key account management or point of sale effectiveness. It is also about expert engagement which is something that I covered in my presentation. The three things put together, plus the scale, also plus the way we have been evolving the approach and how we support pharmacies, as you saw in the video that I showed earlier, make us confident that we can still outperform the market and make the channel relevant for the future.

Brian McNamara: Thank you, Filippo. It looks like we have another question from the platform: what is your M&A strategy going to be? You will start off with a 4x leverage, so you won’t have much space to do acquisitions. How much is your budget per year?

I would start by saying that we have a fantastic portfolio and, remember, this is a business that has been created by the two largest transactions in the sector in the last seven years, so I feel great about the portfolio we have, and all the outlooks that we have given today do not require M&A to do that at all.

That said, as Tobias laid out, we have 4x leverage and a plan to get that below 3x by 2024, and within that, we do have some capacity for bolt-on M&A over the next two years; but maybe, Tobias, you can provide some additional perspective.
**Tobias Hestler:** Thanks, Brian. Let me take a step back and say, when you look at the cash flows that I presented today, we had around £1.5 billion of cash flow per year, so the cash flow of this business is very strong, it has high cash conversion, and we expect that to continue into the future.

With that, I think that gives me, and us as a team, the confidence that we can fulfill all the capital allocation priorities, which are, investing in the business, paying the dividend, doing bolt-on M&A, while meeting the de-leveraging targets and also all across that, maintaining a strong investment-grade balance sheet along the way, and from the outset right at the de-merger.

**Brian McNamara:** Thanks Tobias. Let’s go back to the phone lines.

**Tom Sykes (Deutsche Bank):** Thank you, good afternoon everybody. I wondered if you could just give some indication of the relative gross margins in the different categories, and when you talk about gross margin expansion going forward, is that mix-related, or what other impacts are you expecting at the gross margin level, please?

**Brian McNamara:** Thank you for the question. Tobias?

**Tobias Hestler:** Thanks for the question, Tom. From a gross margin perspective I would say that the categories in aggregate I think are broadly similar, VMS is slightly less but the others are very, very much comparable. So, I don’t think there is a major mix impact from the growth forecast we have given by category in our presentations to day.

We see the mix improvement coming from a shift to power brands. Power brands have been and will be a key driver for growth, and power brands tend to have higher margins, also looking at the scale they have for the business, so I think from that perspective not much difference.

Then also, I think you have to take into account the A&P allocations we do, so we tend to look at the business on a brand contribution level, gross margin minus the A&P that we directly invest in the business, and I think that is broadly similar across all of the categories.

**Brian McNamara:** Thank you, Tobias. Let’s go back to the phones for another question.

**Chris Pitcher (Redburn):** Thanks very much. First question is a bit of a follow-up to the one you’ve just had there – you mentioned that power brands are higher gross margin and therefore, I would expect from your comments, they would be higher A&P – so your growth in A&P over the last few years, is that just a function of mix, going towards bigger power brands with higher investment, or actually have you seen the rate of investment increase on your power brands going forward?
Then secondly, can you give us some sense of the economics of healthcare professional advocacy, how that compares with trying to build consumer brand awareness and demand, and as e-commerce increases its importance, does that reduce the ability for professional recommendation?

**Brian McNamara:** Thank you, Chris. First of all, I will just comment on the A&P investment. The A&P investment both is a bit of mix, but it’s actual more investment in brands in markets, so as we think about brand-market combinations, where the growth opportunities are within that, we’re very focused on ROI and making sure we get that return, and we’ve had quite a shift to digital, where we find ROI is higher, but it’s a mix of both.

Maybe Tamara, you would comment a little bit about what we’ve seen on improved ROI and how we’re doing A&P allocation?

**Tamara Rogers:** Sure, Brian. Very clearly, I think we have the right level of A&P for our sector. We then make sure we deploy that very strategically, so against our enterprise strategy, looking at our strength and our opportunities, and what’s happening externally in the market, as well as trends.

Then, we are very focused on improving and always getting attractive ROIs, and we’ve had quite a significant increase over the last few years around how we use digital data and analytics, the tools that we have at our disposal, so our marketing teams are able to pre-test creative before if goes live, that’s had a significant increase in brand recognition and also purchase intent.

