Haleon HY 2024 Results

Thursday, 1st August 2024

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Brian McNamara

CEO, Haleon

Introduction

Hello everyone. Welcome to our Half Year Results Presentation. I'm pleased to be announcing a good set of results for the first half as we continue to build a track record of consistently strong performance.

Our strategy is delivering and we're capitalising on Haleon's competitive advantages. I'm talking about our world class portfolio of category leading brands which are trusted by consumers globally. As well as our ability to combine deep human understanding and trusted science.

On top of that, we've made good progress in becoming a more agile and competitive organisation to underpin our future growth.

We're confident about the remainder of the year and confident that we will deliver against our medium-term guidance.

Given the strength of our first half, we're updating our full year guidance. We continue to expect to deliver 4-6% organic revenue growth and now expect to see high single digit organic profit growth.

Performance Highlights

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

We've had a good first half. Organic sales growth was up 3.5%, with price at 4.3% and a 0.8% volume/mix decline. That decline in volume/mix was primarily due to us lapping some tough comparisons from the first half last year.

Importantly, we delivered 4.1% organic sales growth in the second quarter, with price at 3.4% and volume/mix improved up 0.7%. That's an encouraging trend, which we expect to accelerate further in the second half, demonstrating the resilience of our brands.

Our nine Power Brands continued to perform well, up 5.6%. Category-leaders like *Sensodyne, parodontax, Polident/Poligrip* and *Centrum* were particularly strong.

I'm also pleased to report that 69% of the business either gained or maintained share. That's a really strong performance and shows our brands are resonating with consumers.

We delivered strong organic profit growth for the half – up 11%. Our adjusted operating margin came in at 22.7%, up 50 basis points at actual rates and 160 basis points on an organic basis. Importantly, that includes strong investment in A&P, up 9%.

We continued to generate strong cash-flow with net debt now £8.4bn, representing leverage of 2.9x.

Tobias will take you through the numbers in more detail shortly.

But, first let's take a closer look at our category performance in the first half. **Oral Health: Continued Strong Performance**

Oral Health was once again the standout performer, delivering another exceptional performance across the portfolio.

Organic sales were up 9.9% in the first half and 9.1% in the second quarter. All three Power Brands, Sensodyne, parodontax and Polident/Poligrip, performed very well and gained share, with Sensodyne and parodontax achieving double digit growth.

A series of successful innovations fuelled this strong growth:

Take Sensodyne Clinical White, our new innovation, which is the "one product" scientifically proven to whiten teeth by two shades, while also providing 24/7 care for sensitive teeth. Clinical White is now in eight markets and it's currently tracking as the number one innovation in the US Oral Health market so far this year.

Or take parodontax Gum Strengthen & Protect, a new multi-format range across both toothpaste and mouthwash. It addresses an untapped consumer need for more proactive and preventative gum care. We've just launched this new range in Italy with really positive early results and we'll be taking it to a number of new markets later this year.

In Denture care, we've recently launched our successful Poligrip Max Hold and Comfort innovation in the US, following strong performance in other markets over the last two years. Poligrip Max Hold and Comfort addresses a key consumer need for a secure and long-lasting hold for dentures, alongside superior comfort, providing a soft cushioning layer to help absorb pressure from dentures. It's an innovation that's driving meaningful share growth and has huge potential.

Vitamins, minerals and supplements: Returning to Growth

Turning now to Vitamins, Minerals and Supplements, where our differentiated portfolio is continuing to see a return to strong growth. We delivered organic sales growth of 9.2% in the first half, up 8.5% in the second quarter. Centrum and Caltrate were again the driving force behind that strong performance, supported by innovation and excellent in-market execution.

Centrum is a great example of how we've delivered on the brand's strong potential. Take Centrum Silver, we've activated the trusted science credentials for Centrum Silver through clinical data from a number of organisations, more recently, Harvard Medical School. This shows clear evidence that taking Centrum Silver improves brain and memory health in older adults. These benefits have resulted in strong demand in many markets including US and China.

And we're expanding the reach of the Centrum brand to new consumers. The launch of Centrum Essencial in Brazil is a good example of this, driving meaningful share growth with low-income consumer groups.

