

GSK Capital Markets Day: Haleon

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Haleon: Global leader 100% focused on consumer healthcare with clear purpose

Welcome and thank you for joining us today.

I'm delighted to be here to take you through our plans for Haleon and the incredible opportunity we have in front of us, as we launch this new, exciting global-leading company, that's 100% focused on consumer health.

Haleon is led by our purpose - to deliver better everyday health with humanity - and is well-positioned to play a vital role for people all around the world. And we're in a sector that is really growing and that's more relevant than ever.

Today, we'll show you how Haleon's world-class portfolio of brands, attractive global footprint, and industry-leading route to market will combine with our competitive capabilities - in brand building, innovation and digital, to underpin our confidence in delivering sustainable above-market growth and attractive shareholder returns.

Over the medium term, we expect to deliver organic annual sales growth of between 4 and 6%.

We expect to deliver sustainable moderate margin expansion in constant currency, while we continue to invest in the business.

We expect to continue our strong cash generation and cash conversion.

And, we believe that Haleon offers investors a highly attractive growth profile that is sustainable over the long-term. That will allow us to make further investments to fund Haleon's growth and deliver real shareholder value.

Highly experienced management team

At the core of our business are two very important elements.

First, our people. We have 22,000 colleagues at Haleon and they are led by an outstanding management team.

That team has a track record of delivery. And, they have done an amazing job delivering revenue and margin growth at the same time as we've been completing significant integration, and building a world class portfolio. And they are highly experienced. They combine expertise in consumer health and FMCG, from working at companies like P&G, Nestlé, Coca-Cola, Unilever, Diageo, Novartis and Pfizer.

Today, you'll hear from our Chief Financial Officer, Tobias Hestler, our Chief Marketing Officer, Tamara Rogers, our Head of Research and Development, Franck Riot, our Head of Sustainability, Teri Lyng. And you'll also hear from our Region leaders: Lisa Paley who leads our US and North America business, Filippo Lanzi who leads our EMEA and Latin America business, and Keith Choy who leads our Asia Pacific business.

Members of the team will be joining me for our Q&A panel discussion later today.

Exceptional brands

The second critical element to Haleon is our portfolio of brands.

The quality of Haleon's brand portfolio is exceptional.

We are category-leaders in five global categories. I'm talking about Power Brands such as Sensodyne, Centrum, Panadol, Advil, Voltaren, and Otrivin.

And, we've got iconic, local strategic brands such as TUMS, ENO, Flonase, and Emergen-C.

These brands are trusted and loved by people all over the world. And, they are right at the heart of Haleon and our purpose:

Deliver better everyday health with humanity

To deliver better everyday health with humanity.

Our purpose drives us to meet the everyday health needs of people in new and better ways, to develop innovations that are meaningful and impactful, and to make everyday health more achievable, inclusive, and sustainable.

It fuels our growth ambitions, drives our performance, and unites our colleagues with a distinct culture. We are guided by our three key behaviours: Go Beyond, Do What Matters Most, and Keep It Human.

Track record of strong performance

We will start life as a new standalone company with a strong track record of performance.

Over the past two years, we have delivered compound organic sales growth of 4.4%.

We have generated adjusted operating profit margins of 22.8% in 2021. And, at the same time we've invested in our brands, in R&D and in A&P. Our financial performance reflects our delivery of integration synergies and rigorous cost control.

And, as I said a minute ago, we have also generated strong cashflow and maintained excellent cash conversion.

I'm proud of our track record. And, I believe it sets us up well for life as an independent company.

Clear approach to deliver growth ambitions

That track record underpins our confidence in the financial outlook we are talking about today.

And, we have a clear approach to delivering those outlooks by capitalising on our portfolio, our competitive capabilities, and by delivering a strategy to outperform.

Clear approach to deliver growth ambitions // World class portfolio

The portfolio we have today is the result of a targeted strategy to focus on high quality consumer healthcare brands. We've prioritised investment in brands with leadership positions, scale, and the potential for further growth opportunities, and actively consider divesting brands that have lower growth potential.

World class portfolio of category leading brands

As a result, we have created a world-class brand portfolio with annual sales of nearly £10 billion and number one positions in 5 attractive global categories:

- Therapeutic Oral Health,
- Vitamins Mineral and Supplements,
- Pain Relief,
- Respiratory Health, which includes Cold & Flu, Allergy and Nasal,
- and Digestive Health.

We have nine “power” brands – which currently drive 60% of our sales and account for 80% of our growth.