We’ve also been using really good database audience profiling tools. We have a cloud-based platform called People Cloud, we’ve used that across 16 markets, and as you said, Brian, really increasing our ROI. We’ve seen a 40% lift in ROI on our digital work, and also a 125% lift on our traditional work. We really have been driving the better use of our investment as we deploy it strategically against our brands.

**Brian McNamara:** Thank you, Tamara. Chris, to your other questions on the economics of healthcare professionals, the economics are very good and we have clear ROI metrics on it, and just to give you a perspective, we know that 70% of the trial in our oral health comes from a healthcare professional, and that has a very good return for us.

The other thing is, our healthcare professional spending is also part of our A&P spend, so that sits in our A&P spend because that’s how we think about that.

With the shift to e-commerce, we don’t see this changing the dynamics of the impact of healthcare professionals.
Consumers are still looking for that recommendation, and then they are moving to make a purchase, and where they make that purchase is much less relevant than the recommendation they get; so we see this continuing to be a strong part of our strategy going forward, and one that we feel we are really differentiated in.

Okay, one more question from the phone and then we will go back to the online.

Graham Parry (Bank of America Merrill Lynch): Great, thanks for taking my questions. Firstly, on the two OTC switches, where in development are you on those? Have you completed label comprehension or actual use studies there?

Then, secondly, could you frame the timeframe for mid-term outlook for sales – and/or margins, so is that to 2026, ’25 or perhaps something longer than that?

Then, on 2022 margins, you laid out all the offsetting factors. I know you can’t give any explicit guidance, but perhaps you could just understand whether those offsetting factors mean you expect margins to be higher or lower in 2022 over the 2021 base? Thank you.

Brian McNamara: Okay, thanks for the questions. So, on the two Rx-to-OTC switches, they are at different stages. What I would say is that we expect again, if successful, would be 2025 and 2026, so that’s the timeframe we are looking on Rx-to-OTC switches. We are excited about both. As I said, each would be roughly equivalent to about a point of growth on the business, and it is not in our medium-term 4-6% outlook on guidance.

The medium-term guidance is over the next few years, consistent with consumer companies and how consumer companies look at that medium-term guidance.

On margin, and I will turn it to Tobias, I know Tobias took you through some building blocks. What I will just say is there is no change in the margin dynamic of this business as we look forward, and, Tobias, maybe you could talk a bit more about how to think about the ’22 margin.

Tobias Hestler: Yes, sure. So, as I said, I am not going to give you a profit forecast for 2022, given the regulatory complexities in doing so, given the demerger process and the prospectus that is coming out. But as Brian said, I think, first of all, operationally really no change in our margin dynamics, and you have seen over the last three years, as I laid out, the 325-basis points improvement in operating margin that we have driven. As part of that, a 2-percentage point increase in operation leverage, and that was driven by investing A&P ahead of the rate of sales growth, and that then drove our 4.4% sales CAGR. I think we continue to see that going forward.
It is really about, three positive drivers, first of all, it's volume and mix, and you have heard from all my colleagues today on the plans we have in order to drive further volume and mix improvement.

Secondly, it's pricing. We have increased prices last year by 2.2%. We expect that number to be higher in 2022, given: one, prices increases that underway; and, secondly, the full-year effect of a number of the price increases we took, particularly in Q4 in the US, as Lisa laid out earlier today as well.

Then, thirdly, there are further supply chain efficiencies. Just as a reminder, we just integrated last year the Pfizer manufacturing sites network, so, as we have just done that, there is more work to do, and, for us, making changes and getting efficiencies in supply chain takes a bit longer, given our business is highly regulated, so you would expect to see those improvements over a number of years.

And then, the two offsets against that, the costs and the supply chain and the inflationary pressures, and, as we said, us investing ahead of the rate of sales growth in both A&P and R&D.

So I think that's the ongoing model that we would see going forward, both for next year and longer term, and then what's really new next year are two things, one is the incremental cost of running Haleon as a standalone publicly listed company. That is £175-200 million that will be added to the cost base for 2022. That is then partially offset by the incremental synergies from Pfizer, which brings £120 million.

So, overall, I think we continue to be very comfortable about our operating model and how we drive our margins, both in the short and in the longer term.

