Haleon Q3 2026
Trading Update Q&A

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Introduction

Jo Russell

Head of Investor Relations, Haleon

Welcome

Good morning, everyone. Welcome to Haleon's conference call for our Q3 trading statement. I am Jo Russell, Head of Investor Relations. I am joined this morning by Brian McNamara, our Chief Executive Officer, and Dawn Allen, our Chief Financial Officer.

Disclaimer

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 to actual results to differ materially from those expressed in or implied by such forward-looking statements.

We have posted today's presentation on the website this morning, along with a video running through the results in detail. Hopefully, you have all had the chance to see that ahead of this call.

With that, I hand back to the operator and we can open for Q&A.

Q&A

Guillaume Delmas (UBS): I have got two questions, please. The first one is on Q3. Brian, you talk about a quarter that was below your expectations. Maybe can you walk us through the key areas of softness that you are unhappy with versus what is more like temporary adverse effects that should correct relatively quickly? And I guess, Brian, if you could shed some light on how you are addressing these pockets of weakness and how quickly you think you can fix them.

My second question is on your outlook for the year, because it does seem to imply a fourth quarter organic sales growth, quite similar to what you just reported in Q3. Now, appreciate Brazil, Centrum in China will be headwinds. But I thought a favourable comparator, we have a good start to the cold and flu season in the US, and some continued operational progress, particularly in North America. All that should also come through in the fourth quarter numbers. Or maybe is it just like you being purposely cautious only one month into the quarter? Any colour on the Q4 building blocks would be great. Thank you.

Brian McNamara: All right. Listen, thanks, Guillaume. Listen, I am going to start with the full year outlook, and then I will come back to Q3. I may ask Dawn to also make some comments.

First of all, let me say I get it and understand that the full year guidance is a disappointment. Let me first talk through the moving pieces in Q4, and then I want to give a little bit of bigger picture perspective on the business and where I think things are at, and then I can come back through Q3, Guillaume.

Listen, on Q4, fundamentally, we believe the interventions we are making in North America are having an impact. We see that in Oral Health, we see that in Centrum, we see it in places across the business.

Well, there is one area that has taken longer than expected, and that is in Pain Relief. We have competitive launches in Q4. We do expect we are going to have an impact in Q4. We want to be transparent about that. We have our own innovation launching at the end of the quarter that we believe is going to set us up for much stronger performance in 2027, but it is going to be a drag in Q4.

Also, if you look at North America, in Q3, we had double-digit growth on Oral Health, on Sensodyne. Listen, the business is doing incredibly well in North America. We do not expect continued double-digit growth on Sensodyne. Would not expect it, do not need it going forward. We also are lapping a price increase in Q4 last year.

Then if I look across the businesses, India continues to drive mid to high teens growth. That will continue. Middle East, Africa, mid-single-digit growth. Europe continue to be challenging.

Now, we mentioned the two factors, the classification change for Centrum OTC in China. That will have an impact on Q4, and the change to the go-to-market model in Brazil, in Latin America in Q4.

Now I want to be clear. This is something we had planned in doing in 2027. Given the tax change that is happening towards the end of the year, we decided to pull that forward. It is going to have an impact on the full year. It will set us up for high single-digit, double-digit growth in Latin America in 2027 in a sustainable way.

Now let me touch base on cold and flu. Clearly, cold and flu in the past four weeks are up in the high teens from a category perspective. We are slightly ahead of that. We fully expect that the category will grow in Q4, but we are four weeks in. I have been associated with this category a long time, and it is very hard to predict what is going to happen. So we do not know what is going to happen going forward, but we do know that we will grow versus a year ago in North America.

Now, perspective, it is 30% of our business in the US. So 70% of our cold and flu business is outside the US. Frankly, to-date, we have not seen the season start. It has been slightly down. It varies market to market, to be honest with you, but it has been slightly down. So we are expecting at least flat versus a year ago and potentially some growth, but we have not seen anything to indicate the season is here yet as we look at the guidance. So we are calling it, as we see it, where we are standing today on the full year.

