Haleon Full Year 2022 Q&A Conference Call

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Introduction

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Head of Investor Relations, Haleon

Welcome

Good morning everyone and welcome to Haleon's full year 2022 Q&A conference call.

I am Sonya Ghobrial, Head of Investor Relations and I am joined this morning by Brian McNamara, our Chief Executive Officer and Tobias Hestler, our Chief Financial Officer. Just to remind listeners on the call that in the discussions today the company may make certain forward-looking statements including those that refer to our estimates, plans and expectations. Please refer to this morning's announcement and the company's UK and SEC filings for more details including factors that could lead actual results to differ materially from those expressed in or implied by any such forward looking statements. We posted today's presentation on the website this morning with prepared remarks running through the results in detail. With that, we will go straight to opening the call for Q&A. Thanks.

Q&A

Iain Simpson (Barclays): Good morning everyone, thanks very much. A couple of questions from me if I could? First, could you just give us a clue as to how we should think about the phasing of organic sales growth as we move through 2023 because clearly there is some volatility in the comps given the shape of cold and flu and I guess a bit of unknown as to how that trends towards the end of the year. Then secondly, not sure if it is something you feel able to comment on but there was some press speculation a few weeks ago that you might be considering a very sizeable acquisition, namely the Sanofi Consumer Health business.

I am not asking you to comment on that specific transaction but in general terms, is an acquisition of a decent size likely near term or does your priority for the next few years very much remain deleverage and getting the debt down? Thank you.

Brian McNamara (CEO, Haleon): Iain, thanks for the question and I will answer that second question first and then I will pass it to Tobias on the phasing. As you said, and as you would expect we will not comment on a rumour or speculation around M&A. I think what I would say is this business was created from the two largest transactions in the industry in the last eight years and divestment of non-strategic brands. The result of that is an incredibly strong portfolio. We love the portfolio. I think the organic sales opportunity is there and really strong. We re-confirmed our guidance this year. However, as we also mentioned in the press release, we will be proactive about managing that portfolio and looking for opportunities to strengthen it. Be it through bolt on M&A or potential divestments.

We have also been clear on our capital allocation priorities. The first is to invest in growth, the second to strengthen the balance sheet, then bolt on M&A and then return excess cash to shareholders. That is our focus and obviously if anything comes up, we would evaluate and look at it, but at this point, our focus is primarily on delivering the organic sales growth and following those capital allocation priorities. Tobias, do you want to touch on phasing?

Tobias Hestler (CFO, Haleon): Yes, thanks. On the phasing, first of all, yes as you noted we had a very strong half one last year, but having said that, and you heard it in Brian's presentation earlier today, we are seeing positive momentum going into Q1 in both cold and flu and in pain relief this quarter with continued positive growth. Then secondly, when you look at pricing last year, we started the year a little bit more than 2% in pricing in Q1 and then that went up to 4% and then 5% and then 5.5%. You should also see some pricing benefit come through as we cycle over the pricing that we did in half two of last year. Other than that, you continue to monitor the trends. I think I have provided a slide in the backup that shows you a little bit of what to keep in mind for what happened in 2022. But, maybe just let me take a step back. When you look at the last few years, there were certain categories that were up and others that were down. We really feel good about the strength of our portfolio and our ability to deliver in the 4-6% guidance range which is also why we have guided to 4-6% for this year.

Iain Simpson: Thank you very much.

Faham Baig (Credit Suisse): Hi, thank you for the questions. Tobias, can I come back to the first question from Iain on price versus volume? How do you see the balance of price and volume for the full year being in 2023? What are the key moving parts that will differentiate your growth from being at the bottom end of the range to the top end of the range? Secondly, a slightly more broad question, but there clearly are at least a couple more of your peers that are looking to become standalone businesses over the next couple of years. How do you see this impacting the competitive dynamics both short term and long term? Thank you.

Tobias Hestler: Yes, thanks Faham. On price volume, we are not guiding to price and then volume for the year. As I said in my presentation earlier today, we would expect that from a mix point of view, for it to be a bit more weighted to price initially. There is a bit more pricing coming through as we cycle the increases we did throughout 2022, but overall we feel good about the 4-6% organic growth across the strong portfolio we have.