Moving now to Caltrate, which has a 30-year legacy of providing quality bone health supplements. Caltrate is among the most clinically studied calcium supplement brands in the world. We're driving the performance of Caltrate with Caltrate Capsules in China via a scientific claim of improved Calcium absorption. That claim is resonating really well with consumers and was one of the factors behind the brand’s strong growth in the first half.

Pain Relief: Subdued Performance with Growth Adversely Impacted by Advil

As we anticipated, our over-the-counter Pain Relief category was impacted by tough comparatives, with a 4.4% organic sales decline in the first half and a 4.0% decline in Q2. That was primarily a result of the lifting of Covid lockdown restrictions in China at the end of 2022, resulting in Fenbid more than doubling during the first half last year and to a lesser extent, from strong demand last year for Advil in Canada linked to a drug shortage of children’s medicines.

Panadol was a bit weaker than expected, largely a result of a softer market, driven by lower Covid related illnesses. But encouragingly, Panadol continues to drive market share gains across key market combinations.

Advil is a good example of how we’re innovating to drive growth which, along with strong commercial execution, is helping us win back market share, and we saw an improving trend in Q2. We’ve recently launched Advil Targeted Relief in the US. This is the first topical pain reliever from Advil. It has four active ingredients that start working on contact and provides consumers with up to eight hours of relief at the source. So far, consumer feedback has been excellent.

Respiratory Health: Performance as Expected

In Respiratory Health, organic revenue declined by 2.3% in the half impacted by a tough comparative. Q2 declined 1.5%, which was held back by our own pro-active inventory management. I’ll cover this in more detail shortly. Performance once again was underpinned by innovation and strong commercial execution.

Our new Otrivin Nasal Mist product is a good example here. Launched in four markets so far - Poland, Portugal, Greece and the UK - this innovative new dispensing technology, which is unique to Haleon is delivering strong performance and has had great feedback from consumers. It’s backed by a ‘Real World Evidence’ study that scientifically proves the impact of Otrivin in relieving symptoms of a blocked nose. This is an exciting innovation, and one that has significant potential for growth as we roll it out globally.

I’m now going to touch on Phenylephrine or PE. You’ll have seen that last year the US FDA Advisory Committee recommended the removal of oral PE from its approved list of ingredients for cough and cold medicines. To be clear, this was a question of efficacy – not safety. No formal decision has yet been made by the FDA.

In anticipation of the FDA’s ultimate decision, we decided to pro-actively run down our inventory in the US of oral products containing PE. We expect to ship reformulated cough and cold medicines not containing PE in time for the season.

That inventory run down adversely impacted our category growth by around 2% in the first half or just under 0.5% for the Group. This should reverse in the second half.

Digestive Health and Other: Broad based growth

Finally, let's turn to Digestive Health and Other, which was up 4.9% in the first half and up 7.5% in Q2. All three sub-categories – Digestive Health, Skin Health and Smoking Cessation - delivered growth.

Digestive Health was up low-single digit, underpinned by Tums, ENO and Benefiber.

Skin Health was up high single digit with Fenistil and Bactroban seeing double-digit growth.

Our Smoking Cessation portfolio was up low-single digit.

Performance Underpinned by Strong Execution and Financial Discipline

Let's now touch on our strong execution and commitment to financial discipline which includes driving operational efficiency, managing our manufacturing footprint, and evolving our portfolio.

On distribution, we've been working with our freight and distribution partners to drive efficiencies, which has led to a 25% reduction in those costs.

We've also started work on the proposed closure of our Oral Health site in the UK and expect to transfer production to a more modern and cost-effective site in Slovakia by 2026.

Finally, we remain pro-active in managing our portfolio for growth. We completed the disposal of ChapStick in May and at the end of June, we announced the divestment of our Nicotine Replacement Therapy business outside the US to Dr. Reddy's. That sale includes brands such as Nicotinell and Nicabate. They're great brands but aren't core for us outside the US. Tobias will cover the financial impact of that divestment in a minute.

Productivity Programme to Deliver Incremental Benefits

I'll now talk you through the steps we've taken this year to become a more agile and competitive organisation - to drive our future growth.

Alongside optimising existing processes and organisation structures, we've been working to accelerate our speed to market, making the business more consumer focused and allowing us to invest in future growth.

As I said back in February, this work will result in around £300m of gross annualised savings. We continue to expect about a third of that £300m to come through in 2024 and the rest in 2025. To date, we have made good progress.

