Haleon H1 2025 Results

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Brian McNamara

CEO, Haleon

Introduction

Hello and welcome to our Half Year Results presentation. We're continuing to make real strides in transforming Haleon into a world-class consumer company with an agile, performance-focused culture. I'll come to the strategic progress we've made, but I'd like to start with an overview of our first half results.

H1 Performance: Key Messages

In challenging market conditions, we delivered 3.2% organic growth, with good performances across EMEA & LatAm and Asia Pacific. That progress was partially offset by a weak US consumer and retailer environment that impacted our performance in North America.

We continued to make strong progress against our productivity agenda. That resulted in 9.9% organic profit growth, with continued investment in A&P and R&D to support our brands and categories.

At the same time, 58% of the business either gained or maintained share. That's a good performance, demonstrating that our brands are continuing to resonate with consumers.

While we expect our group organic growth to improve in the second half, North America is likely to remain challenged in the near-term. We therefore expect fiscal year organic revenue growth to be around 3.5%. I will cover North America in more detail shortly.

Our confidence in the continued delivery of our productivity agenda means we are today increasing our organic operating profit growth guidance to high-single digit for the year.

Dawn will give you more detail on our financial performance shortly. But first, I'll talk about the progress we are making against our Win as One strategy that I outlined at our recent Capital Markets Day and about the confidence it gives us in our medium-term guidance

Win as One

Win as One is all about how we'll go after the opportunity ahead to realise Haleon's full potential. As part of that, we set out two ambitions as we move into our next phase:

- To reach one billion more consumers by 2030 and
- To generate industry-leading shareholder returns

Three Strategic Priorities

We will deliver those ambitions through our strategic priorities: Growth, Productivity and Culture. Today, I'm going to focus on two of these strategic priorities: Growth and

Productivity. I'll talk more about the progress we're making in our cultural shifts at full year.

Starting with growth where we have three significant opportunities.

Closing the incidence vs treatment gap: *Otrivin* Nasal Mist

First – closing the incidence versus treatment gap.

We talked about *Otrivin* Nasal Mist, our nasal decongestant brand at Capital Markets Day. Today, 65% of consumers in our key markets suffer from nasal congestion, but only half of them treat their symptoms. We've launched *Otrivin* with an innovative mist dispenser, giving consumers a more comfortable experience and helping to drive mid-single digit growth for *Otrivin* in the first half.

We've taken this new format to eight markets so far and we expect to take it to 18 by the end of the year, including the US and Italy. In fact, by the end of 2025, we will have reached nearly 50% of the global nasal spray market. That's up from 10% last year, and by the end of 2026 we will have taken it to 26 markets.

So far, we've seen encouraging results in all the markets where we've launched, and we have achieved an average market share increase of 0.5 points. In the UK, one of our initial launch markets, we've also seen significant penetration improvement. Today over 50% of users are new to the brand and we have strong repeat purchase rates.

Innovation-led premiumisation: *Sensodyne* Clinical Platform

Second: Innovation-led premiumisation and *Sensodyne*, which once again outperformed the market. Here, 45% of the population suffer from sensitive teeth, but only one in three of those use a sensitivity toothpaste.

With *Sensodyne*, we are focused on building long-term platforms for growth. Over the past year we launched our new *Clinical Platform*, designed to deliver clinically proven and expert-recommended solutions for consumers.

The platform now includes three products: *Clinical White, Clinical Repair* and *Pronamel Clinical Enamel Strength*. These three products are supported by 11 clinical studies which validate the claims and benefits of the range.

And all three are performing well, supporting high-single digit organic growth for *Sensodyne* in the half, as well as market share gains.

In the US, our largest market for *Sensodyne,* we have grown our share by over 50bps in the last six months. That's a direct result of our Clinical Platform, which we launched with *Clinical White* last year, and *Pronamel Clinical Enamel Strength* at the start of this year. This has solidified our leadership in the global therapeutic oral health category and there is more to come.