Brian McNamara: Faham, maybe on the second question around other standalone businesses and competitive environment. The one that has obviously been announced is J&J's consumer business, Kenvue listing at some point in 2023. Overall, I think the listing of another consumer healthcare business is a good thing. It is a good thing because it reinforces the attractiveness of these categories and the attractiveness of consumer health. I also think it will create more interest and dialogue around this new sector. It has always been a competitive environment that we compete in. I do not necessarily see that getting any easier or any harder as we go forward. Competitively, we feel really good about where we are at and actually if I look at last year growing and maintaining share in two-thirds of our business we feel really good about that; That was consistent throughout the year. That was the number in the first half and the number for full year. Overall, we feel like with our portfolio and our brands we are in a really good place to compete.

Faham Baig: Thanks guys.

Rashad Kawan (Morgan Stanley): Hey good morning Brian, Tobias and Sonya. Thanks for taking my question. A couple from me please. First one, can you talk about the productivity programme you announced today? Where do you see the savings coming from and maybe talk about the phasing of that over 2024 and 2025? Then the second question is about your innovation pipeline for the year. How is it shaping up? Where are you looking to focus on in terms of the level of innovation? Thank you.

Brian McNamara: Great, thanks Rashad. On the productivity programme, let me maybe take a step back and give some perspective. Obviously separating from GSK and standing up as a listed company is a pretty big undertaking and it is quite complex to do. Our focus was to ensure that we did that smoothly with no business interruption and continued the momentum in the business. We feel great about that. We feel like we achieved that, and I think that shows up in the results today. However, now that we have been running the company for seven months, we see the opportunities to streamline the organisation, simplify the way we work and become more agile and productive, which will in turn give us the capacity to invest in the growth opportunities and the innovation. We see those growth opportunities, so it gives me even more confidence and I was already very confident in our medium-term guidance. From a phasing point of view, what we announced today was £300 million in savings, the majority of that in 2024 and 2025. Tobias, do you have anything to add?

Tobias Hestler: Yes, I think the restructuring cost to come through which are split evenly between 2023 and 2024. Then as we go through the year, we will update you when there is more to update on that.

Brian McNamara: On innovation, we do not necessarily talk about future innovations that have not launched yet or specifics around them. But, I have to say I feel really good about our innovation next year and especially in Oral Health which is a really important category for us and a place where we feel like we really led in innovation, certainly in the toothpaste segment. We saw some great innovations this year across the board, like Emergen-C Kidz in the US which really opened a new segment for us in the immunity segment or Centrum Benefit Blends which really made Centrum stand out and gave us runway room for growth in places like Middle East, Africa and Latin America. Or launching brands in new markets like South Africa and India for parodontax and Centrum for India. I feel really good about what we have been able to do in 2022 and the outlook for 2023.

Rashad Kawan: Thank you very much.

Guillaume Delmas (UBS): Good morning Brian and Tobias. Two questions for me please. The first one going back to your savings programme. You are basically signalling that this will be additional fuel for your brands and growth opportunities so my question here is what kind of return do you expect on these incremental investments? Unless something has changed or deteriorated since the time of your listing these investments should effectively drive an acceleration in your like for like sales growth. Basically, when you talk about greater confidence in achieving the 4-6% like for like, should we interpret this as a signal that your ambition is clearly not to be at the bottom end of the 4-6% range, where consensus currently is for the next three years? Then my second question, is on your local strategic brands. I think you said in the presentation it is 20% of your turnover and 20% of your growth last year. Can you maybe shed some light on how many brands you have got in there and are they just like your Power Brands, accretive to your gross margin? Maybe could you see some of these local brands getting Power Brand status over time as in significant opportunities in international rollout or category adjacency expansion? Thank you.

Brian McNamara: Thanks Guillaume. I will answer that second one first and then touch on the first question and go back to Tobias on that. First in the local growth brands we feel great about our portfolio. As we separated from GSK, took a step back and frankly engaged with our Board looking at the strategy of the business. We confirmed that we feel great about our strategy and our ability to deliver. We also do see some additional growth opportunities and frankly some of those are in those local growth brands. We have over 20 brands in that local growth bucket now and some of those brands are just really powerful brands at the local level. One example would be BeTotal in Italy which is a VMS supplement in Italy which grew double digits this year. As did a calcium supplement we have which is more at the local level. We have talked about ENO in India and Brazil, Tums in the US, Emergen-C. We really see a lot of opportunities in growth and local growth brands. As we look at our plan and intent to invest in A&P and R&D ahead of sales it is really because we see the opportunities to invest and drive the growth across the portfolio which is why I am even more optimistic today than I was six months ago where I was quite confident in our medium-term guidance. We really see those growth opportunities.

