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Reckitt Benckiser Group plc LSE:RB.

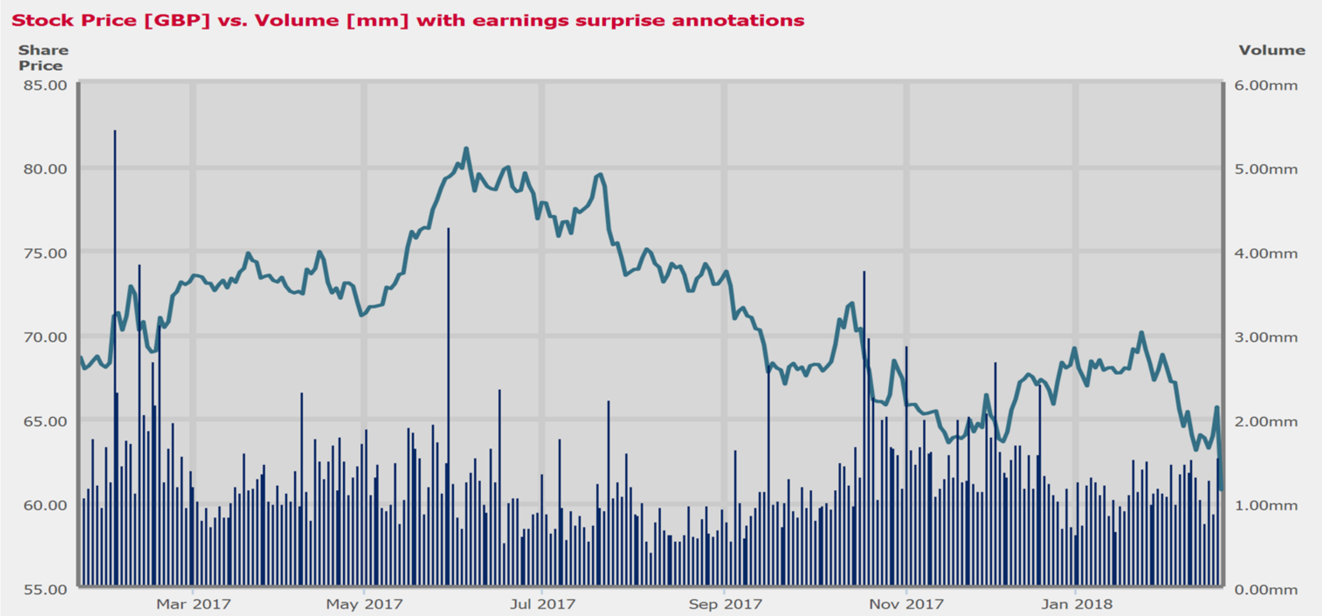
FY 2017 Earnings Call Transcripts

Monday, February 19, 2018 8:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2017-			-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	-	-	-	3.25	3.17	(2.46 %)	3.46
Revenue (mm)	3359.00	3289.00	(2.08 %)	11577.52	11512.00	(0.57 %)	12866.99

Currency: GBP
Consensus as of Feb-19-2018 8:10 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FY 2017	3.25	3.17	1 (2.46 %)

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Table of Contents

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Presentation

Richard Joyce
Senior Vice President of Investor Relations

Right, good morning. Welcome to RB's Full Year 2017 Results Presentation. Before we start, I just want to do a couple of housekeeping points, including getting myself a clicker.

So first to draw your attention to the usual disclaimer about forward-looking statements, nothing new there.

Right, so just to run through the agenda today. We're going to split into a couple of halves. We're going to spend the first 45 minutes talking about the past and then go to some Q&A, then we'll take a quick comfort break and then go on to talk about the future, and then we'll do Q&A after that as well.

So then without further ado, I'll pass you over to our CEO, Rakesh Kapoor.

Rakesh Kapoor
Group CEO & Director

Thank you, Richard. Let me start with my 3 messages of the day. The first one is that, in a tough year, we had a solid close to the year. The second message I have to say is that the Mead Johnson integration and transformation is firmly in place, it is fully on track. And the third message that I have for you is that the Mead Johnson acquisition is not going to only prove to be a good acquisition for RB and its shareholders, it has been a catalyst to transform RB into what we call inside the company RB 2.0. And I will spend some time about RB 2.0 later in the presentation, in the second half, in fact.

So back to the performance and the results for '17. Q4 was, I would say, or the strong -- or solid finish to the year with plus 2%. And I see what was good about Q4 was that we had our growth, once again, Health and Hygiene led. Health had plus 5%, Hygiene was plus 2%. And as we will explain later in the day, the growth on Health was quite broad based and across the portfolio. So that was quite good.

Mead Johnson, Q4 also a strong finish to the year with plus 3% in the last quarter, now under 2 quarters of RB ownership of positive growth. We sort of reversed 9 previous quarters of no growth. The margins in the second half, again, came in better. I know we flagged that the incoming margins of Mead Johnson was somewhat lower than we were expecting, although the top line was in line with our expectation at that time, but we worked really hard in the second half to bring those margins into a shape that we believe will all go well for the future. And finally, the cash conversion remains strong, and subject to shareholder approval, our board will be recommending a total dividend of plus 7% for this year.

Now no presentation from mine will be without pointing out to the virtuous earning model, and I will talk about it even though it looks less than perfect in 2017. And it starts, as I've said before, with gross margin improvement, and gross margin is actually, what, 20 basis points lower. So we did not increase gross margins, and again, we will talk about that during the course of the day. We saw adverse price in the year but also the mix, as you see from the results, was not also favorable. And therefore, growth -- and with some adverse commodity headwinds already in '17, we didn't have any growth in gross margin.

Now some of the other parts of the P&L worked well, actually, so we did see some fixed cost improvements of 30 basis points. A number of things we continue to do, but on the other side, obviously, in a tough year, bonuses don't -- do not normally pay out and that also helps a bit, something that we don't want to see actually going forward because we want to perform.

In terms of BEI, I mean, although the track record over a number of years is very good, but as I flagged last time, same time, we will be taking away some of the investment support behind Scholl because of what we had said before. And without Scholl, actually investment in BEI went up across the brand portfolio. So that has also been a good thing. And of course, the like-for-like performance for the full year has been flat. Operating margins on the base business grew by 30 basis points to 28.1%. So that's what has happened on our base business.

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Turning to Mead Johnson. I just want to play on the slides that I've shown you at the time of Mead Johnson acquisition, perhaps the same time last year, 12 months ago. And I said that Mead Johnson for us is very strategically compelling. It makes a lot of sense because it augments and -- our consumer health focus and expertise. That's the first thing.

We said this acquisition is not just about where we prove to be better owners, but this is going to help us be a better company. It will make RB better. And this makes RB better not just because of the capabilities that we get of how do we reach moms with young babies, how do we actually build medical and scientific and regulatory capabilities across the world, but also in terms of how we do business. So I think that definitely is there. But equally, obviously, we will be better owners because we bring the very best of RB into Mead Johnson and I'm going to talk about that, too. And finally, we said we want to, of course, make strong value creation for shareholders. So that's what we said.

What have we achieved in the last 6 months or so? The first thing is that the deal got completed in 3 months earlier than we expected, and that actually has been an important achievement and it's an important achievement because it allowed us to do the other things on this chart much faster and better. And during the course of the year, what did it allow us to do? It allowed us to work on the synergies faster, understand the business faster, get to work on the synergies faster and help us realize the margin ambition that we have for the business. So we achieved $25 million of synergies in the year, again, ahead of schedule. But equally, it helped us understand the business to a point that we expect now synergies to touch $300 million in the next 3 years. So that's been one key part of having the deal done faster.

The second part is knowing the business earlier and helping us make hit the catalyst for RB 2.0, as I just flagged. So that has been important as has been important that we've got to work on the innovation pipeline. It is eventually a game where innovation has to be increased, and we knew that innovation track record was not the way we want it to be. And therefore, that has been an important part of getting to work much earlier.

And actually, although some people might have argued that Mead Johnson came as a bit of a surprise to people despite the fact that I have talked about why we believe that creating the best start to life and making babies live longer and better for 142 years starts with nourishing the best start. It did come as a surprise, but I think our first 6 months, and there's a lot of work to be done, I have to say, there's a lot of work to be done to make this wonderful, but the first 6 months gives us the confidence that the RB model on earnings, on being better owners is being proven to be right again.

And that's quite important because when I show you what that [model] has looked like over the last 6 years or so, this is the start of the, let's call it, the consumer health focus. 2012 January to now, we had a fantastic 6 years. We grew gross margins 500 basis points up. We invested behind our brands. Probably over this period of time, I cannot think of any other business that I've invested behind these brands to the extent that we did. We obviously got fixed cost leverage. We grew our operating margins by 500 basis points. And this has been done actually not just on our base business, but has also been done on the organic parts that we've acquired over a period of time.