We’ve got the world’s number one toothpaste for sensitivity, the world’s number one topical analgesic for pain relief, and we’ve got the world’s number one multi-vitamin.

Complementing these ‘global winners’ are a strong set of the ‘local strategic’ brands I mentioned earlier, which are iconic in their own markets.

We’re talking about brands like Fenbid, the number one OTC systemic pain relief brand in China, Dr Best, the number one manual toothbrush in Germany, and GrandPa the number one pain relief brand in South Africa.

Attractive geographic footprint, well placed for growth

The strength of our brands is clearly reflected in our geographic footprint.

We have strong leadership positions in all our critical markets - not least being the number one consumer healthcare business in the US, the biggest consumer healthcare market in the world. Today, we are also the number one multi-national consumer healthcare business in China.

With one third of our current sales being generated from emerging markets, our footprint also reflects leading positions and a major presence in key markets such as India, Latin America, the Middle East, and Africa.

A £150bn+ sector with expected 3-4% annual medium term growth

So, we have a strong brand portfolio, that’s very well positioned in a sector with a total sales value of over £150 billion.

The fundamentals for this sector, and each category within it, are all strong.

We believe the global focus on health and wellness is only set to increase with significant demand coming from an ageing population, an emerging middle class, and from sizeable unmet consumer needs.

These trends are expected to drive medium term market growth across these categories of 3-4% per year. So, with the strength of our portfolio and the opportunities we see for growth, that we reiterated in our outlook, we expect organic annual sales growth of 4 to 6%.

Clear approach to deliver growth ambitions // Competitive capabilities

Over the last few years, we’ve had the opportunity to significantly re-scale, re-shape and re-invest in the business.

We’ve recruited world-class talent; implemented new processes, adopted new technologies, and we’ve invested in new capabilities to improve our competitiveness.

Competitive advantage

A key focus has been to strengthen what we see as Haleon's competitive advantage: combining deep human understanding with trusted science.

We've invested in a suite of proprietary assets to generate deep human understanding to support brand innovation, enhance our engagement with experts, like doctors, dentists and pharmacists, and to provide education to consumers.

I'm talking about cutting-edge centres for shopper research, consumer-knowledge and social-listening, all designed to generate and test new insights and identify consumer needs. That way, we can leverage the deep technical and scientific expertise that comes from our 1,400 talented scientists.

That combination is providing us with strong ability to develop and launch new brand innovation. And I'm delighted with the progress we have made. In the last 3 years, we have successfully delivered more than 19,000 regulatory approvals. And, in the last 12 months we have been successful in the market with innovations such as Sensodyne Sensitivity and Gum, Centrum Essentials in Brazil, and Pronamel Intensive Repair.

We see this unique combination of human understanding and trusted science as something that really differentiates Haleon.

Proven competitive capabilities

Our competitiveness is also reinforced by our proven capabilities of brand building, innovation and our compelling route-to-market. You'll be hearing a lot more about that from Tamara and Franck.

At 20% of sales, our A&P spend is competitive and, over the last few years, we have increased the effectiveness of that spend.

We have a strong and established presence in all key channels relevant for consumer health.

Our relationship with pharmacy and healthcare professionals is a key differentiator. And, we have direct and trusted relationships with more than 3 million healthcare professionals, together with the largest network and coverage of pharmacies in the world.

All that is underpinned by the strong capabilities we have invested in and built in data and digital.

Clear approach to deliver growth ambitions // Strategy to outperform

I'd now like to set out for you the strategy we will execute to continue to outperform the market and deliver our growth ambitions.

Our strategy is designed to leverage our portfolio and capabilities and has four key elements.

To generate growth we will focus on:

Increasing household penetration and capitalising on new and emerging growth opportunities in channels, geographies and through portfolio expansion.

Underpinning these sources of growth will be a strong focus on execution and financial discipline, to improve profitability and sustain our reinvestment in solid growth opportunities.

And finally, running a responsible business, which is integral to everything we do. Acting responsibly allows us to reduce risk and support performance. I'd now like to talk you through these elements of our growth strategy in more detail.

Significant penetration growth headroom across categories

First, increasing penetration growth:

We have a strong track record of driving growth and market share through increased household penetration. And, we see this as our largest opportunity for the portfolio, despite the progress we've already made. We believe there is significant opportunity to drive further share gain and category growth in all five categories we operate in. We'll deliver on that through brand innovation and reaching new consumers with Haleon products.