- *Clinical White* is now in 17 markets globally and we expect to take it to 21 markets by the end of year

- Similarly, *Clinical Repair*, our "Best Sensitivity" innovation that we launched in 2024, is now in 16 markets and will be in 21 markets by end of this year
- And finally, we will take *Pronamel Clinical Enamel Strength,* our new innovation launched in the US, to more markets in 2026

So, we're very confident that the *Clinical platform* and our pipeline will give us a long, multi-year runway of growth for *Sensodyne*.

Lower Income Consumers

And finally, we're also driving penetration among lower income consumers. By that, I mean all consumer groups outside the highest income bracket. We're doing that in two ways:

- Growing the reach of our current portfolio through our route to market and,
- By innovating for lower income consumer needs

India is a good example of how we are expanding our route to market and leveraging our local knowledge and presence. During the half, we have more than doubled our direct coverage of small towns. By doing that, we are driving strong distribution for the Rs20 *Sensodyne* pack we launched last year. And that's supporting strong double-digit growth for *Sensodyne* in India during the period.

We're also innovating to develop new and more tailored offerings for lower income consumers. In April, we launched *Centrum Recharge* in India. This new product taps into the need for affordable multivitamins that focuses on energy and are priced at Rs10. Consumer feedback has been strong.

In the Philippines, we're focusing on the wellbeing of children in lower income families through *Centrum Kids,* cementing *Centrum's* number one position in the country.

And we have a strong forward pipeline of other lower income offerings to come in the next 24 months.

Productivity

I'd now like to look at our productivity agenda, where we have a real opportunity to increase gross margin.

The work we've been doing over the last couple of years is delivering strong results. Our organic gross profit was up +5.7% in the half. In turn, that drove +160bps of gross margin expansion, giving us capacity to continue to re-invest in the business with strong investment in A&P and R&D.

This resulted in organic operating profit increasing by +9.9% in the half and margin up +140bps.

At our Capital Markets Day, we talked about the multiple initiatives underway in our supply chain to drive stronger gross margin. I'll give you some specific examples of the progress that we've made so far.

One of our goals is to reduce our SKUs by 30% over the next few years. We’re well on our way to achieving that, with our SKU count down by 16% since the beginning of 2024.

We’re also reducing our formulations by 25-30%. We are well on our way towards reaching that goal.

Let’s bring this to life by looking at our site in Levice, Slovakia. Here, we have reduced the number of formulations by 25% in the last two years. At the same time, we’ve increased volumes by 25%, as we transition production from Maidenhead which is driving material savings.

And we’re also looking to optimise the use of contract manufacturers against what do we do in-house. Over the last two years, we have reduced the number of contract manufacturers by 13%.

These are only a few examples, but they all support our confidence in driving gross margin which underpins our upgraded profit guidance for this year. We look forward to sharing more on our progress at full year.

North America

I’d now like to come back to North America.

As I mentioned, the US market environment has become more challenging than we expected, with consumers cautious around spending.

We are also seeing channel shift from Drug to Dollar and Club. While we have strong positions in both those channels, this shift is causing some short-term volatility in inventory dynamics, where retailers are tightly managing working capital.

Our consumption is slightly up in the second quarter, against a market that declined by around half percent. In that context, Oral Health continues to perform well, driving strong share gains. But we also saw seasonal weakness in allergy, as well as more difficult trading conditions in Smokers’ Health.

Against that backdrop, we’re focused on increasing our competitiveness as we expect the market to remain challenging in the near term.

To do that we have taken clear, deliberate steps to return our North America business to stronger growth.

Over the last quarter, we’ve made important leadership changes, including appointing a new President for North America, who has deep consumer experience and a track record of strong execution.

We're also driving improvement with *Advil* and *Centrum*.

Advil has already started to show a recovery in share towards the end of the quarter, and we’re building on that performance with a new campaign that’s just gone live. Early feedback from consumers has been very positive.

And with *Centrum*, we're launching a number of product innovations with improved formulations and consumer experiences as well as activating new promotions in the back half of the year.

In short, the priorities are clear and we and we are moving at pace to improve our performance. I'll now hand over to Dawn to run you through the first half results in more detail.