And just to remind you what those organic -- inorganic parts have looked like, you know brands like Nurofen. Richard, we put this beautiful air freshener that I'm going to talk about so close to me. No, it's okay. It's nice. The fragrance is great, but -- so I think we've talked about Nurofen and Strepsils a long time, Mucinex, from nowhere to be the #1 OTC brand in North America. This is what Nurofen has achieved, a brand of that stature. And Durex and Scholl, again, under our ownership, including Scholl, we have doubled basically in 5, 6 years under our ownership. Durex, I cannot remember a year where it did not have high single-digit or double-digit growth rates. All in categories which were 4% to 6% growth rates. So this has been the performance of the brands that we've acquired. But I've also been asked a number of times what happened to Schiff, and there has been some question around whether Schiff has been as good an acquisition as we've had for some of the other brands that we flagged.

So let me just actually take a few moments and talk about Schiff. So actually, there is something in common between Schiff and I think today, which I'm going to flag out another time. So we bought Schiff in January 2013, December 2012, January 2013. And when we bought, we thought these were true for Schiff, which is it is a large category with long-term growth characteristics, not something that everyone

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was signed up. People thought this is a category which is not here to stay. Things happened and it does not have that kind of long-term structural growth characteristics associated with it, but we have -- we felt that actually these trends were irreversible. In fact, I asked in this room how many people have started to use even more VMS, and I think today, 5 years later, the number of people who are using VMS has gone up, particularly if some of you are still millennials. So that's the first thing.

The second thing we said was our earnings model can be applied, the ones that I've talked about already.

And the third bit is that we can globalize brands. I mean, actually, if you think about even Durex or Scholl, we have globalized these brands, including Nurofen. So we should be able to use our global brand management model on Schiff. These are the 3 things that we said.

I have to point out that, actually, whenever we acquire consumer health care, we won't put the last one in our financial model. We don't. We don't -- we -- all the growth that we build in is based on where the brands are in the geographies they are in and how we can drive them with innovation and with our go-to-market expertise. We do not use the model on globalization, generally speaking, in our earnings model. But that is certainly one of the assumptions we make.

So let's see whether some of those assumptions have proved to be right or wrong because I think this is an important time to be absolutely open about what has happened. So the first thing is about growth. VMS is a category, and this is -- I'm quoting Euromonitor. I mean, I know no better, but Euromonitor thinks and I think the numbers are, by and large, right, $90 billion growing at 4% to 6% over the last 5, 6, 7 years. This is the growth of this category. And you should not think about just your nearest supermarket. Think about so many different avenues for VMS these days. And this is not just a category where people who get on to a certain age, demographic profile, start to use it. Now you see more and more millennials using it. One of the hottest trends right now in VMS is products and innovations focused on millennials. Did anyone hear of Curcumin 3? Has anyone heard of Curcumin 3? No? Okay, millennials do know it. I'm sorry. I mean, I thought there were some millennials here, but clearly not. And you can see already that these guys, this demographic is making up a material part of the market now and growing the category very well.

But just to remind you what we bought within this category. We did not really buy a commodity business really. I mean, I went on record to say we are not in the game of A, B and C. We want to be in brands and we want to be in brands that stand for something. So for example, MegaRed, a brand we probably spoke about a number of times, has become the poster boy, in fact, of our acquisition, was for heart health. And Airborne, which we haven't spoken much about, is about immunity. And Move Free is about movement and joint health. And clearly, the Digestive Advantage, as the name suggests, is about gut health. This is what we want. But we also had a 25% of this business was also serving private label under previous ownership and there was some commodity part to it also. So that was the business we had in 2013.

What has happened since then? Really, what have we done? So the innovation, the first thing we learned is that the innovation track we have to put these brands into is materially different to what you have to need in Health, Hygiene and Home in the conventional sense.

Just as an example, although I'm not going to talk about this today because we never have time to talk about every innovation we launch, we are going to launch 4 new products under just Move Free in China this year, okay? So the innovation track record that we put in place and the pace of innovation and the way we manage innovation is materially different. And that's what we learned actually, that you want to manage innovation, you want to grow this category, you have to innovate differently, and that's what we are doing.

So that, I think, we are happy about. Synergies, I mean, I don't have to remind you all. We have done always a very, very good job on synergies, and in fact, today, this morning, I gave you an example of that. That's also true.

The third thing is international expansion, and I have to say that 12 months from acquisition, we came here January 2014, February 2014. I went very gung ho that like 12 months from launch, here we are, taking it to 25 markets. I mean, I was -- I felt very good actually, I have to say that. Felt really good. In

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12 months from launch, we took it to 25 markets in Europe. What happened? It was a flop. It didn't work. And we know it didn't work, and 3 years after that, we understand, we learned. And I have to say that was a good lesson, very, very good lesson in how do we actually manage international expansion. So the next time we tried it, which is on Move Free, was a different approach, was a different approach. And I think Move Free, wherever we've taken it, like China, has become a success. But we haven't gone the conventional go-to-market way. And there is going to be maybe some time to talk about that, but we did learn a lot actually in the last 5 years of how to actually drive value in VMS, which is a bit different to what Hygiene, Health and maybe Home brands are. But we did well. We learned and we did well.

First, we [closed] -- we took out the private label part. It's no different to what we have done in January 2012 when I shut shop on private label. I said here, at that moment, that we are a brands company. Although we have a paradoxical relationship with private label, we are not a private label manufacturer. We are a brands company. So we shut basically private label.

So I'm going to talk to you about brands. And in the years of our ownership, that branded business that I showed you grew on a compounded annual growth rate of 9%. Should that have been more? Always. But do you think it was less, far less? I think you did. I think you thought that we haven't done well enough, but actually, we did very well. We did very well.

What did we do with gross margins? Well, the famous earnings model comes to place. From the time we bought this business, the gross margins were way below the company average, way below. Now the gross margins of this group of brands that I just showed you, which are the business, is accretive to the company. My company margins, they're accretive to company margins. So what happened to the rest of the P&L? Well, I don't have to tell you when the top line is there, and the gross margin, this question doesn't really need to be asked.

So how do I feel about the Schiff business we bought? The first thing is that 5 years has been fantastic. I'm absolutely thrilled that we have this business. It's a high growth, high-margin business that helps us also innovate in a way that is useful for the company as a whole. You've grown this business. We want to make this business an interesting part of RB. And it has created value for shareholders, even though we are still not 100% globalized these brands. And maybe there is a different approach to building a global business in VMS, anyway.

So I think when I look back and I know that this question got asked a couple of times on the road and I keep hearing from my people, why didn't you ever address Schiff because people keep thinking the way you don't talk about it, this must be not a good enough thing to talk about. Actually, I said something which I'm going to repeat today: I said we haven't been able to transform the VMS market, and therefore, on the high bar we set ourselves, on the high expectation we have, no, we have not fulfilled. What we have fulfilled is 5 years of ownership, as shown that we can create value, and this is a very interesting category. And this is a category which is here to stay. It is one of the single largest categories in health. And we need to find a way, as we go forward, of figuring out how to become a material, material player in this market. So I thought I would share that with you.

I also said actually that there was something in common between Schiff and there's a commonality here, and the commonality is this: that in Q4, Q4 of 2012, when we decided to make this very public bid for VMS, we knew that we are going to hire a new CFO, and the CFO is right here on the podium. And I called him, I said, like, Adrian, we are just about to make a public offer. I hope you can cope with this because this is going to come from nowhere. And we got him actually also in the board meeting, I still remember, in November 2012 when we were discussing Schiff. And it is quite interesting that we are here 5 years later talking about Schiff and how it's done. And maybe, Adrian, 5 years from now, maybe we'll talk about other wonderful things, too, from your side, particularly.

So can I just invite Adrian at this moment and talk about his 5 years, but maybe his last year?

Adrian Nevil Hennah
CFO & Director

Yes, thank you, Rakesh. That was totally unrehearsed, that little few lines.

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So thank you, Rakesh, and good morning, ladies and gentlemen. For the last 1 year is what we're going to talk about now. The -- so firstly, turning to slide, whatever this is, 19. These are the aggregate reported numbers for the second half and full year that you've seen in our release. The numbers include, of course, the contribution of the acquired MJ business in the 6.5 months between the transaction closing and the year-end. The discontinued net income row includes the results of the Food business prior to its disposal, the gain on that disposal and the provision made in half 1 in respect of the demerged Indivior business.

In the coming slides, we will go through separately the various elements making up these numbers. Specifically, we will cover the numbers of the base RB business, pro forma MJ numbers and a summary of the debts taken on to fund the transactions.