**Brian McNamara: Thank you, Tobias. We have another question from the platform: can you say something about Haleon’s culture, and what will differentiate it from GSK and other consumer companies?**

First of all, as I said in my presentation, we define our culture with three behaviours: go beyond, which is all about outperforming the competition, performing on the business, so it is a real performance culture; second is do what matters most, which is all about focus and prioritisation, and doing the things that matter most for our consumers and customers and to drive growth on the business. The third is keep it human, and that's all about the consumer-centricity that we have as a business, and also how we support each other from a culture perspective with our colleagues.

So, listen, I think we have had an opportunity over two integrations in the last seven years to each time step back and say define the culture that we wanted to create. We did that with
the Pfizer integration and we defined the culture we wanted to be, and I feel like we have created a distinct culture within GSK for this consumer business, but as we separate we have another opportunity to accelerate that in those three areas, which is all about performance, focus and consumer centricity.

**We have one more from the platform, what percentage of your sales do you expect to come from innovation annually? What is your year-over-year growth that you expect going forward?**

First of all, as we outlined and as Franck and Tamara talked through, innovation is a key growth driver for us, and we have some great examples of how that drove growth and drove the penetration growth we need that underpins our growth going forward. Franck outlined our strategy but, Franck, perhaps you can talk a little about how we measure our innovation and how you feel about the innovation going forward versus what we have done so far to date?

**Franck Riot:** First of all, let me reinforce something that is very important. We have a competitive investment in R&D of around 3% and, obviously, we track our innovation performance with different KPIs just to make sure that we have some return on investment. We believe that we are competitive and we even expect an increase going forward with our current pipeline. We have a pipeline that is extremely solid and well balanced between short and long-term projects and between simple and complex projects.

However, more important is how this innovation fuels the growth of the company. You have seen today across the different presentations some great examples of how it has delivered some additional growth. For example, we shared today a great example of Sensodyne and our innovation on Sensodyne for the last five years it has helped us to gain market share from 17% to 20.5%, that is a great achievement.

Another example that I shared with you was about, *Centrum* in Australia with the new benefits platform. This is almost purely incremental, 83% of this innovation is incremental to the core business. Those are just a couple of examples that showcase our competitiveness in terms of investment - always combining our deep human understanding and trusted science.

**Brian McNamara:** Thanks, Franck. One thing I would add is that, as we look at the innovation we have been able to do over the last few years, and as we look at our going forward pipeline, we see more innovation coming than we have had in the past. We don't disclose our innovation as percent of sales, because it is all about driving growth on the business and making sure that investment comes out, but we feel really good about our pipeline going forward and what we see in the future.
We will go back to the phone lines please.

**Céline Pannuti (JPM):** Good afternoon. I am sorry, the line dropped but I have a follow-up question. First, on the margin, I did not hear all you said. My question is: 200 basis points of operational excellence over the past two years from 2019-'21, the past three years’ investment is quite a spectacular level at 100 basis points per annum and you said this will continue. Can you explain what are the drivers behind that?

When you say moderate margin expansion in the mid-term, in some consumer goods companies they also use this language, and we interpret as 10-20 basis points margin expansion per annum. Is that what you are aiming at?

My second question is on the different drivers of growth that you mentioned in terms of category expansion and e-commerce. To what extent those are into new regions or new white space, as I’m just wondering whether that means there is bit of a step-up needed in investment in order to accelerate share gain if you are building say, new geographies or if VMS is more competitive? Thank you.

**Brian McNamara:** Thank you for the questions. Tobias, I will go back to you on the margins and then I shall come back on the drivers of growth and, Filippo, I shall ask you to provide some perspective.

**Tobias Hestler:** Thanks, Céline. When you look at the building blocks, we have driven, as you say, 200 basis points of margin improvement from operating leverage over two years, so that is approximately 100 basis points each year. That was driven by sales growth, by the mix to higher margin brands and then partially offset by incremental investment that we put into A&P. I also said that A&P was only slightly ahead of the rate of sales growth, so it is something that we also want to accelerate also going forward.

I did not mean to say that it would be 100 basis points going forward in the future, because, ultimately, I want to go back to the model that we laid out. That is, driving gross margin expansion and investing ahead of the rate of sales growth in order to drive our sales and deliver 4-6% organic sales growth.

Another strong driver was very strong cost discipline in the business, in addition to the synergies that we have delivered and here we see, as Brian laid out earlier as well, some opportunities going forward. After the step-up in costs that we have from running the business independently, there could be some reduction over time as we go there.