I will turn to Tobias on the productivity and where that plays out. Certainly, we think we have a fantastic portfolio and from a growth perspective, our ambition is to grow as much as we can on this business. As we see those opportunities, we want to go after them and we want to build the capacity to invest in this.

Tobias Hestler: Yes, I think it is what you said. We really believe and are confident in this 4-6% growth outlook. As you mentioned, this is not necessarily reflected yet in the consensus that is out there. I think for us, this is another reason to believe in the growth algorithm that we put out because it gives us the capacity to fully invest behind these opportunities that Brian just described. Also in an environment that is also fluctuating. I said at the Capital Markets Day that we are going to review other SG&A over time. We are doing what we said we would do because we want to be an agile company but secondly it allows and gives us the capacity to invest behind the brands. Then ultimately that is a reconfirmation of the value creation model that we put out there and that we fully believe in.

Guillaume Delmas: Thank you very much.

Chris Pitcher (Redburn): Good morning all, a couple of questions for me as well. In terms of the growth story, geographic rollout is an important part. Is it fair to say that you have got the broadest sales and distribution network in the competitive environment that you were talking about earlier? Can you help us understand the scale advantage that gives? Are you able to give us an idea of how much of your growth in sales has come from brands launched in new markets over the last couple of years. Is it the tens or hundreds of millions? Then perhaps using India as an example can you say precisely how much India was over the 20% you discussed in the statement? How much of that growth was in the core Sensodyne and ENO and how much came from the rollout of Centrum and parodontax? Thanks.

Brian McNamara: Great, thanks Chris, appreciate the question. I think on rollout we do see those opportunities to drive growth. We have not given any specific guidance on what that rollout is driving versus other areas. What you said on the broader sales and distribution, I think we have a fantastic geographic footprint and we see opportunities in that. We said two-thirds in developed markets, one third in emerging markets and real strength across emerging markets. If it is Middle East, Africa, Latin America, Central/Eastern Europe, India, China, Southeast Asia, we see very broad opportunities there and we mentioned in the past we see that in Middle East, Africa and places like India where we have those opportunities to drive growth. Your specific question on India, India had a very strong year this year, grew double digits. India was up double digits every quarter in 2022 so a very strong business for us. Centrum for me in India is really a mid-term to long-term play. It is a category that is developing there. We believe that it has huge potential. We started with an online launch which we will now move to physical distribution in 2023, and very quickly took a ten share of the category on that online piece. We see it as a key part of our strategy. As we have laid out, it is about increasing household penetration and we see those opportunities across the portfolio. It is also about new and emerging channels and geographies and expanding the portfolio.

Tobias Hestler: Chris, also when you look at the emerging market footprint, as Brian said, it is a third of our business, 33% or so, even with some currencies that went negative on the emerging markets it is up by a full percent from 32% last year to 33%. The emerging markets in aggregate grew 16% last year, so I think this is a key part of our growth story. A big part of that growth story in the emerging markets is the geographic expansion but also the existing growth in this brand capitalising on the footprint that we have built. Again, also with opportunities to invest behind further growth, as we do more of these things that Brian just described.

Chris Pitcher: Thank you.

Victoria Nice (Société Générale): Hiya, good morning everyone. My first question is on A&P which was up 6% in constant currency in the first half and flat for the full year. Can you walk us through in more detail what was driving that and does spend step up again in the first half? Then during the presentation, Tobias flagged a reduction in retailer inventory in the US. Where was this impacting specifically, and should we expect it to continue into the first quarter? Also, you called out Oral was weak in the fourth quarter in the US. What was driving that and does that continue into the first quarter? Thank you.