The increase in net finance expense to GBP 238 million reflects, of course, the borrowing taken on to finance the acquisition, including GBP 35 million of fees associated with bridge financing. We cover later the composition of the debt at the year-end.

Also included in net finance expense is GBP 30 million of a tax charge now required to be included in this line as a result of an IFRIC interpretation of IAS 12 on income taxes towards the end of last year. This item is hard to estimate and is likely to be quite volatile. In order to assist investor understanding, we have included this item within the tax charge in our adjusted numbers.

The substantial tax credit of GBP 894 million for the year includes a net one-off credit of GBP 1.4 billion in respect to the U.S. Tax Cuts and Jobs Act. This comprises a noncash release of deferred tax in respect of the substantial intangible assets held in U.S. entities and the charge of around GBP 200 million in respect of tax on principally Mead Johnson accumulated undistributed profit outside the U.S.A. payable over 8 years. The tax rate excluding adjusting items and including the element of tax now shown in finance cost was 23%, in line with our guidance for the year.

Growth in total adjusted earnings per share in the full year was 7%. This has, of course, several components: continuing adjusted earnings per share growth was 10%. Dilution from the disposal of the Food business accounts for this difference. The contribution from the base RB business in constant exchange rate terms was broadly flat. The increase in the underlying tax rate reduced earnings per share by 2%. Remember that 2016 benefited from a U.K. deferred tax reduction. The Mead Johnson acquisition, net of associated financing costs, increased earnings per share by 6%, and the effect of translational ForEx was to increase earnings per share by a further 6%.

Looking forward on the tax rate, we do benefit from the reduction in the federal corporate tax rate in the United States. We lose, however, from a number of the other changes in the U.S. tax rules, and we are working through the details on this. And there continue to be, of course, changes in tax legislation in a number of other countries. We currently expect a tax rate of around 23%, excluding adjusting items and including the component now reported in the net finance cost line.

And one other 2018 point before getting into the detail of 2017. If the exchange rates at end of January were to continue to end 2018, the net translational impact of currency movements would be a minus 7% headwind. This headwind will be strongest at the start of the year with a Q1 headwind of around 10%.

So turning now to the next slide. This slide shows the RB -- shows the summary of RB base numbers and the Mead Johnson numbers in pro forma format down to operating profit. The RB base numbers do not include Food as this is now treated as a discontinued item. The MJ numbers are pro forma numbers, including a period before the acquisition closed. We include them in this format as we believe they help inform investors on the shape of the business.

At half 1, we showed MJ pro forma numbers in U.S. GAAP. They are now in IFRS, the differences are very small. On this pro forma basis, the like-for-like net revenue of the combined group increased 1% in half 2. Gross margin decreased by 90 basis points and operating margin by 30 basis points. We will clearly see the drivers of these movements in more detail in a moment.

Turning to the next slide. Here, we show the Q4 and prior quarter revenue growth rates on the same pro forma basis as in the previous slide. Importantly, you can see the expected improvement in the growth

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rates of both the MJ and the RB base business materializing in Q4, and again, we'll return to the drivers of this in a moment.

Turning then to the next slide and focusing on the RB base business. As we have just seen, revenue for Q4 was GBP 2.58 billion, a like-for-like increase of 2%. We noted in our Q3 trading update that we thought that the underlying growth rate of the business was about 2%. This has indeed played through in Q4. Revenue for half 2 was GBP 5.1 billion, flat on a like-for-like basis. And in the full year, we also saw flat revenue in line with the guidance at Q3. We have set out an analysis of the impact of currency movements and disposals in the appendices to this presentation, and of course, in the release.

Gross margin declined by 40 basis points in half 2. We will cover the price mix and cost drivers behind this in a moment. We will also cover the 80 basis points reduction in SG&A. Together, these delivered a 40 basis point increase in operating margin.

The more analytical among you might be asking yourself how a 50 basis point increase in operating margin in half 1 plus a 40 basis points increase in half 2 delivers a 30 basis points increase in the full year. I can see Eva smiling. The answer is, in large part, the Brexit sterling devaluation in mid-2016. The reduced value of sterling boosted the weight of the seasonally higher margin half 2 in 2016 and conversely the seasonally lower margin half 1 in 2017.

Turning to the next slide, an analysis of revenue growth rates by business segment by quarter. Firstly, on price and volume changes for the RB base business, the 2% growth for Q4 comprised a return to volume growth at 3% after the disruptions of the last quarter and a continuation of the decline in price mix seen in Q3 at minus 1%. For the year as a whole, volume and price mix were both broadly flat. Volume improved during the year as we work through the Korea Scholl and cyber issues. Price declined as trading conditions tightened in the manner we described, in particular, at Q3.

ENA sales grew by 1% in Q4. The sales growth in North America of 2% benefited only slightly from an increase in the incidence of cold and flu towards the end of the quarter as there was a lag in customer reordering. The impact of private label competition on the Mucinex brand was also slightly lower than expected, it appears, due to some supply issues.

Sales in the rest of ENA grew by 1%. Growth in Russia, Germany and Italy was strong as a result of good [in] market performance and in part also weaker sales last year. Sales in France, Spain and Australia were weaker.

Across ENA, the structural pressures on many modern trade customers continued to be evident. I can see what you mean about this -- Air Wick. The -- and growth in e-commerce channels continue to build. Thank you, Richard, nice aroma.

Rakesh Kapoor
Group CEO & Director

I think we have to love our brand a little bit more.

Adrian Nevil Hennah
CFO & Director

Yes, indeed, indeed.

In DvM, we delivered a 3% quarterly growth rate at Q4, slightly weaker than we had expected. Growth in India and China was strong and encouraging. In India, it was assisted by the effects of demonetization in the comparative quarter but strong in underlying terms, too. And in China, growth in Dettol online and off-line was particularly encouraging. Growth in these markets was, however, offset by declines in the Middle East and in Brazil. In the Middle East, which is a material region for the group, the market contraction accelerated and was compounded by material retailer destocking. In Brazil, a weak market was compounded by competitive pressures.

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We expect the stronger China and India but also the weaker Middle East and Brazil dynamics to continue into the current year. We have included in the release and as an appendix, again, a reconciliation of the reported to the like-for-like numbers shown in this slide.

Turning to the next slide, an analysis of our revenue growth rates by our principal product categories -- am I on the right one here? No. All right, here we go. Firstly, Health. Revenue increased by 5% in Q4 after 4 quarters of declining or flat revenue. Scholl remained a negative in the quarter as device revenue moves to a sustainable level but is now a much reduced headwind. Mucinex, Nurofen, Strepsils, Durex all performed well.

For the full year, all health Powerbrands except Scholl, that is Durex, Gaviscon, Mucinex, Nurofen, Strepsils and the Schiff VMS portfolio, all grew. And the total Health portfolio, excluding Scholl, grew in the middle of our view of the 4% to 6% medium-term market range, notwithstanding the supply issues in the middle of the year. We are clearly pleased that the year-on-year effects of the down phase of the Scholl device experience are moving behind us.

In Hygiene, we delivered 2% growth in Q4, 1% for the full year. The strong growth in India increased growth in this category but was offset by the weakness in the Middle East and Brazil, both of which are markets with a strong orientation to Hygiene products.

In Home, revenue declined by 3% in Q4 and by 3% for the full year. In half 1, the category was disproportionately impacted by the loss of sales in Korea. In half 2, we have seen weakness in Vanish, now the focus of particular attention within the Hygiene Home business unit.

Portfolio sales were down 15% in Q4 and down 9% for the full year. We expect these to continue to be volatile. They are, of course, now really quite small.

Turning then to the next slide, an analysis of RB base margins. We delivered 40 basis points operating margin improvement in half 2, again, after 50 basis points in half 1, which is 30 basis points for the full year. Gross margin declined by 40 basis points in half 2. We signaled a year ago and at half 1 that we were at the end of a long period of very substantial gross margin improvement. We expected then and still expect now a gradual trend mix benefit over time, but with half by half movements around that trend driven by other factors.

Mix in half 2 was slightly negative, in particular, as a result of weaker performance in some higher-margin geographies. We saw tougher commodity cost headwinds, and as noted, we saw a continuing tougher pricing environment and net negative 1% price reductions in Q3 and Q4.

BEI spend was lower by 10 basis points in half 2 and by 20 basis points in the full year. We remain broadly content with the level of BEI as a proportion of revenue.

Other SG&A costs decreased by 70 basis points. This was the result of the introduction of GST in India, which moves certain taxes from SG&A to revenue, the last phase of the Supercharge program, and as Rakesh has already alluded to, frankly, lower annual incentive remuneration in a year where delivery was not at the level we targeted.