Now maybe just taking a step back for a second. If I think about all the changes that we are making on the business, I fundamentally believe we are doing the right thing and they are the right changes. Now they need to translate to growth, and I am very clear of that. The operating model changes we are making are right, and I am seeing proof points and benefits. We started in North America, and we have seen the changes in North America help really strengthen our performance there. Not declaring victory, still have work to do.

If I am honest, it is probably taken a little longer and it has been a bit more disruptive than I would have expected. For perspective, we are rewiring the company. We are changing

innovation. The way we are doing innovation, I believe that is going to have a positive impact on 2027.

How we are doing commercial execution, our marketing model. We have significantly improved how we are engaging with consumers, how we are driving commercial execution with the latest tools and technology we put in place, how we are doing resource allocation. I believe all those things as we go into 2027 is going to help us change the trajectory of the business and strengthen the growth of the business, but they have not yet played out yet in full force. Everything we are doing is in train, and will get embedded as we go forward. And we are acting with extreme urgency and pace to make sure we get those things in place.

Maybe we step back to your question on Q3. Listen, you have seen the couple one-offs. Obviously, we do not like the one-off, Centrum OTC classification issue, and the cold and flu category down versus a year ago. The comment you asked me, and I will ask Dawn to talk more about Q3. But I think you asked me what are the other things that may be below my expectations. I think I made that comment in my last question. The operating model change, is the right thing to do. We are heading in the right direction. It has taken a bit longer to do.

Maybe, Dawn, I give you the Q3 perspective.

Dawn Allen: Thanks, Brian. Hi, Guillaume. In terms of Q3, let us just be clear, Q3 was below our expectations. What were we expecting? We were expecting North America to strengthen, emerging markets to accelerate, and Europe to remain challenging.

What have we seen? North America did not strengthen as much as we expected. That was due to low cough, cold and flu consumption, down high single digits in Q3, which reduced shipments. That had around a 40 basis points to 50 basis points impact on the Group.

In terms of emerging markets, we did see an acceleration, double-digit growth in India. We saw MEA back to high single-digit growth. In China, a strong underlying growth, high single-digit, but that was impacted by the Centrum OTC raw material classification issue, which was around 50 basis points on the Group.

In terms of Europe, Europe did remain challenging. Our portfolio remains resilient in that backdrop, but units are down mid-single-digit from a category perspective in Q3.

Overall, as I said, Q3 below our expectations, and Brian talked about the actions that we are accelerating and moving at pace to drive stronger growth moving forward.

Warren Ackerman (Barclays): Can we go back to this China thing? Just a bit unclear on this. When did you know about this change in the classification between OTC and food grade ingredients? It sounds like it is going to continue into Q4. It sounds like you thought you could have a fix to it, but then there was no fix. What changed in your discussions with the Chinese authorities? How long is it going to take to actually get a proper solution for this? Because I guess this is the new news today.

Secondly, just on the longer term guidance, Brian. Given the print this year, I know it has been a perennial question, but was there any thinking at the Board level just to get that guide down in the medium term? Because clearly bridging from 2.5% to 4% to 6% looks even tougher.

Brian McNamara: Thanks, Warren. Let me start with China, and give you a sense of what happened and what we knew and what we see going forward.

First of all, let me say we do have a strong business in China. It will continue to be a key growth driver for us. But this is going to have an impact. Centrum is roughly 30% of our Chinese VMS business. The way it works in China on VMS is some things are classified as over-the-counter and some things are classified as food grade.

OTC Centrum is about half of our Centrum business in China, and it is distributed through pharmacies. OTC-classified products cannot be sold on DCOMM, things like Douyin and regular DCOMM. If you look at the two businesses, our China OTC business and our Centrum OTC business, and our Centrum health food business, health food business is roughly 90% on DCOMM, growing pretty healthy double digits. The Centrum OTC business has been more of a flat kind of growth business.