Brian McNamara: Thanks Victoria. First on A&P, we are a branded consumer healthcare company so we take investment in our brands both in A&P and innovation very seriously and we are committed to it. As you look at the 2022 A&P spend, our consumer facing A&P was up 6% excluding Russia where we see stalled advertising by the end of Q2. Importantly, we saw growth in that consumer facing A&P in both the first and second halves. We continue to invest in growth and brand building. I think that investment showed up in our results where we grew or maintained share in two-thirds of the business with really consistent performance throughout the year. That numbers was what we shared for half one and it was the same number for full year results. We feel really good about that number. As we look at 2023, our plan is to invest in A&P ahead of sales growth with continued focus on areas where we see the most growth opportunities which are our Power Brands and our local growth brands. Tobias, do you want to take the second question?

Tobias Hestler: Yes, on Oral Health first of all when you look at consumption we continue to grow share in Q4, so from a sell out point of view, we continue to grow ahead of the market. Across the Oral Health business, we grew about 2x the market with some brands doing better than that. I think overall we feel good about the consumption on that. There were two impacts in Q4 as you mentioned. One is, there was some inventory reduction in US retailers.

It is very hard to predict what they are doing. Ultimately it will even out over time. We do not believe we had excess inventories anywhere, but it is very hard to say or predict what retailers are doing. I am not concerned about it going forward because the most important thing is the sell out was strong and continues to be strong. Secondly China was down. The oral health market in China was down given the lockdowns. We also think this will come back so actually we have grown share through that period as well but in a declining market. Those were the two things to keep in mind for oral health and Brian already mentioned earlier we feel good about our innovation pipeline and the continued growth in oral health overall.

Brian McNamara: Maybe, the only thing I would add is we still feel fantastic about Sensodyne. It grew single digits this year and Tobias mentioned some of the things that impacted Q4. We also grew share on Sensodyne in 2022 and the consumption remained strong. However, our overall oral health business has three Power Brands. We do not tend to talk about them as much, but they are very strong. parodontax, which is our gum health brand and Poligrip/Polident which is our denture care brand. Both of them grew high single digits on the year and both of those brands also grew share. So, I continue to be optimistic about Oral Health overall, Sensodyne within that and our ability to drive above market performance across those three brands.

Martin Deboo (Jefferies): Morning everybody, I have got some geeky ones on FX I am afraid and what lies behind the questions is I think as we get to know you, FX is becoming part of the narrative particularly on margin. If I could just unpack it a bit, I think you were saying that the margin miss for FY 2022 was driven by translational FX on margin getting a bit more adverse towards the end of the year, if I understand it correctly? I would value a bit of colour on that. Second component is this guide down in 2023 margins on transactional FX of 40 bps. Can I just understand what your transactional FX exposures are so we can just get behind that number a bit? Then thirdly net debt was better than we expected. I think because FX translation on net debt was a lot better than we expected. Again, are the hedges playing into that? Can we just understand how you are managing your FX risk on net debt? Some technical ones from me so those are the questions.

Brian McNamara: Thanks Martin and there are no geeky questions, I just want to be clear about that. One thing I would say on the leverage is this it is a big focus for us, and we feel great that we are down now at 3.6x at the end of the year. Cash flow was really strong in 2022 and we are also now confident that we will deliver ahead of our commitment of leverage below 3x by the end of 2024. We will deliver that during the year in 2024 so I just want to reinforce that point. We feel really good about that performance. Tobias, do you want to talk to the FX?

Tobias Hestler: Yes, then let me work backwards as Brian started on the net debt. Martin on the net debt in the long term we have aligned the currencies of our debt with the currencies of our earnings. We have also switched some of the debt to Chinese renminbi in Q4, which even brought that closer together by the end of last year. I think we have a good coverage, so that the FX on the debt and on our earnings are broadly aligned with each other. The FX impact on the debt for the year as you mentioned was very low. You see in the bridge I had in my deck, it was only £70 million negative between the de-merger date and year end. Of course, at end of Q3 it was a massive number given where the currencies had moved. It is a non-material movement from 18th July to 31st December on a £10 billion number.