We are re-investing part of these savings in A&P and we're also investing in clinical and real-world evidence studies to support new and differentiated claims, giving our products a strong competitive advantage.

Responsible business integral to everything we do

Turning now to our Responsible Business agenda, which you can read in more detail in our first ever Responsible Business Report which we published in April.

Today, I'm going to focus on the work we're doing with our commercial partners to support our Health Inclusivity goal. We want to empower 50 million people a year to be more included in opportunities for better everyday health.

A good example of this is our work with Alibaba to empower self-care for young people living in rural communities in China. Here, we're talking about those communities who typically have lower health literacy and which face challenges accessing healthcare. In collaboration with the Amity Foundation, we have built a partnership that includes in-school health education for both students and teachers which aims to improve health literacy. This programme includes an initiative with Alibaba to provide donations for each Haleon brand sold as part of the campaign. While it's still early, we're seeing a strong uplift in our e-commerce sales for those products.

So, as you can see – we've had a good first half and our strategy is delivering. We are executing well and are becoming a more consumer focused and agile business. And we're making good progress against our Responsible Business goals.

With that, I'll turn it over to Tobias to take you through the numbers.

Tobias Hestler

CFO, Haleon

Thanks Brian and good morning everyone.

As usual, I'll focus mostly on our adjusted results, as this is the most meaningful way to understand our performance. A full reconciliation of adjusted to IFRS results are in the release published today.

In the first half, we saw both good sales growth and our value creating growth algorithm working, which together delivered strong financial results.

Delivering strong results

In H1, revenue of £5.7bn reflected 3.5% organic growth, with price up 4.3% and volume/mix down 0.8%.

Gross profit grew ahead of sales growth, resulting in a 63.8% gross margin up 170 basis points organically, with strong pricing as well as productivity and efficiency savings driving margin expansion. Operating profit of £1.3bn was up 11% on an organic basis, resulting in a 22.7% margin. That's up 160 basis points organically. Operating leverage and productivity savings offset strong A&P investment, up 9% as we continue to invest in our brands.

The business continues to be cash generative with £0.8bn of free cash flow. We also further reduced leverage, ending the first half on 2.9x net debt/adjusted EBITDA. That is after paying back the $700m bond which was due in March and spending £315m of the £500m allocated to share buybacks earlier this year.

Underpinning this strong performance is our well-balanced geographic profile driving resilient growth.

Well Positioned for Stability and High Growth: Driving Resilient Volumes

Our revenue is split 65% developed and 35% emerging markets, providing Haleon with consistent and higher growth opportunities. As you can see on the table, over the last three years we have delivered volume growth across both developed and emerging markets. This was combined with strong pricing, which was higher than normal in this period given cost inflation. The long-term fundamentals, including population growth, a growing middle class and significant unmet consumer needs, are all favourable drivers for the consumer health industry.

Our geographic footprint, coupled with the defensive nature of our products serving everyday healthcare needs, means we are well positioned to deliver consistent and strong growth in both volume and price.

Resilient Volume/Mix with Pricing Normalising

Looking at the last 3 years at a group level, volume/mix has been resilient, despite lapping tough Covid comparatives, high levels of inflation and navigating a more challenging consumer backdrop. As you can see on the chart, in Q2 we delivered positive volume/mix growth and pricing started to normalise. As we move through 2024 and into 2025, we fully expect this positive volume momentum to continue, with a gradual return to more balanced growth between price and volume/mix.

Let me now take you through the drivers of H1 revenue growth.

Solid H1 Revenue Growth

Half Year organic revenue increased 3.5%. Volume/mix was down 0.8%, with continued positive volume/mix in EMEA and LatAm and Asia Pacific more than offset by a decline in North America. Price was up 4.3%, which included both carry forward price in Q1, as well as incremental price taken in the first half.

Revenue growth was partially offset by the two divestments we completed and by 3.4% adverse translational FX which, as previously guided, was most pronounced in Q1.

Now, let’s turn to the individual regions.

North America

Starting with North America.

Organic revenue declined 1.3%, with a 4.5% decline in volume/mix more than offsetting positive pricing. In Q2, organic revenue was up 1.0%, with 1.7% price and improved volume/mix, down 0.7%.