Then, Céline, on your second question about moderate margin expansion, we’re not going to define for you moderate margin expansion. I think just as a step back, we have driven significant margin expansion over the last few years. I think to a level where we believe our
operating margin is top quartile in the industry, and I think for us it is a clear signal that we don’t see the history continue; also given that what you’ve seen in the history, the synergies, are running out, so we’ve delivered those, and I think we really want to move into this new model now that we laid out.

**Brian McNamara:** Thank you Tobias, and on your questions on the drivers of growth and the geographic expansion, what I would say is in the model that Tobias has shared, and that we’ve talked about, our sustainable growth model, all the investment we need to drive that growth is in that model, so any portfolio expansion, geographic expansion, is part of the model that you’ve seen.

Maybe Filippo, you can provide some perspective on some of those opportunities, and I know *Centrum* in Middle East/Africa, for instance, is a big opportunity as we see it.

**Filippo Lanzi:** Hi Céline, let me pick up two examples following what Brian said. Let me start by Middle East/Africa as a geography – as I have outlined in my presentation, despite having already leadership positions in Middle East/Africa, what is interesting, is that 50% of our revenues are made by two brands, which are *Sensodyne* and *Panadol*, so this gives you a sense about what we can do to really leverage the footprint we have, the scale we have, in order to gain additional traction from the other brands we already have in the portfolio.

Second, Brian alluded to *Centrum*. We inherited *Centrum* from the integration with Pfizer, and we have been growing the brand at 18% CAGR in the last years, ahead of the market. Most importantly, if you consider that today five markets account for 60% of the *Centrum* revenue, it’s very much concentrated in a few geographies, and the brand is present in one out of the three markets we already operate in, which gives a sense of why it is important for us to leverage scale, and expand and leverage the footprint, in order to make sure *Centrum* is a growth driver for the future.

I hope these two examples gave you a sense of what we mean by the possibilities behind the geography expansion and the brand expansion.

**Brian McNamara:** Thank you, Filippo. We’ll go back to the phones for another question.

**Kerry Holford (Berenberg):** Thank you, a couple of questions for me, please. Firstly, on geography, can you tell us what proportion of Haleon sales are generated in Russia and Ukraine? What is your exposure there?

Then secondly, in the context of your plan to grow consumer R&D spend ahead of sales, and your aim to increase the returns on that R&D spend that you’ve highlighted, can you talk about what your consumer R&D returns have been in recent
history? How do you measure that in consumer brands? What is your hurdle rate? And perhaps how do you compare versus the peer group? Thank you very much.

Brian McNamara: Thank you, Kerry. On Russia/Ukraine, just for some perspective, Russia is roughly 2% of our sales, and is a similar level of our operating income. Ukraine is significantly smaller than that, and as we said earlier, our big focus for now is supporting our colleagues and employees and their safety in Ukraine.

Tobias, do you want to talk a bit about how we think about R&D spend, and making sure that we’re getting the most out of it?

Tobias Hestler: First of all, I think also looking forward, you’ve heard about the two RX-to-OTC switches that we have in the pipeline, those will go into trial phases, so there is money that supports development of those opportunities going forward.

I think if I just take a step back, what we do is and I think, probably very similar Kerry, to what you’re used to in pharmaceutical companies, we look at our pipeline, we look at every project, we look at what’s the investment needed, what’s the risk associated in the portfolio, and then have an NPV-driven approach on that.

What might be a little bit different for us is that I think is that we see innovation as a key driver for continued sales growth and also for pricing opportunity. We need to innovate, and if we bring new products to the shelf that means firstly, we solve consumer needs that are unmet; but also, secondly, we help our retailers to grow the category. If we can do that, it gives us pricing power and pricing ability, and it’s a model that we’ve proven successfully in the past, particularly when you look at the Sensodyne example. We’ve continuously innovated and that has allowed us also to take price on those products. That, I think is a key driver, if you invest behind the brand that’s already there, you make the brand more and more valuable as you continue to build the brand for the future.

Brian McNamara: Thank you, Tobias. We’ll take another question from the phone line.

John Ennis (Goldman Sachs): Good afternoon everyone. My first question is on the regional brands: you said that 60% of the portfolio drives 80% of your growth, so I guess the other 40% of sales or the “non-power brands” are effectively growing at around 2% run-rate in recent years. Is that a reasonable expectation going forward, or can this accelerate, and is portfolio review a consideration to improve the performance there?