Turning then to the next slide, here we go, the -- turning to the next slide. This shows an analysis of operating margin by business segment for half 1 and half 2. Within ENA, we saw modest margin reduction, a 50 basis points decrease in half 2. Positive drivers in cost of sales were offset by price headwind and maintained expenditure on BEI. In DvM, we achieved a 220 basis points increase in the half 2 margin. Gross margin declined as a result of commodity cost pressure and some mix deterioration, especially at geographic level. This was more than offset by reductions in SG&A, including the GST effect.

So turning then to the next slide, a pro forma P&L for the acquired MJN business in half 2, the Infant Formula and Child Nutrition, the IFCN segment of the RB Group. Rakesh will give an update on the encouraging progress we made last year in bringing MJN into the RB Group and are making now in integrating Mead Johnson into RB Health -- into RB Health business -- RB's Health business. Set out here and in the next couple of slides is a summary of the Q4, half 2 and full year MJN revenue and P&L.

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As you have seen, revenue for Q4 was GBP 709 million, a like-for-like increase of 3%. Revenue for half 2 was GBP 1.43 billion, a like-for-like increase of 2%. This growth rate is slightly better than we expected MJN to deliver at this stage when we announced the acquisition last February.

Gross margin in half 2 reduced by 270 basis points. Adjusted operating profit in the half was GBP 310 million. This was a 21.7% margin, a 270 basis points reduction on the comparative period. This margin is lower than we had expected at this stage when we announced the acquisition in February last year. As you know, we had expected a fall in margin in half 1 prior to the closing of the transaction, but not one as large as the 500 basis points fall that occurred. The half 2 trajectory is a material improvement, and we are very confident that we will be able to take the margin to the level we expected, which is the 2016 margin were a little below 25% plus the targeted synergies of GBP 200 million targeted in the announcement and to do so within the acquisition planning horizon. We'll return to the drivers of these margins improvements in a second.

Well, there we go. Turning to the next slide and the pro forma Mead Johnson like-for-like revenue growth. First, on their price and volume, the 3% growth in Q4 revenue comprised a volume decline of 1% and a price mix increase of 4%. This is a material improvement in volume performance during the year after a 7% fall in half 1 prior to closing. We saw volume growth in China but not yet in the other main geographies.

Asia comprises mainly China and the countries of Southeast Asia where Mead Johnson has a substantial presence. Within Greater China, the 4 drivers we described in February -- in last February and saw in the Q3 numbers continue to play through. Sales of locally manufactured product and physical cross-border trade from Hong Kong continue to decline and sales of imported product and e-commerce cross-border trade from Hong Kong continued to grow strongly. In addition, market growth has increased, a combination of volume from the increase in births and a continued desire on the part of Chinese mothers to seek the best available product for their babies.

Within Southeast Asia, progress has been less encouraging to date. There have been market and operational challenges as well as good progress in some areas.

In North America and Europe, the largest part of which is the U.S.A., the 1% Q4 decline is in line with our own expectations at this stage. The headwinds from the large WIC renewal in California in midyear at a materially higher discount and some other WIC changes will continue until mid this year. The material share loss in non-WIC infant business through 2016 and early 2017 has, however, been much reduced, but not yet convincingly reversed. Canada performed very well.

Within LatAm, growth was quite strong in the quarter. However, growth within the component countries remains quite variable and quite changeable.

Turning to the next slide and an analysis of Mead Johnson margins. Firstly, a technical point. The total half 1 margin reduction of 500 basis points shown in this table is the same as we showed in the half 1 numbers. The analysis between gross margin BEI and some other SG&A is, however, slightly different. This is because the numbers we showed at half 1 were in U.S. GAAP and using Mead Johnson accounting policies. The numbers in this table are in IFRS and using RB accounting policies.

As noted, the operating margin declined 270 basis points in half 2 compared to 500 basis points in half 1. This comprised on the negative side a large reduction in gross margin by 270 basis points, also a reduction in BEI of 100 basis points and an increase in other SG&A of 100 basis points.

There were 2 main drivers of the increase to gross margin decline, both signaled at half 1: firstly, the increase in some dairy costs, which impacted half 2 more strongly, given the timing lag between moves in the spot price and the impact on profit. Spot price peaked in around midyear. Secondly, the large WIC contract changes, which came into effect early in half 2. The channel and sourcing shift in China, described when we announced the acquisition, have continued to involve material margin dilution.

The WIC pricing impact will clearly run into Q3. We expect the China channel shift and dairy pricing -- dairy price pressures to decrease as we move through 2018.

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The increases in BEI in 2016 under MJN leadership were described, at the time of acquisition, a necessary recovery from a period of underinvestment and this continued in half 1 of this year. The 100 basis points reduction in BEI in half 2 does not, of course, reflect any reduction focused on BEI. It reflects annualizing a heavy period of spend in MJN and it reflects an increased focus on efficiency, which we are together bringing.

The increase in other SG&A by 100 basis points was an improvement in the trajectory in half 1 where it increased by 170 basis points. The improvement was a result of the cost synergy program. This program is very firmly on track. We delivered the savings we expected to deliver in 2017 while IFCN was a stand-alone division, about $25 million. And as we integrate the business within our Health business unit, we are finding significantly more synergy opportunities than we included in our original target.

What does this mean for our acquisition model? The model is very much intact. It included a smaller reduction in margin to this point, but we remain confident based on the experience and work and results to date that we will be able to find additional cost synergies and other parts of the earnings model to deliver the acquisition model margins.

Turning to the -- turning now to the group as a whole on margin. As with last year, we are not giving quantified year margin guidance, quantified in-year margin guidance. We are continuing to describe our view of the medium-term trend and the specific drivers we see impacting the coming year. Let me take you through these in a reasonably granular way.

Looking firstly at the margin trend in the business, in the trading of the business, both [x] for RB and [x] MJN. Consistent with our view over several years now, we expect over time to see further moderate mix benefits on margin as Health growth returns to trend levels and Mead Johnson cost synergies are delivered. Also consistent with this established view, we expect variations around this trend each year and half year as a result of other drivers. And we expect 2018 to be a year with some negative drivers to this trend.

Specifically, we are at present seeing some commodity cost headwinds. We do not expect these to improve materially in aggregate in the short term, notwithstanding the comments specifically on dairy costs a couple of moments ago. And we are also in the face of tougher price pressure with our established retail customers facing substantial structural change. We absolutely do not see this as a long-term pressure, but we also do not see it going away in the very short term. We do not expect our internal efficiency programs to be able to offset fully these commodity cost and price pressures in 2018.

Secondly, looking at the effect on margins from the Mead Johnson acquisition and the creation of the 2 business units, we have a full year effect from consolidating the lower margin Mead Johnson business. Incorporating a roughly 20% margin run rate, Mead Johnson reduced group margin by 100 basis points in 2017 before cost synergies, and there will be a 70 basis points reduction before cost synergies in 2018. We have also, of course, cost synergies from the Mead Johnson acquisition. We expect to deliver cost synergies ahead of the targets we set out on the announcement, both in 2018 as well as in aggregate.

We expect the Mead Johnson cost synergies in 2018 to exceed slightly the cost dissynergies from the creation of the business unit structure, which we referred to at Q3. And we expect around 1/2 of the available Mead Johnson cost synergies to be delivered by the end of 2018.

Turning to the next slide and a summary of the group's net working capital position. We set out the actual group net working capital numbers at end 2016 and end 2017 and also the pro forma end 2017 numbers and ratios as if Mead Johnson was already part of the group at the start of the year. You can see that strong overall position continues. We saw some increase in inventory, reflecting mainly the higher inventory levels in the infant nutrition supply model. We saw some pressures in receivable levels with days receivables, in some cases, being exchanged for changes in ordering patterns and other logistical arrangements, which reduce costs with our customers. We continue to focus strongly on payable terms as part of our procurement activity, and we have made good progress in bringing Mead Johnson within this framework.

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Period-end numbers are, of course, a point in time and subject to some variation. These full year numbers do benefit from some variation and are slightly above our medium-term target level. We continue to target negative net working capital of minus 9%.

Turning then to the cash flow statement on the next slide. As you can see, for the full year, the group had another satisfactory year of cash generation. Cash conversion, measured as free cash flow as a percent of adjusted continuing net income, was 94%. This was below 100% due largely to the exceptional cash spend. Half 2 free cash flow was GBP 0.9 billion, only 64% of adjusted net income. This was partly the result of the phasing of working capital movement around the half year. You may recall that the cyber disruption led to an abnormally high reported free cash flow in half 1, as we called out in July.

We also saw higher CapEx in half 2, including within the Mead Johnson business. We do not expect CapEx to continue at the 3.5% of revenue that it was in half 2. As signaled previously, we do expect it to increase from the about 2% level we have seen within RB in the past, and we expect it to be around 3% in 2018.