Dawn Allen

CFO, Haleon

Thank you, Brian. Good morning, everyone.

We've made good progress in the first half, despite a more challenging environment in the US. The key highlights are:

- Continued outperformance on Oral Health
- Good, balanced growth across EMEA and Latin America and Asia Pac
- +9.9% increase in organic operating profit to deliver operating margin of 22.7%, in line with the prior year
- +160bps organic improvement in gross margin, well ahead of our 50-80bps target
- High quality earnings, with continued healthy investments in A&P and R&D
- Excellent cash performance, with a 17 day reduction in our working capital cycle vs H1 2024, and flat vs the end of last year.

Now let's look at the half in more detail.

Revenue Growth

Revenue grew +3.2%, with +2.4% from price and +0.8% from volume/mix. Price growth came from all regions.

And on volume/mix we saw a step up from Q1 in EMEA & LatAm and Asia Pac to drive a more balanced price, volume/mix, with Asia Pac delivering 2/3rd of its YTD growth from volume.

A 9% devaluation of US dollar against Sterling in the last four months, as well as the impact of divestments last year from *ChapStick* and non-US Smokers' Health impacted reported revenue, which declined (3.8)%.

Moving to operating profit.

Organic Profit Growth

Organic operating profit growth was strong at +9.9%, +140bps improvement.

This enabled us to offset translational FX and divestment headwinds to maintain adjusted operating margin of 22.7%.

Looking at the drivers in more detail.

Income Statement

The main driver of operating profit growth was gross profit up 160bps, significantly ahead of our target of 50-80bps.

Pricing to offset inflation and benefits from the supply chain productivity programme were the key drivers of gross margin expansion.

At our Capital Markets Day, we shared a significant opportunity in supply chain productivity savings, which we expect to result in £800m of gross savings over the next five years.

In the near term, we expected savings to come from complexity reduction and operational excellence. These areas, alongside procurement savings, have been the key drivers of savings in the first half.

The increase in gross profit has provided flexibility and agility in the P&L to enable us to continue to invest in A&P and R&D to drive growth.

A&P spend increased +6.8% to 20.8% of sales as we continued to invest in our brands, geographic expansion and new product launches. We continue to focus on maximising the effectiveness of our spend, improving our ROI by +4% vs the prior year.

R&D spend was up +9.1%, as we maintained and improved the superiority of our brands to drive growth. This increase was focused across key innovation areas, scientific evidence generation for new and differentiated claims, as well as digital enablement.

Across SG&A, we continue to drive end to end process simplification and cost discipline. We are on track to deliver and complete our £300m productivity program this year that we announced in 2023.

Let’s now look at the growth drivers, starting with the categories.

Resilient portfolio delivering growth

As Brian mentioned, Oral Health continues to deliver strong growth, up +8.7% in Q2 and +7.6% for the half. Growth was underpinned by innovation-led premiumisation and geographic expansion. The key drivers of this growth are:

- Double-digit growth in *Sensodyne* during Q2, led by innovations including the *Clinical Platform* as well as expert recommendations, which reached a multi-year high for the brand
- *parodontax* also continues to deliver double-digit growth driven by innovation and our launch in China
- We are confident in our strong runway for future growth in Oral Health, underpinned by a strong innovation pipeline and further geographic expansion

Moving to VMS where *Centrum* outside of North America performed well, at high-single digit growth in Q2. Key highlights are:

- Premium innovations including *Centrum Daily Kits* in China and Korea
- And expanding reach to lower income consumers with *Centrum Kids* in Philippines and *Centrum Recharge* in India

- Overall VMS was up +0.9% for both Q2 and the half, impacted by underperformance of *Centrum* in US

In Pain Relief, we grew +2.5% for both Q2 and the half. The key highlights are:

- Market outperformance in *Panadol* due to the launch of *Dual Action*, a combination of paracetamol and ibuprofen, which uses the technology of *Advil*
- And improving consumption in *Voltaren*. This was supported by the launch of new format patches and the roll out of systemic *Voltadexibu* in Germany and Italy. This leverages a new API that provides effective treatment with a smaller dose
- And finally, we saw continued strong performance of local brands such as *GrandPa* in South Africa

Respiratory Health was up +1.9% in the half excluding the impact of US Smokers' Health.