Then let me just go through the other two questions. You asked about the 2022 miss. What we had said in November is we would expect an increase in adverse transactional FX of up to 30 bps and also we had said given the recent favourable translational movements that margins would be slightly above last year. That was at October rates. Since then, basically two things happened. One is the transactional component got slightly worse. That comes from our Swiss cost base and also there was massive volatility in some emerging market currencies where there is a mismatch in the operational versus the trading currencies. Some examples are Pakistani rupee and the Turkish lira. I think there were really unprecedented moves both in the Swiss franc and these emerging market currencies that all came together over a few months. As a result, the transactional we had was right at the top end of the 30 bps expectation that I had set. On the translational side, that impact was a bit less and that comes from stronger dollar because the dollar actually was up 5% in those eight weeks between the time we had guided and the year end. Also the Russian ruble came back up by over 25%. Those are the two things against the 2022 guidance.

Then you asked about the 2023 transactional. I think this is simply the full year effect of the effects that we had seen come through in late Q3 and in Q4 on the transactional side. They are going to hit predominantly in half one as we work through those effects. The other piece is we have historically not hedged transactional exposure at GSK. It is not a capability that we have. We have now built those capabilities so we are looking at hedging where we can. I think it will probably not be possible for the Pakistani Rupee but clearly on the Swiss Franc, we can do that going forward. I would expect once we have worked through these short term impacts, that came from half two, that these things will diminish over time going forward.

Martin Deboo: Okay, thank you.

Celine Pannuti (JP Morgan): Good morning and thank you for taking my questions. I have a few. So maybe since we are talking about margin I will start with this one. Net-net I think FX exposure is something that a group like you on a global basis are exposed to, so I think that is not new. If I look at the net benefit of FX, it was a positive of 30 bps for 2022 if I add transaction and translation together so the underlying was still down 30 basis points. My question would be why is it that the business did not manage to get margin expansion but more importantly for 2023 if you could give us a bridge on the building blocks? Do you expect gross margin to be up in 2023? If you could talk about the different moving parts that get you to a guide of 22.8. My second question is on oral care because at the time of the listing last year, that clearly has been one of your key engines for growth. Sensodyne has been growing mid-single digits, as I think about a historical double digit growth rate. If I look at P&G and Proctor in oral care, they grew high single digits last year versus mid-single digits. Is the environment becoming more competitive and is it harder for you now to outperform in oral care? Then lastly, if I just can ask one on restructuring costs. Am I right that you said there will be about £150 million restructuring cost this year and I think £100 million next year? On the separation cost is there still £100 million or can you talk about what other one-off costs we should expect? Thank you.

Brian McNamara: Great, thanks Celine. Tobias, if you start on the margin question and hit restructuring costs and I will come back on the oral care?

Tobias Hestler: Yes. Thanks Celine. Yes what you said is correct. There was a net 30 bps positive impact from currencies in 2022 but I think the reason why the margin was down I think simply comes from the fact that we have just separated out. There are two things that were not in the prior year base. One is the cost of running the company as a standalone entity and all that entails. Then secondly, the rest of the Pfizer synergies that came through. Between the two, there was a net 60 bps drag on the margin. If Haleon would have been fully standalone with all the synergies in there, the 2021 margin would have been 60 bps less. So, I think from my point of view we have delivered operating leverage in the year. It is just that the full year annualisation impact of us just having separated out that comes through. For 2023, we guided to the margin being broadly flat after taking this 40 bps of transactional impact that I just explained earlier on the call which again I think means that from an operational basis, the margin would go up. I would see how we do this pretty much with the model that we have laid out. The long-term model is that we see gross margin increasing. That comes from stronger growth in the Power Brand that drives positive mix. That gives us the freedom to invest and Brian said it earlier. We are planning to invest heavily into A&P and R&D in 2023. Then of course, you have things to work through such as the transactional losses and then secondly we have the full year impact of the inflation as we roll off the fixed price contracts. However, the flipside to that is we also get a bit more pricing as the pricing impacts are annualising.

Then on your restructuring costs yes that is correct, £150 million in 2023 and another £150 million in the following year. We will update you as the year goes as we have more colour when that hits. From that, you see you would expect to pay back the restructuring costs very quickly. On separation costs, no change to the guidance. We had said about 80% of the spend would be in 2022 and that pretty much came through with about £400 million. That was the bulk of it that came through and I think there is just some final stuff to work through as we switch all our brands to Haleon packaging and a few final separation things to complete.