Volume/mix for the region was negatively impacted by a couple of factors. As I mentioned at Q1, we saw some US retailers holding on average about 1 week less stock than historic levels, which stabilised in Q2. There was also around a 1% adverse impact from our deliberate reduction in shipments of products containing PE, which Brian touched on earlier. We expect this to reverse in H2.

Turning to the categories, Oral Health performed well with mid-single digit growth largely driven by strong Sensodyne performance with Clinical White continuing to resonate with consumers. VMS was up double-digit with strong growth by Emergen-C and Centrum. Digestive Health and Other was up low single digit and Pain Relief declined. There was improved momentum in both categories in Q2, with Advil stabilising, a new Tums format innovation and a new Benefiber campaign supporting performance.

Operating profit declined 8% organically, due to a decline in revenue and increased A&P spend to support consumption growth in the first half, combined with the impact of M&A and foreign exchange. Operating margin declined 170bps to 21.3%.

US

Focusing on the US market in more detail. Despite the more subdued sell-in for the reasons I just mentioned, based on the sell out and consumer consumption data, Haleon delivered both value and volume growth in H1. Although the market is still in volume decline, this is improving, and importantly, Haleon has gained both value and volume share.

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

EMEA and LatAm: Strong price underpinning double-digit organic growth

Organic revenue increased 7.9%, driven by price up 6.4% and volume/mix up 1.5%. The region benefitted from carry-forward pricing taken in 2023, along with some incremental pricing taken in the first half. In Q2, organic revenue was up 7.2%. As expected, the benefit of carry-forward pricing reduced in the quarter, resulting in overall pricing up 5.3% and volume was up 1.9%.

Growth was broad-based across the region, Latin America and Central & Eastern Europe grew double digit. Middle East and Africa grew high single digit. Northern Europe and Germany were up mid-single digit, and Southern Europe grew low single digit.

Turning to the categories, growth was also broad based. Oral Health revenue increased double-digit with all three Power Brands up double-digit. VMS and Digestive Health and Other were up high single digit with strong Centrum performance. Respiratory was up mid-single digit helped by Otrivin and strong Theraflu performance in Central and Eastern Europe. Pain Relief was also up mid-single digit with the turnaround in Voltaren performance continuing as well as good local brand growth.

Operating profit growth was strong, up 24.1% organically driven by pricing and operational efficiency improvements. This was partly offset by strong investment in A&P, delivering margin up 340 bps organically. Combined with the impact of divestments and foreign exchange movements this resulted in a 25.9% operating profit margin.

I'll now turn to Asia Pacific.

Asia Pacific

Organic revenue increased 3.5%, with 2.2% price and 1.3% volume/mix. In Q2, organic revenue increased 3.7%, with 2.8% price and 0.9% volume/mix.

Across the region, performance was particularly strong in India, with strong Sensodyne and Eno performance supported by new innovations including Eno Chewy Bites. China revenue was flat due to lapping the tough Fenbid prior year comparative, as Brian touched on earlier.

Growth for the first half was broad based across all categories except Pain Relief, given China. Oral Health grew double-digit with double-digit growth in key markets including China supported by strong Sensodyne momentum. VMS was strong, underpinned by the strength of Caltrate. Respiratory Health also saw double-digit growth, driven by Flonase and Theraflu.

Operating profit increased by 9.0%organically and up 120 bps, underpinned by strong operating leverage and operational efficiencies. These more than offset increased A&P spend ahead of sales growth, the impact from divestments, as well as adverse translational foreign exchange movements, mainly in the Chinese Renminbi and Japanese Yen. Combined, this resulted in a 23.2% operating margin.

Turning now to our operating profit drivers.

Growth Algorithm Delivering

Gross profit of £3.6bn was up 6.3% organically and ahead of revenue growth. Pricing and efficiency programs in the supply chain more than offset higher labour costs and easing material cost inflation, delivering 170bps of gross margin expansion.

A&P was up 9% to further grow and differentiate our brands. Savings from the productivity programme, which were realised a bit earlier than originally expected, resulted in a decline in other SG&A spend, delivering total SG&A growth of 3.5%.

Together, with an increase in R&D spend of 4%, this resulted in operating profit growth of 11% organically, demonstrating strong execution across key P&L line items.

Turning now to our operating profit bridge.