After the peak net debt of GBP 14.8 billion immediately after the Mead Johnson acquisition, we had reduced net debt to GBP 10.7 billion, as you can see, at the year-end.

Turning then briefly to the next slide on the subject of debt. Here, we have set out a summary of the group's gross and net debt at the 31st of December. As you can see, we held gross debt of GBP 12.8 billion and cash of GBP 2.1 billion. We clearly have some optimization work under way with this cash following the Mead Johnson acquisition, and indeed, U.S. tax reform.

We are happy with the maturity profile and the 1/3 floating, 2/3 fixed balance of the debt. We hold about 90% of the debt economically in dollars and about 10% in euros. We estimate the total current blended cost of our net debt at just over 3%.

Our reported financing cost of GBP 238 million comprises mainly the cost of this debt, but also, of course, the pension finance cost, the unwinding of some small future liabilities held in the balance sheet at present value under IFRS and now a part of the tax charge.

And then lastly from my part of this presentation, clearly, we've changed the way we run the group from the 1st of January, and you're going to hear more about this from Rakesh in a minute, and this will, of course, be reflected in the way that we report our numbers. The 2 business units, Health and Hygiene Home, will be the formal segments for reporting. We will show revenue-adjusted operating profit and so on for these units.

We will also continue to show in addition the IFCN revenues separately. This is clearly important for investors to understand our progress with this important acquisition, and of course, we will continue to report on our progress in delivering those cost synergies on that acquisition.

We will also show for the group as a whole revenue by geography, distinguishing North America, the rest of ENA or developed markets, Greater China and the rest of developing markets. We include as an appendix to this presentation a pro forma analysis by quarter for 2016 and 2017 of revenue by the new business units. We plan to include with the Q1 trading update a similar analysis of 2017 adjusted operating profit by business unit.

We hope that this helps you with the development of your models in line with our future reporting.

And with that, I will hand back to the boss.

Rakesh Kapoor
Group CEO & Director

You don't have to hand back because we have -- we're having Q&A now.

Adrian Nevil Hennah
CFO & Director
Of course, we're going to do Q&A, I've forgotten that. Very good.

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Question and Answer

Rakesh Kapoor
Group CEO & Director

Right, who wants to go first? Yes?

James Edwardes Jones
RBC Capital Markets, LLC, Research Division

James Edwardes Jones from RBC. A couple of questions, if I may. Rakesh, you had your fair share of problems over the last 18 months, I guess, or RB has, not you personally. To what extent do you think these problems were unavoidable? And to what extent could they have been managed better? And secondly, on the whole value-volume thing. Could you -- would you be able to quantify what has happened to value ideally across your different categories and give an indication of how important do you think that is for the virtuous business model?

Rakesh Kapoor
Group CEO & Director

Listen, I think it's very easy to look at what happened in the last 18 months where, of course, we saw a series of challenges. Some of them actually materialized in 18 months ago, although they were there for a very long period of time, and I would call Korea as one of the challenges because, as you know, the first instance of Korea happened in 2011 where -- 2000?

Adrian Nevil Hennah
CFO & Director

2000, arguably.

Rakesh Kapoor
Group CEO & Director

All right, exactly, sorry. It started in 2000 and was first reported in 2011 and then, I think, just came to a difficult moment in 2016. So I would say this is not just a -- it was there for a very, very long period of time. And then I think I would say there were -- there are 2 probably things that you referred to and they can happen at any time to anyone. I mean, I always thought that -- take cyber issues. I mean, it happened to a large number of other companies, too. I think we are living in a world where there are only 2 types of companies, 1 they have been hit by a cyber attack and the other they don't know that they have been hit by a cyber attack. And I think one of the big lessons for us has been that some of the collateral challenges that we will have from cyber attacks cannot be prevented forever. What we have to learn to do better is to get back faster and to maybe find other ways of avoiding -- detecting better. So I think we have spent a lot of time in the last, I would say, 6, 8 months in enhancing our detection and our speed of recovery. But I think to be able to say that these things cannot happen to any company would be just miffing the challenge we all see. Cyber was a collateral damage, it was not somehow targeted at RB. It was targeted at some -- as you've just probably read last week, Russia was accused of this. I think we talked about innovation. I think I am very open to talk about RB's learnings as much as I'm willing to talk about RB's strengths, if you want. And I reminded everyone of the MegaRed launch because it was by the public launch and it obviously comes across as something that therefore we hadn't done well and maybe there is an angle to it. But by and large, we became a stronger, better VMS company. And I have to say that our track record on VMS has been very, very good. Similarly, have we learned something from the Scholl launch? Yes, we have, a lot and I think this is going to make us better in the way it goes. So I -- all the challenges that you referred to are all actually about learning how to become a better company. And if you ask me 18 months later, RB is a more resilient and a better company than we were 18 months ago, and this has been my #1 reflection for you.

Adrian Nevil Hennah
CFO & Director

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Value price by category, I think, was the second part of the question.

Rakesh Kapoor
Group CEO & Director

Yes, would like to take that?

Adrian Nevil Hennah
CFO & Director

Okay, very good. So there's no question we see price pressure increasing over the last year. And in fact, when you sort of decompose our numbers, we talk about -- and if you look through these one-offs that you're referring to, volume has actually been quite constant. I mean, it's 3%, a sort of cleaner 3% in this quarter. But if you take out the disruptions you're alluding to, which were nearly all volume-related disruptions, underlying volume has been fairly flat all the way through, but price clearly has tailed off over this last year. And we called out both at Q3 and Q4 that we're seeing a 1% price mix headwind in our numbers. We believe principally as a result of the structural changes that are taking place in our channels, the big players are under a huge pressure and that shows -- the dynamic shows. We absolutely don't see this as a long-term dynamic, but we do see it as going on, as we called out, into next year. Where -- across our portfolio, you're asking different parts of our portfolio, are they impacted in different ways? Yes, we're not going to quantify in the way you're asking for. But yes, directionally, there's no doubt the pressure, if you sort of think of our portfolio as a spectrum that we show with household at one end and health at another, there's no doubt you feel those pressures bigger at the household end of the spectrum than you do at the health end of the spectrum, for all the reasons about brand equity strength and so on. So yes, there is differences. You do see it across that spectrum, but no, we're not going to call them out in a quantitative way.

Rakesh Kapoor
Group CEO & Director

Yes, Harold?

Harold Thompson

Harold Thompson from Ash Park. Just a couple of questions. In your press release, you say that online sales in China are now about 50% of your Chinese revenues. I mean, this -- the shift to online is creating a lot of debate. Can you maybe just give us some extra insights in how RB's success in online in China has been achieved and how profitability, brand management, brand building and so on and so forth is giving you extra insights on how that may apply to the rest of the online world as it develops further? And then the other question is -- well, as one of the skeptics on Schiff, some good numbers there, well done. But you did say that maybe your -- one of your, I don't know if you use the word failure, but was to just develop the shelf, the VMS shelf, in the way you would like it to be, what is required for that to succeed? Is it you to have a bigger share of that shelf, i.e. you just got more weight to manage it? Or is it something different for it to succeed? Is it achievable?

Rakesh Kapoor
Group CEO & Director

Yes, okay, cool. Listen, Harold, the first one is I have -- I'm going to give you a philosophical answer actually on the first one. Because we have our business in China, 50% of that has become online, actually I use that as a target a few years ago, 1 or 2 years ago by 2020. I said like by 2020, I expect 50% of our business will come online in China, and everyone thought it was a staggeringly high number. Well, here we are in 2018 and we have it. And I think if you ask me what is the principal reason why we have 50% of our business in China, I would say that it is what I call the scarcity mentality of RB. We didn't have a business in China when I took over, actually. I mean, I've done many bad things, of course, many things to learn. But we've had nothing. I mean, I remember our numbers and I said one day I'm going to come and talk to you guys about China, I hope that will come in my time. And one of the things that we didn't -- because we didn't have a physical business, we didn't have a mass go-to-market to compete with anyone, we decided actually that the only way we could create a meaningful business is to put all

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our effort and resources in the e-commerce channel and ride that wave out. So this is really, if you ask me why, philosophically, we are at 50%, it's not because our categories have higher propensity to be shopped online. It is just that RB, for lack of resources, if you ask me, decided to actually leapfrog the market. We've just acquired another business, which is nowhere close to its business online like this. Why? Because they have all the infrastructure. We're going to get behind it and I'm going to show some data around it. We will actually work very hard. But I think it starts with the incumbency factor. And I think the big difference, if I see in my company also, the difference between those people who are leaning unbelievably forward in this area versus those who still want -- hedge themselves is based on incumbency. And I do believe that our march, our march, RB's march to e-commerce as a company is quite relentless and very top-down. And I have to say that every company knows that what we want to do is 10x in e-commerce. And at a certain point in time, we will get there. So the second one, I think, was about VMS. I think the #1 thing I have to say about VMS that we learned was not just about shelf management, I think. The #1 thing, if you ask me what we learned about VMS, is that and I, again, reflectively say that hardly any large company could do what we managed to achieve, which is to really change the way we innovate. So I think the way we innovate on OTC, let's say, is very different to the way we innovate on Hygiene brands. Actually, VMS is unlike these 2, and therefore, a company born and brought up, innovating in a certain way and knowing the difference between the 2, actually try to innovate it like these 2 or 1 of the 2. But actually, the VMS innovation cycle, the way you go to drive it and how you get innovation is completely different. And this is the main learning I have, which is that if you want to be successful in VMS, your company has to have entrepreneurship and agility to innovate in a way that is what consumers want and what customers want. And if you can get that, you are going to be successful. If you behave like a large company, which is most often the case, you cannot be successful in VMS. And this is, in my opinion, the principal reason why most VMS companies, most, are kind of these entrepreneurial smaller companies. But again, a more philosophical answer to -- or more answer borne by my learning actually in how to be successful in these 2 areas, both e-commerce as well as VMS. Yes? Jeremy, you want to go...