For example, nearly 1 in every 3 adults have symptoms of tooth sensitivity. But only 1 in 3 of them use a sensitivity toothpaste like Sensodyne.

9 out of 10 people use pain relief products, but only 1 in 3 of them use topical pain relief, like Voltaren.

In China, where Calcium intake is less than 50% of the daily recommended level, only 17% of people take a calcium supplement like Caltrate.

Proven approach to drive penetration-led growth (Sensodyne)

So, we have a compelling strategy and a proven track record in delivering penetration-led growth.

Sensodyne is a great example of what I mean. With Sensodyne, we have demonstrated our clear strategy to focus on therapeutic oral health, targeting the very premium end of the oral health market.

Sensodyne surpassed £1 billion of sales in 2016. And, it has continued to grow, reaching an 11.6 per cent share of the global toothpaste market in 2021. US penetration reached 26.7%, that's up 5 share points in the last 7 years.

That growth is built on a comprehensive approach.

We're using a data-driven approach to deliver meaningful and relevant communications to address major penetration barriers, such as sensitivity awareness or the need for rapid relief.

And, we're delivering industry-leading innovations to address consumer needs by providing real sensitivity relief.

Expert advocacy – as the number one dentist recommended brand for sensitive teeth. And of course excellent commercial execution.

New and emerging growth: Channel expansion

Moving to the second pillar of our strategy: capturing new and emerging opportunities.

I'll start with channel expansion. In the Consumer Healthcare sector, there is significant opportunity for e-commerce penetration, and that's true across all categories of our business.

In the last two years, with the investments we have made, we have seen a two-fold increase in e-commerce sales. We currently have leading positions across our key markets, with 12% of our sales in the US coming from e-commerce, and, in China our e-commerce is 20%.

We're growing ahead of the industry and a clear priority for us is to continue to invest in, and increase, our portfolio's exposure to e-commerce.

By 2025, we expect e-comm to grow to the mid-teens as a percentage of sales.

New and emerging growth: Geographic expansion

We also have further opportunities for geographic expansion, whether that be through accelerating innovation in key markets like the US and China, or rolling out and scaling up brands like Parodontax and Centrum in new or under-developed markets.

There are also growth markets, where we have a scale position, with a small portfolio of brands, and a significant opportunity to broaden out the portfolio.

We're striking the right balance between markets where we see higher growth and markets with lower but more stable growth. Today, one third of our sales come from emerging markets.

India is a great example, where we are building a strong position in a key growth market for the future. We have an industry-leading route-to-market, with over 4 million distribution points. So, we have a fantastic platform to grow a broader portfolio. By leveraging the strong position and success we've generated with Sensodyne, we launched Parodontax 9 months ago and it's off to a great start.

New and emerging growth: Portfolio expansion

Portfolio expansion is the other major area for new and emerging growth opportunities.

Two areas we are very focused on right now are Rx-to-OTC switches and 'Naturals'.

We have executed 4 switches over the last 8 years. That's more than any of our competitors, with the most recent being Voltaren in the US. This is a real area of expertise for us. We already have two confirmed projects in the pipeline with expected launches in 2025 and 2026. Importantly, our medium term organic sales growth guidance doesn't include any benefit from Rx to OTC switches.

Use of Naturals is a clear consumer trend that is accelerating. For example, 'Naturals' cold and flu medicines grew more than 1.5 times medicated products in the last 6 months. And Naturals represent an attractive opportunity. We've already launched 10 innovations in the Naturals segment, and have more than 30 projects currently in the pipeline.

Performance underpinned by strong execution and financial discipline

We are really proud of the progress we've made on execution and financial discipline in recent years.

Tobias will show you how we have focused on driving efficiency, effectiveness and agility to make every investment count.

We have slimmed-down our manufacturing footprint going from 41 to 24 sites. A key output from that focus on efficiency and agility, alongside innovation, has been our ability to increase A&P investment to 20% of sales to drive growth. We've been focusing our investment on power brands and increased media spend. We are weighting our investment towards advertising versus promotion. And, we've shifted a higher proportion of our media mix to digital.

Going forward, we intend to maintain a sharp focus on all four areas we've highlighted here, looking to further prioritise investment in A&P and R&D to support our continued market outperformance.

Running a responsible business, integral to all we do

Running a responsible business is an integral part of our strategy.

We're deeply committed to tackling environmental and social barriers to everyday health. Teri will talk to you about our commitment to lowering our environmental impact.