Now, we, over time, have been shifting our portfolio from OTC to health food, so this business looked very different five years ago, where it was a vast majority in OTC. We continue to drive that.

We were in discussions with the Chinese health authorities over the summer through mid-September kind of timing. As you can imagine, as we are having conversations with health authorities, they are quite sensitive, and actually we are quite sensitive to sharing any specific discussions we have had with the health authorities in China.

What became clear towards the end of the quarter is that there is not going to be a short-term solution for this. Frankly, we do not see, as we sit here now, necessarily a solution in 2027. So we are working to mitigate the issue. It is not a safety issue. It is not a quality issue. There is no issue like that, which is why we felt like we could come up with a resolution. We are working to mitigate it really by driving the portfolio we have in China and making some portfolio changes.

We are launching Benefiber in China in Q4. We have accelerated that launch because that is another e-commerce opportunity for us. So we are doing everything to mitigate, but the reality is we do not have a path to get back to market at this point in time. So our assumption is this will also go through 2027.

Yes, on the long-term guidance. Thanks for the question, Warren. Listen, I fundamentally believe this is a business that should be able to grow in that 4% to 6% range. Now we have not done it for a couple of years, so I understand that that raises a very big question, and we need to improve.

Fundamentally, we have been dealt with categories that have been slower-than-expected. We are taking very clear actions, by the way, that should not only accelerate our growth, but also accelerate category growth. We are taking those actions to do it. I talked about some of that. We revamped our innovation programme. We are revamping our marketing model, how we do commercial execution. All this is part of the new operating model that we are putting in place.

At this point in time, I still believe this is a business that can do it. We have great brands and great categories. We need to demonstrate that and prove that to everybody. Now, as we look at going into next year, I fully expect the changes we are making will give us stronger growth and improved performance in 2027.

David Hayes (Jefferies): Question for me just on the margin and the reinvestment plan. The profit guide is held today, even though obviously sales growth has been below your expectation,

to your point. Where is that coming from in terms of the gross margin holding up? Is it quicker and deeper cost saves that are more than compensating? Or I guess the question will be, is there an A&P spend change in the plan that means profit is still coming through?

Then looking into next year, in terms of the profit outlook, if we are assuming a 3.5% top line growth with some of those adjustments that you have called out just now in terms of the impacts going into the year, where do you think the margin could end up next year? Does it still go up, or do you plan, to pick up on your last point, Brian, about the category acceleration and your acceleration here. Will you be spending more in pricing and brand investments to try and get that volume growth to step up? Does that mean the margin guide mid-term might be a little bit more lumpy over the next few years?

Brian McNamara: Thank you, David. I will pass that to Dawn. Dawn?

Dawn Allen: Yes. Thanks for the question, David. First of all, let me talk about this year. I will just start off by saying we continue to invest to drive growth in this business. We invest A&P at a healthy level, and we are also investing A&P ahead of revenue growth.

The second thing to say is we continue to see strong progress from our supply chain productivity programme. We saw that in the first half of this year. We expect that to continue through the second half. That will cover the on-costs that we are seeing for Middle East this year. In addition, we also have the start of the operating model change savings as well.

When you look this year, full year, as I said, we continue to invest. In terms of consensus, adjusting for flat FX for this year, then I am comfortable with consensus in terms of margin this year.

If we look to next year, obviously, lots of moving parts in terms of inflation, in terms of COGS. The situation is volatile, it is uncertain. That is about scenarios and ranges rather than definitive numbers. Our objective is to mitigate that on-cost, primarily through productivity savings, both supply chain and operating model savings and we will also look to optimise price pack architecture as well. As I said, there are lots of moving parts, but that would be our objective.

The other thing I would say, when we look to next year, we are focused on driving progress in terms of top line performance, and so we will continue to invest at healthy levels in the business. Obviously, when we get to full year results, we will provide specific guidance on the year.