Jeremy Fialko
Redburn (Europe) Limited, Research Division

Yes. It's Jeremy Fialko at Redburn. So 2 questions. The first one is on the Mead growth in 2018. Do you think the circa 3% that you were at in Q4 is a kind of broadly reasonable run rate for you to be going at in 2018 or whether you think you might be able to do a bit better than that? And then secondly, on the benefits of your new organization in terms of these innovation and agility you hope that's going to bring, can you talk about how you think that's going to start manifesting itself in the numbers you report sort of how quickly and some of the changes from that?

Rakesh Kapoor
Group CEO & Director

Yes. So we are going to talk about our targets for next year later in the second half of the show. But let me just say that when we bought Mead Johnson, we said that we expect this category, the infant nutrition category, to be growing at 3% to 5% in the medium term. And we said that although we were far behind that curve, we were, like I said, negative or no growth for 9 quarters before. We said our ambition would be to progressively, progressively get to the top end of that curve, and that is what we stick to. I'm not going to set targets by quarter or by even sector for '18. We have a broad target for the company. But I don't want you to either take 3% as the ongoing run rate or benchmark or not to take it. It's just an overall -- I have an overall target for the company and that's what we will be pursuing. But I have to say that you have to be confident to do things like what we did with Mead Johnson. And I know that not everyone, but some people, did think where it came from, like I said. And I have to say that 6.5 months or so into this acquisition, we have seen and got to maybe better than we were expecting it to be. So I think I can honestly tell you that we are in a -- we saw that this is going to require a lot of work and has required a lot of work. We have -- there's still more to do. But I have to say that we are in a better place than maybe we could have been and that is a good thing. It's a good thing. Yes?

Unknown Analyst

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I don't get it because, remember, we had all these other brand names, and then we look at the world economy and sort of 3.5%, 4%, that's probably where it is. And you're guiding for 2% to 3%. And I did -- I appreciate that there are a lot of moving parts, but what is the issue really? Is it VMS? Is at Home? Is it Mead Johnson? Is it China? Why are you not growing?

Rakesh Kapoor
Group CEO & Director

Yes, why are we not guiding to more growth actually, yes, exactly. I think as we said to you in our Q3 call and we are going to sort of restate what we said, that the markets that we compete in, and I'm not talking about every market that might exist in the world, the markets we compete in are growing at about 2%. And what we have said is that in -- we expect that this time to grow more or less in line with that market.

Unknown Analyst

And also, I think, Adrian, you mentioned that you think price pressures are considered to be only of short-term nature. What makes you so confident about that?

Adrian Nevil Hennah
CFO & Director

Well, it's based, I think, on our understanding of what is driving them, which feels very much like structural change in the retailer channels. I mean, there clearly are, as is very evident to everyone in this room, very substantial players on those big players. And they are behaving in ways which are the way they've always behaved but stronger, but on steroids, if you like, is the way they conduct their relationship with us and other manufacturers. But when you then step back and say, well, this is -- because this is clearly a structural change in that part of the market and the -- where you go from the manufacturer's warehouse through to the consumer's pantry, there are clearly enormous structural changes taking place in that. But then you step back and you say, does that point to a change in the total profit that you expect to generate from our type of brands? We don't see why. Does it point to a different allocation of that profit between the manufacturer, the middle person and the consumer? We don't see why. So when you take that sort of longer-term view, it does feel like a fairly intense but short term set of adjustments. That's our logic.

Rakesh Kapoor
Group CEO & Director

And I would add one more thing -- sorry, go on.

Unknown Analyst

We talked about price pressure, didn't we, net profitability?

Adrian Nevil Hennah
CFO & Director

Yes. Well, one could get pretty esoteric here but price pressure that's leading to changes in -- for a while in the profitability between the components in the value chain essentially. I mean, it's the mechanism for -- that's the mechanism for shifting it, isn't it?

Rakesh Kapoor
Group CEO & Director

Listen, I would add a couple of points here, which is that I think if you look at the last couple of years, not only have we seen some of the dramatic changes in channel shifts and how some key people have responded, but I also think that this is also being typified by climate, which is quite benign from a commodity point of view. So there was some money there. I think we expect to see a tougher commodity climate, and as a result of it, I'm not sure whether this type of pricing that has been in the market over the last 12 to 18 months can sustain. So will it turn dramatically and immediately? I cannot judge. But I think if the commodity headwinds stay the way they -- we see it today. I don't see this negative pricing

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to be something that is going to play out for a long period of time. And that's how I would see it. We have had also benign commodity environment over 18, 24 months before. Yes?

Richard Joyce
Senior Vice President of Investor Relations

Right. The last 2 questions have been about the future, so I think now is a good time to stop. We'll have a 10-minute break. So if you can come back at quarter to 10, we'll talk about the future and there's more time to ask Q&As after that. Thanks.
[Break]

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Presentation

Rakesh Kapoor
Group CEO & Director

Second half, I'm going to basically talk to you about 2 things. One is really what -- give you some color on Mead Johnson because Mead Johnson is not just an acquisition for RB. As I said, it is going to be a catalyst for RB. So I'm going to -- before I talk about RB 2.0, just want to take you through Mead Johnson, what we've done over the last 6 months or so and how we see that perform.

So this is the chart I showed you guys at the time of the Mead Johnson acquisition. We said there are 3 things we want to do, and in -- maybe in stages; some concurrently, but in stages. First, understand IFCN because it is a completely new category for us and how should we use Mead Johnson acquisition to get to a point which is best of both. Because clearly, Mead Johnson has some -- strong 100-year company, strong heritage and, of course, RB has fantastic track record, and how do we actually get the best of both. Second, we need to improve the operational rigor and performance because clearly, it was not going in the right way. And the final thing was we said we are going to learn about Mead Johnson and figure out how we are going to use this to create the right platform for growth in our performance. This is a chart from last year, okay?

So the first part is best of both. And I think the best of both actually in RB always starts with 1 thing, which is the culture. And I think it's very important to state upfront where we are. What is the RB culture? What is the RB magic? And you've heard this before, I've spoken about it and maybe 1 day maybe once more reiterate basically how I talk about the culture and why it's so special and unique. So starts with achievement orientation. Achievement for us is not being happy with our VMS performance even when other people will think it's spectacular. It's -- achievement is that, the high bar that we set ourselves. Entrepreneurship is about being agile and nimble and doing things that take a long time for other companies to do. We just talked about that as reference examples of China and also of how we used Mead Johnson, the speed with which we got done and the speed, by the way, of getting RB 2.0 done. I'll talk about that.

Ownership. Everyone in this company is an owner. We don't behave like professionals. We behave like owners of the company. That's very important. And partnership is this notion that we will only be successful when we work better with each other, both inside but also outside of the company.

This is the very best. This is the magic of RB, magic of the culture of the company. Now we want to bring all this with Mead Johnson because it's fantastic. But equally, we understood very quickly that when you are serving moms and babies, when you are actually dedicated to giving babies the best start in life, nourishing the best start in life, it comes with a huge responsibility. As I said to you guys before, the first 1,000 days define how the child grows up, and 90% of the brain development actually takes place in the first 1,000 days. So this comes with a huge responsibility. And therefore, we put responsibility as a new value. I mean, this is the first new value I think we have brought to RB in the years that I have been there, and I have been there a very long period of time. And responsibility for us is not just doing the right thing. It is doing the right thing no matter how hard it is, and to dedicate ourselves to serving consumers and customers and doing the right thing for them.