Brian McNamara: Yes, thanks Tobias. Celine on oral care, and I mentioned a little bit of this earlier, first of all oral care has always been a very competitive environment and we are really confident in our strategy around therapeutic oral care which has really delivered the consistent growth and share growth on Sensodyne and across our power brands portfolio. I will not comment on anyone else's growth, but there are portfolio differences. We are not in electronic toothbrushes and that is not a place where we play per se. In the toothpaste business where parodontax and Sensodyne play, we have been consistently able to grow share and that was no different in 2022. Tobias mentioned a few of things that impacted Sensodyne in Q4 so we ended up mid-single digits on Sensodyne; 5.6% on Oral Health on the year. Again, with really strong growth on Poligrip, Polident and parodontax gum health where we also see now growth opportunities as we go forward. Listen, nothing in my mind has really changed. It has always been a competitive category. We know how to compete. Our focus and strategy in therapeutic oral health, which is a faster growing sub-segment that we have driven, we believe will continue to pay dividends for us for the foreseeable future.

Celine Pannuti: Thank you.

Karel Zoete (Kepler Cheuvreux): Good morning, thanks for taking the question. I have three questions. The first one is on your e-commerce growth and particularly in the US. In the US you grew by 7%, more or less in line with your overall growth in the US which was a bit of a surprise. What is driving that particularly in the US? In general, the incremental investments you plan, will some of those also go towards strengthening e-commerce capabilities? Then the second question is on US private label. Obviously, a bit of concern that in difficult times it might win share. Have you seen that in any of your categories? Yesterday a private label player announced to be entering the Advil Dual Action brand. How do you look at that? Then the third question on the US is for Voltaren. The brand grew high single digit last year. How do you judge that progress versus the opportunity you see for Voltaren in the United States? Thank you.

Brian McNamara: Great, thanks Karel for the questions. First on e-commerce and taking a step back, we grew in the high-teens on e-commerce overall globally. E-commerce is now 9% of our sales, which is up from 4% from pre-pandemic levels. It is a place where we feel good about our capabilities. If you look at the US, you are right that there our growth this year was 7%. Our growth in China was significant double-digit growth. In the US, the net sales growth is also impacted by movements in inventory and phasing of sales. What I will say is we are overdeveloped on 11 of our top 15 brands online versus offline. That includes Sensodyne where offline we are approximately a 20 share of the market, and online we are in the high 20s. That disproportionate share is what we really look at because that means we are winning online versus offline. We feel good about those capabilities, and we feel good about this as a channel where consumers are going. We want to be where our consumers are. We have invested in the capability and our focus is to have stronger shares online than offline. That has been our focus.

Tobias do you want to touch on the questions on the US?

Tobias Hestler: Yes, Karel, on private label when you look at the categories we play in private label shares in those categories were flat, so there is no pickup overall on private label. Now when you double-click on it, there is a brand, there is a subcategory here or there where it went up, so for example when you look at the PPI category, where our Nexium brand plays there the private label share went up. However, overall private label did not move and we gained share against private label overall in the US. As we have said before, I think not a concern. We believe even through crisis times, private label shares are staying broadly flat and last year they have stayed flat so I think this is exactly as we had expected and forecasted.

Now you asked about Advil Dual and I think this is what we expected. Depending on the route you take to bring a new product to the market, you get exclusivity. On Advil Dual we had exclusivity for three years. That exclusivity now has expired so you would expect that that private label manufacturers have three years to prepare for that. They will launch a private label usually around the time or shortly after when that happens. Nothing unusual has happened in every launch and is the normal part of our business. We are not complacent. We know ultimately the strength of our brands and the trust the brands have in resolving health needs so no issue on the private label.

Then you asked another question on incremental investments and where they go. On e-commerce clearly you see the shares are significantly different across the market. We keep investing in the market where e-commerce is not developed as much. There are opportunities as the market evolves, and we want to participate in that growth. We continue to invest not just in the US and China where it is big, but also in the other markets where it is still underdeveloped.

Karel Zoete: Thank you.

Misha Omanadze (BNP Paribas): Morning all, thanks for taking my questions. I have two. The first one is on the VMS. How do you view the prospects of this category in the near term? A number of your peers have commented on the category softening, so I was wondering what you are seeing from your perspective. The second question is on Chapstick. Recently, there were press comments that you may potentially explore the sale of the brand. Now I understand that you might not be able to comment on the validity of this report. However, could you please give us some colour on the relative size of the brand, its profitability and growth rate in recent years? Thank you.