Jeremy Fialko (HSBC): A couple questions from me. In the prepared remarks, you referenced some of the changes in UK execution and also US revenue growth management, which you are rolling out to other geographies. Is there any way you can perhaps quantify or spell out the benefits you have seen from those?

The second question is on innovation. Again, if there is any way you can perhaps give some colour as to how much greater or how much bigger the innovation pipeline is for 2027 relative to 2026?

Brian McNamara: Let me start with the innovation question. Carl, our new Head of R&D, joined just a bit over a year ago. We have taken a big step on our innovation programme, priorities, investment, how we do things. We have made tremendous progress in the last year that makes me much more optimistic going forward.

First of all, on Oral Health, listen, this is a business that continues to perform well, and our innovation programme in Oral Health for 2027 continues to be incredibly strong, and we now have a much clearer view of how that will go beyond the next two to three years also.

If we look across the other business, like I said, we have a very big FDA-approved launch that will happen on Advil at the end of the year. We have really strong innovation across a number of areas in Digestive Health, and frankly, a very big programme on Centrum and Wellness next year, which is also a global programme.

In the end, I feel very good about it. Obviously, we never share too many specifics for competitive reasons, but there are a step change in our innovation programme as we go forward.

If I step back and your question on commercial execution. Listen, we are not going to give very specific kind of impact of each of those initiatives. What I would say is we started in the US. Again, it is not like we have not done revenue growth management in the past, but we have created more, better tools, much more sophisticated tools, obviously leveraging the current AI technology. We rolled that out in the US in the first half of the year, absolutely seeing benefits from that, and that is the programme we are now taking, and we have begun this. But through Q4 and Q1, we are going to roll out broadly, and it should be embedded in our top 20 markets by the time we get to Q1.

The other programmes we have put in place around Perfect Store and commercial execution, we have had them in the past, to be clear. We have enhanced them, again leveraging the latest technology and the data that we have. We have seen improvement, in the UK, as we said. Again, that is going to get rolled out in the majority of our top 20 markets. It is happening now over Q4 and Q1.

Then maybe I turn it to Dawn to see if she has anything else. Have I left you anything else, Dawn? Not sure.

Dawn Allen: Maybe just let me give you a couple of examples because on the AI tools that we are leveraging in terms of pricing, promo mechanics, our objective is to broaden our market coverage, ensuring that we have got the right price pack architecture at different price levels, and across different channels. An example would be our launch of Duo Pack in Sensodyne in the UK, which is now a top five selling SKU, would be an example of broadening that coverage.

We have also looked at our promo strategy in terms of the effectiveness of multi-buys versus high-low and being really laser-targeted for specific brands in specific markets. As Brian said, leveraging AI, that we have embedded in the US and rolling that out globally to our top 20 markets should enable us to get even more effective at driving full market coverage to unlock growth.

Celine Pannuti (JP Morgan): My first question is that I would like to come back to understanding your confidence in the mid-term guide, both on top line and on margin progression. You did say that the categories are proving to be a bit more difficult than expected. How do you reconcile with still keeping the 4% to 6%? I found it, you are keeping a margin expectation afloat. Is there anything you can do in your business in terms of reinvestment, affordability maybe on price point to see a better volume? How do you look at the compromise

between returning to better volume growth versus the margin delivery? That is my first question.

My second question is Europe. As being weaker, I understand that your flu season is not that great, but can you talk about what is going on in that region?

Brian McNamara: All right. Thanks, Celine. Listen, let me take the first question, and then I will pass it to Dawn on Europe.

First of all, I completely understand the question. What I can say is we do not believe we have a pricing issue on the business. Now I understand the pressure on, well, if volumes are lower, can pricing change? We have pricing elasticities. We understand our price gaps. We do not believe we have a pricing issue.