So I think this is a very important new thing that we are adding as a part of our best of both. We see how the additional responsibility of Mead Johnson's Nutrition business means to RB. But equally, we want to add the very best of magic of RB to turn around Mead Johnson.

So let's just talk about some of the aspects of how we think we have come to in the last 6.5-odd months with Mead Johnson and what is shaping our thinking around the turning around of Mead Johnson. So first thing, it starts with, very simple: enhancing competitiveness. And you select, what does that really mean and look like?

I'm going to show you a photo, basically, of the Mead Johnson pack in China, which you might not -- of China and even other parts of the world, which you might not be able to see. This is a very big brand

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in China, this is Mead Johnson's premium product. But these are the normal products Mead Johnson against the normal product of another leading -- you can see already on the chart what's wrong, okay? So enhancing competitiveness is to actually turn this into an on-shelf competitiveness and superiority. It's not too difficult but not so fast. And that's what we did. Just make sure -- when you say, "Well, okay, we increased the can height," and that's very easy and that's very normal. Actually, not. The real issue here with the left-hand side is there is no scoop in the cap. So what happens is when you actually open the product, okay, you have to put your hand right in and find the scoop. Moms have to go and put their hand right in to find the scoop. The scoop cannot be put automatically on the top layer of the pack.

In this pack or now in this, you can actually put the scoop right here, which means as soon as you take the can out, you don't have to put, I'm calling them maybe messy hands and, therefore, you offer consumers a secure, hygienic, easy solution to make sure that they can feed the babies with the right quantity and the right way. And that's what actually improving and enhancing competitiveness really means. That's what it means. So that's 1 example I think I'm going to give you.

The second example, again, might seem very trivial to you but very important. We were losing share in 1 market and we figured out basically they were saying we have to cut prices and because we were very expensive, we have to cut prices. We actually found out that a vast majority of the volume was now getting traded up to large-volume packs, which we didn't have. We just didn't have large sizes. So you might look like, "Really, it's that simple?" Yes, it's that simple. Just introduce the large sizes and reverse the share trend. This happened in 2 months, actually. The story of really figuring out what was not working, what was going wrong, put the right 4 Ps of rightsizing pricing. So that's what competitiveness really, really means in granular terms. You ask me, "How does that show up?" That's what it means: to really figure out at a market level what's happening, what's not working, how do we actually get there fast. I once went to 1 market and say like, "We need to have these bigger cans." The same example of bigger cans. "How long will it take?" "18 months." We actually got this done within 6 months.

So I think that's what really you bring the best of RB culture to improve and bring urgency, I would say, speed and actually make that happen. So just examples of that. But actually, enhancing competitiveness just doesn't come from doing stuff like getting the rightsizing pricing, getting the right value proposition on-shelf. It also means getting the right innovation in-market as soon as possible.

So I think, again, we have brought I'm going to talk about this, this is a very exciting new launch taking place in the U.S. We're announcing that. It's going to be in the market around March, April, I would say. But really, in breakneck speed, in record time, the team there has created this innovation. And I think this kind of urgency that we were able to bring to our Mead Johnson, let's say, colleagues and brands and businesses has been very, very good and very noticeable. I'm going to come and describe this innovation to you because it's quite an interesting innovation.

The second thing after basically competitiveness, to turn around Mead Johnson is something that I think somebody was asking me recently, the China example. And I think it is true that I do not see any reason why the infant nutrition category should not be materially bigger in e-commerce and online than it is just now. And I would say it's not because of consumer or shopper or whatever. It's all down to companies. I think companies can do a far better job in reaching consumers and shoppers in ways that they want and, therefore, the onus is really on us.

So what we have done is very simple: we have actually galvanized this effort, massively and truly galvanized this effort. Two examples of that. We've now opened our direct-to-consumer platform both in the U.S. and China. And I think just -- I mean, the numbers are still very small, so don't get very excited and even though I am very excited, but the numbers, we have finished the run rate in 6 months -- or actually not 6, 3 or 4 months, I would say at 3x, 4x from where we started. So the run rates are very good already on the D2C platform. And the law of mathematics works like it did for China. You create a sizable business and you put a growth mechanic on it. It can be very valuable.

Give you another example, 11/11 something, which I think a lot of you probably already know, it's become a big thing in China. We had -- we doubled our 11/11 performance in just a few months of getting there. And I think we have big plans, of course, for next year. So I think driving this channel mix, which has been an opportunity but also a challenge in Mead Johnson, is something we are addressing very fast

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and very hard. So I think that -- I can already see some big signs that, that will become a nice, interesting way of driving this business.

The third thing, of course, is bringing what you all know is simple operational rigor. Bringing this idea of what the P&L looks like and how do you actually drive the P&L and how do we drive gross margin and how do you drive the whole P&L. And I think just that education process and delivering the rigor on performance management has been an important change in the process that we've undergone. We have really, really been preaching and showing how we can actually drive better results with simple performance management. And I think Adrian and I have both alluded to the fact that when we took over Mead Johnson, we found the op margins to be minus 500 basis points in the first half, lower than what we expected. We did expect operating margins to be lower. We did expect it. But they were lower than that. And what we have done in the second half of the year is brought back to the right trend and trajectory the operating margin performance. So this is going to be an important part of basically how we do it. And some of that, clearly, is going to play out in our growth model, which I have said, I think I did say it just before the break, that we expect medium-term trends on this category to be 3% to 5%. Our performance needs to be at the upper end, and that's what we are going for. And the synergies now already are being targeted at the region of $300 million or so.

So I think this has been, the 6.5 months or so, have been a good 6.5 months. I'm absolutely happy with where we are, although we know that we have a lot more work to do here. But the trends are good, the momentum, we have -- we have created -- the urgency we've created is good. But also equally, now we found a new way of managing Mead Johnson, which is where the catalyst comes in. And I think the catalyst is an important part because how do we actually use Mead Johnson as a platform but equally how to give Mead Johnson a platform to do better is both achieved by what we call RB 2.0.

Now the next chart I'm going to show you is something also that I've shown you before. I've shown you that actually, the portfolio of RB is a coherent portfolio. It's not a portfolio which has no basis, that it's somehow disconnected. It might have been the case, if I may say so, when we had Food. It was disconnected portfolio. This is the connected portfolio. It is a portfolio on a continuum. We have health relief. We have problem solution brands here. You have a cold, you can take Mucinex; you have a pain or fever, you take Nurofen. And then you have brands in the area of nutrition to make you -- keep you healthy, whether it's the first 1,000 days with Enfamil or Nutramigen or just to keep you healthy, if you are -- if you need immunity, a boost of immunity or heart health or many of the other brands. And then we have wellness. Wellness, sexual wellness is an important issue for people. I mean, I can give you a lot of stats about how many people are satisfied with their sex lives. But how do we actually serve those people who want to have sexual happiness and wellness. So this is another part of the continuum.

And then it goes to an area which we call health hygiene. Health hygiene, because when you come with me to Nigeria or India or markets like that, Dettol is about hygiene. It's about health hygiene. You have a brown liquid, which is about -- it's an antiseptic liquid. You fall down, you get hurt, you don't want to have a septic, you don't want to have infection. You apply Dettol. And it's very much a health hygiene brand, or whether it's skin hygiene with Clearasil. So we call this Health Hygiene.

And then you have home hygiene, brands that are giving you hygiene at home. Lysol is a big example of that, but also Harpic with toilet hygiene and so on and so on. So you've got home hygiene and then you've got Home Care.

This is the category continuum of RB. But clearly, you can see it is quite a wide-stretched portfolio. And we did talk about how do we actually do the right thing for this portfolio? How do we actually create the condition for this portfolio? Because this portfolio has materially changed in just 5, 6 years. It has changed. Because I showed you this chart, this chart in 2012. And you might remember, 65% of our business was in hygiene, health hygiene. 65% at that time. And we had a materially large -- larger home business and portfolio business. Some of you remember this maybe, on the left-hand side. The right-hand side looks quite materially changed. I mean, again, in our industry, to move from 65% to 85% or so is quite significant. And then the health part -- sorry, and the health part, really moving from 23% to 50%. So this has happened.

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But beyond this happening actually, what has also happened is that while we have done quite well, I have to say, quite well on the Health side, this is the sixth year compounded annual growth rate on the Health portfolio, 6 years. So this includes last year, fiscal '17, right? So in the last 6 years or so, we've grown our Health business by a compounded annual growth rate of 7%. But on Hygiene Home, just 1%. Not happy. Not happy.

And with Mead Johnson coming in, guess what's going to happen? The same kind of issue could play out in the future. The same kind of issue could play out in the future. So RB 2.0 is providing the right home for Mead Johnson so that we can use the RB Health capability and platform to do a better job in our Health business, including Mead Johnson, but also to find a way of driving growth in brands that are really wonderful brands. They are fantastic brands, even if we haven't done a fantastic job on those brands.