Then my second question is on Sensodyne. I guess, at a high level, why do you think that the sensitive toothpaste category hasn’t been more aggressively exploited by other competitors?
On the ten-year CAGR you gave, can you decompose that 10% CAGR between market growth versus share gains and give us a bit of a sense of the shape over the ten-year performance? Thank you.

Brian McNamara: Great. First, on what we call local strategic brands and power brands. So, what I would say is that we have local strategic brands and we have talked about some of them like Emergen-C in the US, or ENO in Brazil and India.

Every brand we have is not necessarily a local strategic brand in the sense that Filippo in his region has many brands that are in pharmacies that have stable growth, very high growth margins, very little investment behind it, so there’s brands in the portfolio that play a really key role, but we see a lot of growth opportunity in a lot of those local strategic brands, and, obviously, across the whole portfolio, everything isn’t growing at the rate of power brands which have grown high single digits, and some of our local strategic brands have been mid-single digits and sometimes double digits.

On the portfolio review, as we have said, we have divested 50 growth dilutive brands in the last 18 months, and that gave us proceeds of £1.1 billion that we’ve talked about.

Listen, we feel good about where the portfolio is at. We feel all the heavy lifting is done. Of course, we are always looking and reviewing to make sure that we are the right owner for these businesses and that to keep value makes more sense than to sell value, and we will continue to do that and look at it, but we don’t see a major sale programme or a major portfolio shift that needs to happen. I think all the heavy lifting has been done and the portfolio is in great shape.

On Sensodyne, this business has grown at 10% over the last ten years, and globally in that time the category has grown somewhere between 3-4%.

We have been a key driver of that category growth because we are in Therapeutic Oral Health, and I am going to ask Lisa in a minute to talk a little bit about the success story we have in the US, because I think it’s a great example to bring it to life for you.

Others have gone after sensitivity; I want to be clear. Our two biggest competitors have offerings in sensitivity and they have come after it. I think this is a great example of where our combination of understanding that consumer, that deep human understanding, and the science we bring behind it, and Franck talked a bit about what we do in order to really deliver on that sensitivity. That’s what we are all about at Sensodyne, and we understand that better than anybody, and I think we have been able to do that, and another piece is really that dentist recommendation that we talked, where we are the No. 1 recommended toothpaste in over 70% of all the markets that we compete in.
But, Lisa, maybe you can give some perspective on Sensodyne growth a little over the last five years in the US, because I think it is a great success story.

Lisa Paley: Yes, I think in the US over the last five years, Sensodyne has grown strong double digits, about 10%, and we have seen that really work the fly wheel that you have heard a lot about today. That is, through this regular cadence of innovation, winning innovation that is actually incremental year upon year, and not easy to do but has been a very successful model.

It is also about a mix between volume and price. We continue to invest in the science behind these brands that help you get those professional recommendations, which then help you make additional claims and convert that to trial. That’s really critical to the long-term lifecycle of the brand, and so we see a really effective growth.

We compete with two of the largest FMCG companies in this category, so it is not that they are not interested, but it is that we are able to punch above our weight, if you will, here in this category and have really owned this segment in the market.

Brian McNamara: In the last seven years in the US, that brand has grown over 5 share points, and growing share every year, so it really is a combination of net sales growth, but absolute share growth outgrowing the category and, frankly, being a key growth driver of the category.

We will take another question from the phone.

David Hayes (Société Générale): Thank you, good afternoon, also. The first thing to say is I have helped pay for the event because I did buy the Sensodyne Repair and Protect 50ml tube during the call because I was so sold on the video, so thank you for that!

Just to pay for that, I guess, I have three questions if I can? The first is on online dynamics, the second on the 4.4% growth, and the last one just on the process of the IPO.

So, on the first one I think probably for Lisa again, maybe. I think you talked about 11 of the 16 brands in the US having a higher market share online than offline. I just wonder whether you can just talk about what the five that aren’t higher on market share, and whether there’s anything specific about those brands that stands out as to why that’s in a slightly different situation to the other 11 brands?

On the 4.4% growth, just a clarification maybe. Obviously, you’re not including in that 4.4%, the drop-out of the brands that you divested or stopped selling. Just so that I understand it, are you saying that they were still in the base of 4.4% and now they’ve
all gone; there’s a benefit because they were all a drain before and therefore there is a benefit in that dynamic, or is the 4.4% stripping out altogether.