Brian McNamara: Thanks Misha for the questions. On VMS, we feel very good about the VMS category. That said, no doubt there will be swings quarter to quarter because we take a lot of spikes in demand and when we brought on additional capacity. However, if you take a big step back, our growth over the last three years since 2019 averaged 9% CAGR on VMS which means the business is much bigger than it was pre-Covid and we saw a 5% growth this year. Now, the growth again varies first half to second half and that had a lot to do with what happened in the base when we brought on new capacity and spikes in demand. The consumer behaviour is more proactively managing their health is still there and is continuing. If we look at our VMS portfolio, and the potential, we feel great about the portfolio where we play. We think there are opportunities both in innovation and you saw that this year in our Emergen-C Kidz launch which was really successful and I have talked earlier geographic expansion opportunities in places like Middle East, Africa, Latin America and India. We see the growth opportunities. I have talked a lot about the Centrum revenue synergy opportunity which is our structure in places like Middle East and Africa is so much bigger and stronger, able to run that business through where it has been on the market but has not been invested in it has really shown good opportunity for us and we are still very optimistic about China.

Tobias Hestler: Then on your other question, I think that as Brian mentioned before as a matter of principle we are not commenting on any M&A speculation that is out there in the marketplace. As I think we put in the press release we are disciplined about looking at our portfolio which is about exploring bolt on M&A opportunities but also and you would expect that from us as a consumer company with a large number of brands to also be disciplined to look at our portfolio and how we invest in our brands. This is what we have done. We have done that successfully in the past and we are continuing to do that.

Then on your Chapstick question we are not commenting specifically on any brand. I think there is a note somewhere in the press release about skin health which has grown slightly but we are not commenting on individual brand performance.

Question: Understood. Thank you very much.

Graham Perry (Bank of America): Great, thanks for taking my questions. The first one is on the Nexium Prevacid settlement. Can you give us a reminder of how many cases you had outstanding there and then how many of those have been settled? Can you confirm that the cost of that has all gone through the SG&A line in the £44 million adjustment to IFRS on page 26 of the release? Does that provision anticipate further settlements or is it just those that you have actually settled to-date are included in there? Then the second question is on interest and tax, just the guide in 2023, they look worse than where consensus was coming out. Can you just help us to understand the phasing of interest expenses through the year as you manage the balance sheet with debt repurchases being announced as well? On tax, is the 2023 guide a good mid-range guide as well for your tax rate going forwards or are there other mix or tax benefit effects that could improve that over time? Thank you.

Tobias Hestler: Good, thanks Graham. On the Nexium settlement, first of all on the number of cases there is around 3,000 cases. We settled the vast majority of those. As in every settlement, there might be a very small amount where participants might not choose but we expect that the vast majority get settled. Overall, we feel good about this settlement and the reason we do is I think it was a non-material amount. The settlement terms are confidential but as you have pointed out on page 26 of the press release that is where it has been booked and accounted for, which ultimately means that it is a non-material amount for us. I think it is good to have this out of the way. However, yes there could be another single case here or there, but we expect those to be totally non-material as you would have in every settlement.

Then you asked about the tax outlook. A key driver is the UK government announced a tax increase and enacted it, so that is the biggest step up. Then also at half year, we had said that we will be taxed on a different US state tax mix. The reason is in the past when we were part of GSK, our US state taxes were done based on the profit and the sales and the business mix that GSK had in the US overall. I think now we have to look at what the Haleon mix of business is across the state tax, and there is a small increase on the US state tax mix as a result of that. Those are the two reasons, one separation related and the other one, the UK government decision.

Graham Perry: Thanks and interest charges the phasing through the year and do you expect to see that managed down through the course of the year?

Tobias Hestler: No on the interest charge; I think one you have the annualization impact so that is why the step up is there which I had laid out in my comments in Q3. Overall, 87% of the debt was fixed by the end of the year, so you would expect that we first pay down the floating part. I would expect that rates should continue to decrease. The risk on the floating part is very, very small so I am not concerned about that. Then of course, as we pay down the debt you would see then also the interest charge come down. However, you have to take the annualisation impact of that, because there were no interest expenses in Q1 and also in the first half last year we had interest income because we paid back the £9 billion of bonds we had taken to GSK and Pfizer and that will not be there in 2023 anymore.