I want to be clear, growth is the priority for us, and that is where we are going to make sure that we are investing right in the business. Listen, we have been fortunate that we have had an incredible opportunity that we outlined a couple of years ago on productivity, because of the supply chain we inherited and the amount of things we are doing and the investment we are making in supply chain. That is been paying dividends. It has allowed us to invest in A&P and invest in R&D and make the changes that are happening, and for this year, deliver that high single-digit growth.

In the end, though, there is no question that growth is the priority. We do not believe we have a fundamental investment issue or not. From a medium-term perspective, listen, I think these are categories that should grow, in that with these categories, we should grow that 4% to 6%. We have not delivered that. I am aware of that. We need to show that we can do that. I believe next year, again, with all the changes we are making, we are going to see strong progress on the business. At this point, I feel like that is something we should be able to deliver on the business.

Maybe I pass over to Dawn for Europe.

Dawn Allen: Yes, I would say in terms of Europe, it is tough at the moment. I said at the beginning, the category is down mid-single digits in units in Q3. As consumers are seeking more value using pantry stocks and leveraging more discretion, particularly in categories like VMS. As I also said, our performance is resilient against that challenging market backdrop.

If you think from a channel perspective in terms of performance, pharmacy is a very strong channel in Europe and strong for us. 80% of the EU population lives within minutes of a pharmacy. So we have a very good presence there and we continue to gain share.

If I look across the other channels, so if I think about e-commerce, e-commerce in Europe has a low penetration at the moment in many markets. It is a bit higher in Germany.

Let me give you an example in terms of what we are doing. If I talk about our launch of VoltaHeat, leveraging on the Voltaren brand legacy, that brand is non-medicated. It is in patch, and it is in cream.

What that enables us to do is not only sell that in pharmacy but also sell that across mass and e-commerce. What we are doing in Europe is we are looking to unlock more value, as I talked about in terms of the Sensodyne Duo Pack.

The other thing that we are ensuring is that we have got propositions that can be across all channels in Europe in response to what is a very challenging macro environment.

Edward Lewis (Rothschild & Co Redburn): Just a couple from me. Just quickly on the Brazil change in the go-to-market. Is that something that is just going to be specific to Brazil or other markets where you may have to make such a move?

Then Brian, just, I guess, broader commentary on the consumer health category. Just be interested to hear your perspective, because I guess we have had back to back years from yourself and I guess a few other players in the category seeing challenges. Is there anything structural that we should think about? Are there opportunities, do you think, where you could look to go inorganic to bolster growth, as we have seen at peers?

Brian McNamara: Thanks. Listen, I will take both of those questions. First on Brazil, it is a specific Brazil thing for us. Like I said, we have opportunities to accelerate our growth in Brazil and in Latin America broadly. This is something that was in our plan. We are making a choice to do it this year. We want to make sure that we are setting up next year for the right level of growth in Latin America. Again, this gives us confidence in that high single-digit, low double-digit growth in a sustainable way. It is a big change, but now is the moment to do it, and the tax change in Brazil gives us an opportunity to open that conversation and put this behind us as we go into next year.

Listen, on the overall categories, they have been a bit more challenging than expected. Again, seasonality has been quite a driver of that, as we know. Our view is that is not structural. It does have a bit of an overhang on some other categories, like Pain and other things.

Listen, let us see how it plays out the balance of the year. Obviously, the US, we are seeing really healthy cold and flu growth in the past four weeks. Let us see how it plays out. Again, nothing outside the US yet, but there is nothing to believe that it should not come. I still believe these are good categories and the right categories.

On an inorganic perspective, we said that. We do believe there is always opportunities to strengthen the portfolio. We believe there are some higher growth wellness areas and wellness categories that are quite interesting. Obviously, you can imagine I am not going to make any specific comment, but we are very active in the space. We are evaluating. We are in a constant evaluation mode of assets that are out there and the things that would make sense for us, and obviously we will be very disciplined with our capital and make sure we are buying things that generate the appropriate level of value for the company and for our shareholders.