Then the last one on the process, just to clarify, I think you said July. Just to check whether July is the date or is it before July, or the latest is July. Then the question, which is probably going to sound a bit naïve, just in terms of the process, are you still open to trade interest? or are you just going down this route still, or is there a view at GSK that that whole thing has been explored now and this is the route you’re going to go down over the next few months?

Thanks so much.

Brian McNamara: Thank you for the questions. I’ll come to you, Lisa, after I answer the first two.

To be clear, on the 4.4%, that did exclude the brands divested and under review. I think when I mentioned that earlier, it was more of looking at the historical performance, why the last two years are the most relevant. Why? Because in the last two years, we’ve had this portfolio that we’re going to take forward as Haleon.

As far as the IPO or the demerger day, it’s July and absolutely July is the date and we’ve said that, so there’s no plan to do anything earlier.

On the trade interest, what I can say is that this team, as you can see today, is 100% focused on the demerger of this business. We believe it is an attractive opportunity with great brands and a fantastic geographic footprint, great capabilities, the right strategy to win and a really strong outlook and a sustainable model to drive growth, so that’s where our focus is.

Of course, if there’s any other interest, the GSK Board would need to do their fiduciary responsibility and look at that, but it’s not something that this team is spending any time thinking about as we’re really excited about the opportunity in front of us.

Lisa, maybe can talk about 11 of the 16 brands, but one piece of perspective on the US business is, as we’ve shared in the presentation, our penetration in the US is at 12%, and we look at the penetration in the US across the categories that we compete, and that’s around 9%, so we are actually disproportionately winning overall. Obviously, some are better and there are some brands that aren’t as strong, but maybe, Lisa, you want to start with some of the brands where we do particularly well, and provide additional perspective.

Lisa Paley: Yes. First, as we mentioned, this is a key part of our core strategy as we elevate the consumers’ experience through digital commerce and we have really won market share
extensively, for example, on paste, and that’s a very tough competitive category. That is some place where we’ve disproportionately been winning.

We also have had very good success with the smokers’ health category, and likewise brands like Fionase online, where people are chronically suffering, and the lack the ability to stock up and do different things there.

We are really pleased with those results.

I think certainly we remain bullish on our continued growth opportunity here, and what you’re poking a little bit I think is where else do you have room to grow? and I think this will answer part of your question.

If we think about vitamins, it is very proliferated online, and so we continue to have opportunity on Centrum just given the larger number of competitors overall, and so we are taking the appropriate steps to be competitive in that environment online and continue to win.

Then, the other two are maybe less obvious, but cough/cold is an immediate need situation, and so what you need is to be able to get products really fast, so as delivery options become available, we think that’s another space that opens up and makes it quite attractive for online purchasing as well, and some ingredient things that we are managing there.

The final one that I’ll share with you is really around dentures. Brian mentioned a few of the behaviours, but this is primarily an older demographic and they’ve had mixed comfort with being able to shift and buy online. They have gotten better during the COVID experiences, and we are working with them to also help make them comfortable on where to buy their purchases.

Brian McNamara: Thank you, Lisa. We’ll go back to a question from the platform: Can you please give more colour on working capital as a percent of sales and how do you expect it to trend, and do you use factoring?

Second question – separately – on ESG. Why is there no net zero target?

Tobias, why don’t we start with the first question to you?

Tobias Hestler: Thanks, Brian. First of all, on the working capital, if you take a very strict definition of working capital, which is inventories, accounts receivable minus payables, then our working capital is less than 10% of revenue, and as I laid out in my presentation, we see more room for improvement, especially on the inventories side, given that we predominantly focused on integrating the business over the last few years.

That is a very strict definition of working capital in the purist form.
Then on factoring, we use it, but we only use it where it has a return - where there’s a high risk and where actually factoring has a positive return, but I think it’s a very small part of our receivable management.

**Brian McNamara**: Thank you, Tobias. On ESG, why is there no net zero target? I’ll turn to Teri in a moment, but again, just as a reminder, our current carbon footprint is significantly lower than any of our peers, as Teri talked in her presentation, and we do have a target for a reduction of that carbon footprint - Scope 1, 2 and 3 by 2030. Teri, do you want to talk a little bit about our net-zero and why we don't have a target today?