A good performance on *Otrivin* driven by *Nasal Mist* bringing new users into the spray category. This was offset by a softer allergy season in US and China and weakness in US Smokers' Health. Overall, this resulted in a decline of (2.0)% in Q2 and (0.5)% for the half.

Theraflu was up double-digit as we lapped the inventory reduction from PE containing products in the US last year.

Digestive Health declined (2.8)% in Q2 and (0.3)% for the half……. Driven by high-single digit growth on *Tums* thanks to the activation of the *chewy bite* innovation and mid-single digit growth on *Benefiber* from our *Grow what feels good* campaign.

Both of which were more than offset by a negative phasing impact from *ENO* and a decline on *Nexium*.

And finally, Therapeutic Skin Health & Other grew +6.1% in the half and +2.5% for Q2 due to growth in *Fenistil* and *Zovirax*.

Turning now to the regions, starting with North America.

North America

The US market has been more challenging than we expected. As Brian mentioned, we saw a sequential slowdown in consumption from Q1 to Q2, from +3.2% to (0.4)%. This was largely driven by:

- A deterioration in consumer confidence
- Retailer destocking and
- Channel shifting as consumers seek more value

Against this, we grew ahead of the market by +70bps in the second quarter.

Growth was driven by:

- Oral Health innovation, expert recommendations and successful activations such as 'gum expert' on *parodontax*
- *Tums* was driven by the good in market execution of *Tums Chewy Bites* and
- *Theraflu* benefitted from favourable comps versus the prior year

These were offset by a weaker allergy season, Smokers' Health and *Centrum* performance challenges

Overall, this resulted in revenue decline of (0.4)%, with pricing +0.2% and volume mix declining (0.6)%.

In North America, we delivered adjusted operating margin of 20.7%, up +80bps on an organic basis versus the prior year. In this region, we delivered adjusted operating margin of 25.3%, up +160bps organically versus the prior year.

EMEA and LatAm

In EMEA & LatAm, we delivered a good performance, sequentially improving our growth rate on Q1 and returning to volume growth.

For the half, revenue grew +5.2% with price up +4.7% and volume/mix up +0.5%.

Growth was driven by:

- Innovation to drive premiumisation, including the *Clinical Platform* in *Sensodyne*, *Pronamel Kids* and *Voltaren* patches
- And by continued strength across the pharmacy channel

Looking across the region, we saw resilient consumer confidence in Europe and a more challenging picture in LatAm, where the consumer environment has been weaker particularly in Brazil and Mexico, due to a more uncertain geopolitical backdrop.

In this region, we delivered adjusted operating margin of 25.3%, up +160bps organically versus the prior year.

Asia Pacific

Finally, in Asia-Pac, we saw an acceleration in growth in Q2 to +5.9%, with 2/3 of the growth coming from volume. We continue to drive category growth and broaden our reach to lower income consumers.

Revenue grew +5.0% for the half, +1.7% from price and +3.3% volume/mix.

India had close to double-digit growth in the half driven by:

- Expanded distribution across rural communities
- *Sensodyne* Rs20 pack and *Centrum Recharge* innovations
- And excellence in execution

We expect growth in India to accelerate in the second half from a continued focus on execution and an improved macro environment thanks to government stimulus.

China also saw good, mid-single digit growth, with strength in Oral Health and VMS underpinned by innovation and distribution build. Our e-commerce business is a particular highlight, which is over one third of revenue and is growing high teens. We are working at pace to integrate the China OTC JV, where we are realising the benefits of both flexible manufacturing and a more efficient route to market.

South-East Asia and Taiwan also performed well with strength across *Centrum* particularly in the Philippines, and in Denture Care where we are driving penetration.

In Asia-Pac, we delivered adjusted operating margin of 23.3%, up +130bps organically versus the prior year.

Let's now look at the second half of the income statement.