Structurally advantaged environmental footprint

But to give you context, we have a structurally smaller environmental footprint, which gives us a real competitive advantage, especially with consumers whose purchase choices are increasingly being influenced by the environmental impact of the products they buy. And, it gives us an advantage in terms of overall company risk exposure and capex requirements.

We also believe that we have a compelling opportunity to make a meaningful difference to helping improve health inclusivity. By 2025, we intend to help 50 million people per year gain access to opportunities for better everyday health.

Running a responsible business starts with us. And we are committed to setting ambitious Inclusion, Equity and Diversity targets and building strong corporate governance. That includes appropriate incentivisation and rewards for business performance. We'll tell you more about that in due course.

Clear approach to deliver growth ambitions

So, we have a clear approach to delivering our growth ambitions.

Focused plan to deliver 4-6% organic annual sales growth

And, we are confident that we can deliver 4 to 6% organic sales growth every year over the medium term.

We can deliver that growth from a platform created through re-focus, re-scale, and optimisation of the business, that has delivered 4.4% compound annual organic sales growth in the last two years. And, that sales growth is generated from a balance of volume and price.

We now look ahead at Haleon - as a new standalone company.

I am really excited about our leading sector position and about the focused business we have built at Haleon. I've been associated with this business for 17 years and I've never felt better or more excited about the growth opportunity we have in front of us. We are well positioned in growth categories and geographies. I see clear sources of growth to sustainably outperform, to deliver consistently above market organic annual sales growth, through increased penetration of brands and markets. I can also see us capitalising on new and emerging opportunities in channels, geographies and in our portfolio, all supported by re-investment in A&P and R&D and our continuing strong execution.

Taken together, we expect this to translate into accelerated growth, driven by higher growth channels, categories and geographies.

As I said earlier, we expect e-commerce will grow from 8% of the business today to a mid-teens percentage of the business by 2025.

We also expect the Oral Health and VMS categories to grow mid to high-single digits and go from 44% of the business today to approaching 50% by 2025.

And, we expect Emerging markets to grow high single-digits and go from 32% of the business today to a high-30% of the business in 2025.

Margin expansion while investing for growth

We expect our organic sales growth to deliver positive operating leverage, and to support sustainable moderate margin expansion over the medium term, again, in constant currency.

This will also support planned re-investment in R&D and A&P.

Operating leverage, will be further supported by continued programmes to deliver cost efficiencies in COGS and SG&A. We are planning no major restructuring.

In 2022, we expect to deliver sales growth that's in line with our medium-term outlook. Tobias will take you through the building blocks of the adjusted operating margin later today.

Sustainable model driving investment for growth and attractive returns

Our strong brand portfolio, coupled with high gross margins and strong market positions, allows us to invest sustainably behind our brands. And, that gives us confidence that we will deliver 4 to 6% organic annual sales growth over the medium term. Alongside this investment in growth we intend to deliver moderate margin expansion on a constant currency basis, as well as generating strong free cash flow.

This underpins our disciplined capital allocation.

Growth focused disciplined capital allocation

Let me take you through how we think about that.

Our clear number one priority is growth. We are prioritising re-investing in the business to drive that growth.

With regards to the dividend policy, the initial dividend is expected to be at the lower end of the 30-50 per cent pay-out range. And we will only look at M&A opportunities where a target is really compelling and is a good fit with our company strategy.

We plan to target a net debt to EBITDA ratio of less than 3x by the end of 2024, and to maintain a strong investment grade balance sheet.

Haleon: Global leader 100% focused on consumer healthcare with clear purpose

So, as you can see, the opportunity for Haleon is compelling.

I strongly believe that as a new standalone company, 100% dedicated to consumer health, we can make a meaningful difference to the everyday health of hundreds of millions of people; and deliver sustainable above-category performance, with attractive returns to shareholders.

We have a clear strategy to do just that: leveraging our terrific portfolio and the platform we have built these last few years to capture new growth opportunities and to deliver improved profitability.

As I've said a couple of times, we expect to deliver 4 to 6% organic sales growth every year, with sustainable moderate margin expansion at constant currency, over the medium term.

Together with strong cash generation and cash conversion, that gives Haleon the capacity to invest in our future and reward shareholders for their investment.

My team and I are strongly committed to achieving what I've described for you today. I hope that you will join us on what I'm convinced will be a rewarding ride.

With that, I'll hand over to Tamara and Franck and look forward to your questions later.
Thank you.