**Teri Lyng**: Brian, just to reiterate. We do have targets for 2030, we have taken a target of reducing by 100% our Scope 1 and 2 carbon footprint and reducing by 42% our Scope 3 footprint by 2030. These are very much in line with the 1.5 degree pathway that has been laid out by the Science Based Targets Initiative. It is our intention, as soon as we become a standalone company, to begin conversations with the Science Based Targets Initiative group, to begin to define our 2040 net-zero goal.

Following the COP26 discussions, there was quite a bit of nuance and change brought forward about how one should interpret a net-zero carbon target. So, we want to make sure that, once we are a standalone entity, we have those conversations and we come out with a target that is appropriate for the nuances that come forward.

**Brian McNamara**: Thank you, Teri. We will go back to the phone.

**Keyur Parekh (Goldman Sachs)**: Good afternoon, I have three questions if I may please. The first one is for you, Brian. At the big picture level, it seems like a couple of the other Pharma peers are following your footsteps and trying to separate their Consumer Health businesses. As you see the broader strategic landscape for Consumer Health over the next three to five years, how do you see the opportunity for Haleon to play a much bigger role in that space given how fragmented it is today? That is question number one.

My second question would be for Tobias and it is trying to get a bit more granularity around the outlook for margins. If we are to assume that the starting margin in 2022 is broadly similar to that in 2021 with puts and takes on synergy versus separation costs or one-time costs on that, how comfortable are you with the margin progression that the Glaxo-covering analysts have built in for the Consumer Health business? I believe those numbers are around the 40-50 basis points per year range, so how comfortable are you with that?
Thirdly, as we look at your power brands, they are clearly 58-60% of your business contributing to a lot of the growth. Is there anything that you can share about the level of profitability associated with those power brands and, consequently, as we see the top line growth going forward and margin progress, how much less of a drag will the less growing part of your business be?

**Brian McNamara:** Thank you and, Tobias, will come to you on the second two questions. To the question on the big picture, we have seen the announcement that J&J has decided to also separate and to become an independent listed company in the US. This is just a reinforcement of the strategy that GSK has had and certainly a reinforcement of the attractiveness of these assets. It is a fragmented category, certainly in OTC and VMS, and as I outlined, as we sit here today, we love the portfolio that we have, we don't need to do M&A in order to deliver the commitments that we made today.

We do have capacity over the next couple of years to do bolt-on M&A if attractive, if it fits with us strategically and accelerates our growth. I am not going to predict what will happen in the future and what assets will come up but certainly we see ourselves as a business that has proven the ability to do big deals and to integrate businesses but, right now, our focus is on organic growth, separating this business and delivering on the commitments we have laid out today.

Tobias, on the outlook but also on the power brand mix and margin?

**Tobias Hestler:** First of all, when you look at the margin expansion, as I said, for 2022 we are not going to give you a profit forecast but then we said from 2022 onwards, moderate margin expansion on an annual basis. We don't want to define what that margin expansion is, because we do not have a margin target in mind. We believe that the margin we have is top quartile of the industry and we have worked hard over the last few years in getting to this place, so I feel really proud of what we have achieved as a team in getting to the margin where it is today.

What we want to do going forward, is invest in a disciplined way on A&P and R&D ahead of the rate of sales growth and that, coupled with gross margin increases with all the drivers that I mentioned earlier, should allow us, in addition to other SG&A reducing given the scale we have and the optimisation opportunities there, a moderate margin expansion in the longer term, and I am very confident that we can deliver that.

On the power brands, it is ultimately a scale question. The large power brands have scale, so that means we get the economies of scale in that, I think both from a manufacturing point of view but also from an A&P point of view, and we’re building on these.
Again, I think we take very, very conscious choices to invest in them if we see growth opportunities, and you heard a lot of them today, from all my three regional colleagues, that we would go and invest even more in that if we can drive higher household penetration and other opportunities. I think from that perspective, growth potential there, but ultimately all coming back to the model of driving sustainable, 4-6%, annual organic sales growth.

**Brian McNamara**: We have time for two more questions, we'll go once more to the phone and we'll take the last one from the platform.

**Emmanuel Papadakis (Deutsche Bank)**: Thanks for taking the question. Perhaps I'll take a couple on the e-commerce/digital side. I wonder if you could give us a little more detail on the mix of the 8% of e-commerce channel sales, and what I mean by that is, how much, if any, is direct to consumer versus third party platforms and what’s the mix in terms of online retailers like Amazon versus online grocery/pharmacy platforms like Walmart, Walgreens? What’s the risk, I guess I’m asking, the concentration or consolidation around things like Amazon?