Adjusted EPS Growth

Adjusted diluted EPS grew +2.2%. In addition to the operating profit drivers I have already outlined, EPS growth also benefited from:

- A lower net interest charge, driven by debt reduction and favourable foreign exchange on US dollar denominated debt
- Lower non-controlling interest, following our purchase of the China JV and,
- A lower share count following the repurchase of our shares over the last year

As a final point, our adjusted effective tax rate was 24.4%, in line with our guidance for the full year.

Adjusting Items

Turning now to adjusting items, which were significantly lower than last year, at £40m. The key items included:

- A net amortisation and impairment charge for intangible assets of £26m
- Restructuring costs of £26m, relating to the £300m productivity programme and the closure of the Maidenhead site
- And a £12m credit largely related to the recovery of a balance from legacy operations in LatAm

We have not yet incurred any of the one-time costs associated with the supply chain productivity programme we shared at Capital Markets Day. Turning now to cash.

Strong free cash flow generation

Haleon is a highly cash generative business. We delivered £734m of free cash flow in the half, which after stripping out the net proceeds from the divestment of *ChapStick* last year, was £184m more than the prior year.

At Capital Markets Day, we highlighted a significant opportunity in working capital, and set a target of 30% reduction in our working capital cycle over the next five years. We have made good progress versus last year.

With a 17 day reduction in our working capital cycle vs H1 2024 and flat vs end of last year. This came from more efficient freight and improved operational efficiency in our plants.

Other contributors to the improvement in cash flow were:

- £106m lower restructuring costs

- And £66m, in total, from a combination of lower cash interest and dividends to our China JV partner

On Capex, our intention is to spend to on average 4% of sales over the next three to five years, as well as a shift in the nature of spend to be more weighted to growth and productivity compared to maintenance.

In the half, Capex increased from 2% to 2.4% of sales, with a higher weighting of spend towards growth and productivity.

Moving onto leverage.

Net debt reduced

Net debt reduced by £187m in the half, keeping leverage flat at 2.8x net debt/adjusted EBITDA. This reduction was driven mainly by translational foreign exchange gain on our US Dollar bonds.

Our free cash flow was invested in:

- £174m in acquiring the remaining 12% stake in the China Joint Venture
- c.£370m on share buybacks
- And £415m on dividends

We also repaid from cash the $1.75bn bond that matured in March this year. Our next major maturity is the €850m bond due in March 2026. As a reminder, around 75% of our bond debt is currently at a fixed rate of interest.

Capital Allocation

We have a track record of disciplined capital allocation.

Our priorities are focused on investing for growth, bolt-on M&A and returning excess cash to shareholders.

All of this is underpinned by our strong investment grade balance sheet.

In line with our policy, to pay one third of the prior year total dividend at interim, the Board has declared an interim dividend of 2.2p per share, a 10% increase on the prior year.

Now, let me turn to our outlook for 2025.

FY 2025 Guidance

We are upgrading our profit guidance to high-single digit organic profit growth for the year, given our strong progress on productivity initiatives.

In EMEA & LatAm and Asia-Pac we expect to see an improving trend in revenue in the second half driven by innovation, distribution build and macro-economic improvement. Given the weakness in the US, we no longer anticipate an improvement in the second half. We therefore expect our full year organic revenue growth to be around 3.5%.

Conclusion

So, in summary, we delivered strong operating profit and cash.

We continue to build flexibility and agility in our P&L by unlocking productivity savings. This allows us to invest in A&P and R&D to drive growth.

Overall, this will drive operating leverage, strong EPS growth and free cash flow generation.

With that, I will hand back to Brian.

Brian McNamara

CEO, Haleon

Conclusion

Thank you, Dawn.

So to sum up, we've delivered a good performance in EMEA & LatAm and Asia Pacific in the half, that was partly offset by a more challenging environment in the US. And we continued to make significant progress against our productivity agenda, driving strong profit growth.

I remain confident in the opportunities we outlined at our Capital Markets Day, and on our medium-term guidance of 4-6% annual organic revenue growth with high-single digit adjusted operating profit growth at constant currency.

Thank you for your continued support and interest in Haleon.