Tom Sykes (Deutsche Bank): Just firstly, following up on your last comments there. Why isn't the M&A accelerated more? It has not accelerated for you over the last couple of years. It is obviously very strong as an area for M&A, and yet you are buying back your own shares and you are growing at 2.5%, and you obviously have a growth issue at the moment. Why are you not putting more capital to work buying faster growth businesses? Or do you think that large scale M&A is something that really needs to take place in the sector and that is what you are waiting for?

Then just on North America. Could you maybe talk about the differences you are seeing across channels there? You said you have rewired the business, but what is happening in the drug

channel, other grocery versus faster growth channels like Amazon and Costco? I guess Costco has been particularly volatile for you so maybe any views there would be great, please.

Brian McNamara: Yes. Listen, let me take North America first, then I will make a comment on M&A, but pass it to Dawn to give more perspective.

Listen, in North America, what are we seeing? We are seeing, obviously, the growth of the digital channels, the majority of where the growth is coming from. If we look at our growth in North America, we are growing two times the market growth in those digital channels. We are seeing very strong growth in the areas that are growing.

Look at the other customers. Walmart continues to be a winner, and Costco continues to be a winner, and that is probably an outcome of, what everyone talks about the K-shaped economy. It is a real example where Walmart is much more of an everyday low price retailer, and the Costcos are more about value at a higher price point. In both those cases, we are doing well, and we have good relationships there.

Dollar channel has been a bit mixed. At times, it says spiked up or not. Obviously, that is a much lower price point outlay, but not nearly the same value equation per se, if you think about price per use.

Then the drug channel continues to be a laggard in the US market. The channel shift is really going to Walmart and Costco and digital, as we have always seen. It is not something, by the way, that is happening that is unexpected to us at this point. It is exactly the way we thought it would play out this year.

Listen, M&A is a priority. Obviously, we did announce a stock buyback today. I will have Dawn talk. We still have capacity to do M&A and bolt-on M&A. Our focus is bolt-on. It is true that we have not seen any. We have not, let us say, announced that we have done anything yet. It is not that we have not been active in the market and looking, and we will continue to do that. Maybe I will pass it to Dawn and talk about cash flow capacity and leverage.

Dawn Allen: Yes. Look, to Brian's point, we maintain a disciplined capital allocation policy. We continue to generate strong free cash flow. Working capital has reduced 19 days over the last two years. As a result of that, our leverage is now broadly in line with our target in terms of around 2.5 times. That obviously gives us more optionality.

Our first point of call is to invest in the business, and maintain sufficient headroom for M&A. Actually, when we think about our strong free cash flow, we are comfortable with both of these, and we do have sufficient headroom.

Given the strong free cash flow, that is why we are announcing a share buyback, because at this point in time, we feel that, that will generate the best return for shareholders. To Brian's point, I would not take this as an indication that we are not still heavily focused on M&A, because we are. As I said, we have sufficient headroom to do M&A. As I said, given the strength of the free cash flow, we believe at this point in time it will generate the best return to shareholders for a share buyback.

Brian McNamara: Tom, just in case I did not answer it directly, no, we are not looking to do a transformational deal. The focus is bolt-on and improving the portfolio.

I believe we have time for one last question. This will be the last question.

Nicolas Ceron (Bank of America): Just a quick one. Am I right to assume that the Board only review once a year formally the medium-term guidance, and that this would happen at the time of the full year?

Brian McNamara: You can assume that we are in constant discussions with the Board and constant discussions with the Board on anything we would talk to investors about, and that they are fully aligned with the press release and everything we are saying today.

Okay. Thank you, everyone. Obviously, our third quarter performance was below expectations. We are clear on what we need to do to improve. Our focus is on scaling capability, applying them more consistently across the business, and returning us to stronger growth.

We will have a fuller update on our progress on all that as we report full year results in February. Obviously, the IR team is available for any follow-ups. Thanks, and have a good day.

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