Graham Perry: Great, thank you.

Alicia Forry (Investec): Good morning everyone. I was wondering if you could talk about whether you feel you have any additional levers to address some of these transactional FX mismatches besides simply hedging? Now that you are a standalone business are there opportunities to change where certain costs are located? Then second question is, I wonder if you could discuss your expected evolution for some of the cost components for FY 2023? I know you have touched on A&P but a bit more colour on what you are seeing with regards to conversion costs, freight costs, distribution costs, etc. Thank you.

Tobias Hestler: Good, so let me start on your hedging question. It depends a bit on where they arise. I think on the Swiss franc cost base hedging is the best path forward. Overall, we benefit as a company from having a Swiss franc base, having a big part of our IT there so it helps on the overall tax charge and the overall tax moves. I think having that presence in Switzerland is actually helpful for the company overall and we can remove some of the shorter impacts by using a hedging approach. When you look at emerging market currencies for example in Pakistan, we have a local production site so we already manufacture locally but there are still components that you have to buy outside the country because they are not available inside the country. There is probably less you can do about those, so I think there is a small exposure on that, That is probably the bigger things of what happened on the hedging side.

Then you asked about the cost component. More broadly, I think we are seeing a flattening of material costs. We are also seeing a slackening or come down on freight and distribution costs. Now, what we will have in 2023, as we switch from fixed price contracts, that we had locked in for 2022 into the new pricing for 2023 is still a step up, but that step up is in the single digit versus in the double digits as it was in 2022. Against that, of course we have the annualization impact of the pricing to cover that. Then we will see, and we will track where the inflation headwinds are going and ensure with our suppliers, that if it goes positive then we can also participate in that. I think there is at least one big component, glycerine for us where we are starting the price has come down. That is where we have chosen not to take a fixed price contract. We believe we are seeing it reduce. I think the situation is still volatile out there so we will stay vigilant in that as we look into it. Then I think from a freight point of view I would expect those will come down over time.

Tom Sykes (Deutsche Bank): Morning everybody. Firstly, just on cost inflation could you give some comments on cost inflation and in Q3, you said you were renegotiating some of your contracts with manufacturers, third party manufacturers and looking at fixing some freight costs. Any timing of any cost relief over the course of the year would be helpful. A follow up on the tax rate question, as you have more emerging market growth, is that going to pressure upwards the tax rate on a net basis at all? Sorry, a final one on FX. Is there much revenue where you are invoicing in a currency which is different to that which you are calculating the organic growth in please?

Tobias Hestler: Good so let me start with the last question. The organic revenue growth is fully currency adjusted so the organic growth is a true organic growth rate removing all currency components. On the tax rate question, the emerging market mix does not drive up our tax mix dramatically. I think most of our countries are what you would call limited risk distributors, so I think they have normal local distribution margins, where our intellectual property sits: in the UK, Switzerland and the US. From that point of view, our biggest tax exposures are to the Swiss rate, the US rate and the UK rate. I think those have the biggest impact and given those movements, that is also why you see the tax rate overall go up.

Then on cost inflation, where we are this year, we are around 70% on the materials where we have fixed agreements done so we have good visibility on those. On some we consciously decided not to take it given we believe the costs will come down. As you would expect the expiry of 2022 contracts to 2023 means there is a step up in cost that starts coming from the year and then you need to see if we are moving into a much more beneficial environment in half two or not, then we will ensure that we are able to participate in that. Clearly more broadly, we do not see the same pressures in 2023 compared to what we have seen in 2022 where I think everything came together on commodities, on energy, on transportation and on freight. From that point of view, I think we are seeing a lower pressure overall.

Brian McNamara: Great, I think we will close out here. Thanks everyone for joining today and your interest in Haleon. As I said in my presentation, 2023 has started well. I look forward to updating you as we go through the year. As always if you have any queries, questions or follow ups please let Sonya and the IR team know. Thanks, and have a good day.

[END OF TRANSCRIPT]