Strong H1 Profit Growth and Margin Increase

Operating leverage of £136m resulted in 160 basis points of operating margin expansion.

Net M&A had a £30m negative impact, mainly from the divestments of Lamisil and Chapstick, and was around a 40 basis points drag on operating margin.

Finally, there was also an £84m or seventy basis points adverse impact from foreign exchange. That mainly reflected movements in the US dollar, Euro and Chinese Renminbi and some emerging market currencies with the impact, as expected, reducing in Q2.

Taken together, this resulted in a 1.7% increase in operating profit and a 22.7% margin.

Adjusted EPS Growth up 5.9%

Now taking you through the other items in the P&L.

Net financing costs were lower, due to our reduced debt profile and use of commercial paper, partly offset by higher interest rates.

Our effective tax rate of 24.5% is within the full year guidance range.

Overall, this resulted in diluted earnings of 9p per share. EPS was supported by a reduction in the weighted average share count, following the purchase and subsequent cancellation of 102.3 million ordinary shares.

Turning to the adjusting items.

Adjusting Items Driven by Productivity and Efficiency Programmes

Net amortisation and impairment of intangible assets included a £17m reversal of the impairment of ChapStick.

As previously guided, restructuring costs increased largely due to the productivity programme, as well as costs associated with the Maidenhead closure. As a reminder, the savings and costs related to Maidenhead are incremental to the productivity programme. Both examples of deliberate actions we are taking to drive a more agile and competitive organisation.

So, how did we do on cash?

Strong free cash flow generation

We continue to be highly cash generative and for the first half, free cash flow was £0.8bn.

Working capital and other movements saw an outflow of £229m, which improved compared to the same period last year, given lower inventory levels as well as improved payment terms with some key vendors.

Sale of intangibles includes the proceeds from the Chapstick disposal we completed in May this year.

Turning to Haleon's debt and liquidity profile.

Leverage reduced to 2.9x – c£700m returned to shareholders

We reduced our net debt by £0.1bn in the first half and by £2.3bn since the demerger. During the first half we repaid a $700m bond. We also returned c.£700m to shareholders in the form of a dividend and the share buyback.

As previously guided, our optimal leverage in the medium term remains around 2.5x net debt/adjusted EBITDA.

Updating Guidance for FY 2024

So, what does this mean for our 2024 guidance.

We are confident in delivering full year organic revenue growth in the 4-6% range, consistent with our medium-term guidance.

As Brian said, we now expect high single digit organic operating profit growth, with positive operating leverage not just from accelerating volume mix in H2, but also from the changes we are implementing to be more agile and competitive. All of this, as we continue to invest in both A&P and R&D.

The net impact of M&A is expected to dilute revenue and adjusted operating profit by c.1.5% and c.4% respectively. This includes the Lamisil and Chapstick disposals and assumes that the disposal of the Nicotine Replacement Therapy business outside of the US completes in early Q4 2024.

We have also shared in the release the expected adverse translational foreign exchange impact for the year.

Conclusion

I am pleased with the financial performance in the first half, with strong operating profit growth reflecting both the strength of the portfolio and our geographic footprint, and demonstrating that our value creating growth algorithm is working.

I would also like to highlight just how much our shareholder register has evolved since our listing. This follows the share offerings by GSK and Pfizer and has resulted in a significant increase in our free float and increased liquidity. The market absorption of this additional stock and the evolution from a pharma to a more typical consumer company share register has been a huge accomplishment since coming to market.

Taken together, all of this positions us well for the future, and coupled with the deliberate actions being implemented to become more agile and competitive, gives me even more confidence in Haleon’s ability to deliver superior shareholder value.

Now back to Brian.

Brian McNamara

CEO, Haleon

Medium term guidance

Thank you, Tobias. So, to sum up, our strategy is delivering and we’re continuing to build a track record of consistently strong performance.

Haleon is a resilient business with a great portfolio of leading brands in a growing market, and the opportunity ahead is significant.

Having delivered a good set of results for the first half, and to reiterate Tobias's remarks, we're confident in our ability to deliver between 4-6% organic revenue growth and high-single digit organic profit growth for the Full Year.

We're also well placed to deliver on our medium-term guidance of 4-6% annual organic sales growth, with organic profit growth ahead of that.

Thank you for your continued support and interest in Haleon.