As part of that I’d be very keen to understand your perspective on the future risks from private label, as consolidation potentially takes place.

Then perhaps just on the margin outlook, what input inflation cost assumptions have you made beyond ’22 in your margin guidance? It sounds like the plan for an even mix pricing and volume to drive that 4-6% sales CAGR, so how is that pricing growth spread across regions, is it pretty evenly distributed or are you really looking at certain regions to drive pricing as well?

Thank you very much.

**Brian McNamara**: Thank you for the questions, and Tobias will come to you on the margin question, but on e-commerce; the first question was the mix of through customer channels like Amazon or retailer e-commerce sites versus direct to consumer. The vast majority of our sales is through customers and third party. We do have some direct to consumer businesses, and Lisa talked a bit in her US presentation about Chapstick, and the direct to consumer business we have there, which is going really well, and it’s a platform that we’re looking at expanding. But, I would say that it’s not a key driver of the e-commerce sales that you’ve seen, but we’re going to see how that channel plays out. We’ve certainly been successful where we have done that work.

The other piece, if you look across Amazon versus Omni-Channel, probably a good place to look at is the US business, where it’s about 70% coming from Amazon, 30% coming from Omni-Channel, and frankly, the growth in the Omni-Channel retailers – the Walmarts and the
Walgreens and CVSs and the Targets – is actually quite fast, and we’re doing quite well there, so we’re seeing that shift balance out a little more as it goes.

Then on private label, listen, we’ve been competing with private label for 50 years in markets like the US and in the UK, so it’s a dynamic we will manage online like we manage offline, and what we find out in competing with private label is there is a place for private label, there’s no question about it, but in healthcare, and where we play, brands really matter, trust really matters. What we say is we can win in a world of private label if we innovate and we do the right thing on consumer connections, and we deliver the benefits that consumers are really looking for.

Tobias, maybe the question on inflation, and your thoughts on margin?

**Tobias Hestler:** First of all, I think when you look back on how we’ve managed inflation, I think last year we guided that we would see that about 50% of the inflation costs would be mitigate through cost efficiency in the supply chain and the other 50% via pricing, and we’ve done that successfully. As you’ve seen, our gross margin increased last year, so ’21 versus ’20 – actually, both years, ’19-’20 and ’20-’21, as well - so I think that gives us confidence, and that’s also what we were targeting going forward; that we mitigate inflationary headwinds through a mix of pricing and efficiencies that we drive in the business. I think I’m confident we can continue doing that going forward.

Then I think, Emmanuel, you also asked about across the regions, I think the contribution from the regions is probably fairly evenly split. Of course, you would expect in an emerging market environment, where inflation is higher, you would look for a bit more price increase. But, I think this is really not just a country-by-country but a product-by-product approach. We look in detail where are we? Are we priced competitively? What opportunities do we have? So, we don’t take a broad-brush approach here, but really do that in a very targeted manner across all of our businesses.

**Brian McNamara:** Thank you, Tobias. So, to the last question, from the platform, how will management be incentivised short-term and long-term KPIs and weight, and if you can’t share, what are the key considerations?

As you would imagine incentivisation is a matter for the new Haleon Board and the new Haleon RemCo, and that’s work that’s coming, and you will see our RemCo policy, remuneration policy in the prospectus. But, what I would say is fully expect that the incentivisation for this management team to be very closely linked to all the commitments we have made today on growth, on moderate margin expansion, on cashflow, on deleveraging commitments, on ESG commitments…; so more to come, and we will share that when we have it, but those would be the considerations that you can expect.
So, listen, I hope after spending four-plus hours with this group of folks today that you are as excited as we are about the opportunities in front of us. This is an amazing business. It has an exceptional portfolio of brands, category-leading positions.

We have really strong capabilities that we have built over the last few years. We have a strategy to outperform. We have clear building blocks on how we are going to deliver ultimately our growth outlook which is 4-6% annual organic sales growth, moderate margin expansion, with strong cash conversion and the deleveraging commitments we have made.

We are super-excited about what the future holds for us, and we are looking forward to engaging you a lot more in the coming weeks and months in the lead up to separation. So, thank you for your time today.

[Ends]