Just as a reminder, what are these brands actually? These brands basically are item #1 or #2 in the world. 80% of the net revenue of Hygiene Home, 80% of the net revenue for Hygiene Home comes from #1, #2 brands. It does. So I think the first point on RB 2.0 is, are we doing a good enough job? Can we do better? And how should we think about getting the right focus, the right accountability and the right, I would say, people to do a good job here. And that's what RB 2.0 is all about, basically is to give 2 platforms with 2 business units, 2 accountable focused management teams to make sure we can execute very well. That's where it is going to be. So this from here to the health hygiene part is going to be handled by Health and the Hygiene Home part. And they are 2 substantial business units. It's like they are a scaled platform. It's GBP 5 billion, it's quite large, and I would say that many companies do not have a GBP 5 billion Hygiene Home business. So that is a significant and material size business with lots of interesting opportunities. And then, of course, our health -- consumer health part at GBP 8 billion is already one of the large consumer health businesses in the world. That's what we've managed to create.

So the question then is how does it affect -- I think one of the questions came from the room, was what does it mean in terms of growth rates and so on and so forth? So let's just look at the growth algorithm that we have talked to you previously about RB in, let's call it, RB 1.0 language. Okay, this is what you've seen before. I think we showed it to you in one of our Investor Days a long time ago. We never had many Investor Days, but certainly 1 in my lifetime, and we showed you this. We said we expect health care, not OTC -- just remember, it's not OTC, it's consumer health, consumer health to be a 4% to 6% growth category. And we said why it will be a 4% to 6% growth category. We said there are structural reasons why. There are demographics which are driving this. There are economic reasons that are driving it. There are social actually factors that are driving it. And this part, since I said it 5, 6 years ago, everyone has said it again. So you don't need to hear it now back from me because everyone has said why consumer health is one of the structurally attractive categories. And it's structurally attractive from 1 more reason that we have not maybe so openly talked about, which is when I think about the moats around businesses. When we think about -- there was also an allusion on pricing, et cetera -- when we think about moats around the businesses, I have found that consumer health is probably one of the strongest moats that I have seen in the consumer industry. It's the strongest moat. And the reason is very simple: when you have a pain and headache, you are going to buy a pill which is 10p, and 10p is nothing for your headache. If somebody had a headache and I said like your headache can go away and it's 10p, I will get this money right away in the room. Pricing does not matter. Getting well matters. And brands have stronger moats around them when it comes to consumer health. So I do expect consumer health to be a strong, steady-growth category.

But what does it really look like in the new RB 2.0 environment? So this consumer health, which is what we had, has 2 more components basically. The first one is IFCN, okay? And that is a 3% to 5% growth category, I said that. And you can do the maths here, population growth but also other pluses and minuses that I talked about in the -- at the time of the acquisition. 3% to 5% are -- our goal is to be at the upper end of 3% to 5%. That's what I've said. So no change.

And then the hygiene health. The hygiene health part of the market, and this also is a 3% to 5% growth market and our ambition is still to be at the upper end here. Back from the health hygiene part, okay?

When you combine all these, the sizes of these categories and when you combine this, this is the algorithm. The algorithm here is this new RB Health in RB 2.0 is a 3% to 5% category. This GBP 8 billion

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worth that you saw is 3% to 5%, and we are going to target upper end plus growth in the medium term, okay? So, so far on RB Health.

What is in RB 2.0 going to be the Hygiene Home side? So let's remind ourselves what I said about Hygiene Home. When you take away the large Dettol personal care and all these other stuff, with soaps, et cetera, just to remind you, it's a large category. When you take that out of the Hygiene Home side, the Hygiene side, it is a 2 point -- it's a 2% to 4% growth category. And our ambition here is going to be upper end. In line with what our ambition was on Hygiene. So no change here, too. And then you've got our Home business, which is 1% to 2% growth. Our ambition, to be in line. So what does it mean in terms of Hygiene Home? Because somebody did ask me this question, what is your ambition on Hygiene Home? Now remember, we've grown on a compounded annual basis at 1% over the last 6 years. That's what the growth has been.

So our ambition for Hygiene Home here is a category growth rate of 2% to 3%. That's what we expect the category growth rate in the medium term to be and our ambition is to be either in line or to the upper end. That's where we want to be.

Now we all want to get there in January. But if you can't make it in January, can you please make it Q1? And if you really can't make it Q1, I'm sure you're going to make it in 2018. I would love all these statements to be true. I would love all these statements to be true. But actually, I cannot say because we are ready, we are ready with RB 2.0 but it will need more work, just the way Mead Johnson needs work. And we are going to be on this trajectory, this is where we want to be, but it's not going to happen in January. Maybe it will, but maybe not. And we'll see. We'll see how we -- how quickly we can get there. Our ambition is right on this page, and it's no different to what we have said before, okay? So that's the new algorithm on RB 2.0, and that's what I've spent some time to explain how the genesis is.

Now where are we with RB 2.0? So actually, a lot faster and earlier than we thought we could be or anyone thought we could be. So already, actually, we announced RB 2.0 with our Q3 results mid-October, right? January 1, we have everyone in the 2 business units already in place. So if you come with me to see a market with it, you'll have a team on Health and a team on Hygiene Home. They know what they are doing, they have their targets, they're going to get going about it, and we have the organization in place. And I have to say in 2.5 months, if you find another company which can do it, bring them in. Bring them in and ask them how did you ever manage to do it? It is a fantastic achievement. And if I may say so, to take half a second, once again a reminder of RB's culture and can-do spirit. And I have to tell you that although 2017 could not be rebound, but the motivation levels, the mood, the optimism in the company in January 2018 has been absolutely fantastic. So this is a really new thing that everyone is going after. So that has happened.

Half 1, we are working in the process of, let's say, going to different customers and making that happen with customers. And this whole new operating model will be embedded in and then, of course, there are some infrastructure work to be done, legal entities and stuff like that, which will take place over the next couple of years. So that's really what RB 2.0 journey looks like where, from let's call it the operational side, we are there. But from the technical side, will be a journey.

What should you expect in due course from RB 2.0? In the Hygiene Home side, faster innovation, better innovation, more investment, leaner structures, closer to customers and consumers. And beginning their own virtuous cycle and having that accountability that now they will also have a lens, they will also have to show up basically. And just 1 part of the business is not going to carry the whole company. So that's very cool.

On Health, as I said to you, you should expect all these things. You should expect Mead Johnson to get better over time so that we can achieve our ambition to be at the upper end of the spectrum. You should expect us to drive the same kind of digital and e-commerce disruption that we've done on a number of our places. And of course, continue to outperform here on Health, continue to outperform in Health. And RB 2.0, I would say, for some people, already happened. It's what's new. And I think somebody asked me this question in the break and I think I'm going to talk about that, somebody asked me, "Are you not going to be more stressed in RB 2.0 because you have to be the CEO and the Head of Health?" And I will say, well, earlier I was the CEO and the head of the company, so it's the same actually, but maybe even

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smaller because I have a fully dedicated accountable management teams which is looking after Hygiene Home. And they are a bit more empowered than otherwise would have been. But equally, they have a more demanding, basically, environment to be under. So I think I honestly say that October and December was a tough period from a work point of view. I think we are in a much better place when it comes to how we see ourselves from now. So that's RB 2.0.

Want to just take you through our innovation pipeline. And I thought as a departure from the past, I should start the innovation pipeline with Hygiene Home and not from Health, maybe a sign of times to come, like why not start with Hygiene Home?

So let's start with Finish. This is the first actually big format change on Finish after a very long period of time. So we used to have Finish Quantums, right? This is the new Finish, let's call it, Quantum and better product, better cleaning and a thermoforming 3-chamber technology. The Powerball, a very cool -- it's a gel -- power gel, power cap. So it's very good. It's going into the U.S. with very good reception, I would say, so far from the trade. So that's what is happening and then progressively get into other part of the world.

The second one actually is quite topical, I would say, because we know and I think you know that safety is a growing concern amongst moms and particularly when you have young families around you. And I would say that Lysol is probably the brand that protects you from germs without any trade-offs. And what we are launching under Lysol with wipes and in trigger is a new product which has no harsh chemicals. It has just 3 ingredients actually: Water, salt and hypochlorous acid, which is a chemical found in your body to fight bacteria. So it has no chemical residues and as a result of which, actually, you can use this product where your children eat and on countertops and high chairs and so on and so forth. So this is a range going in, very excited about that as we speak.

Moving on to Harpic. I think the Harpic one is also in the goody bag if you would choose to -- actually, this is also in the goody bag, I think. The Harpic one is in the goody bag. The interesting thing about Harpic, this one is -- not only does it give you -- these toilets are, we all know, tough to clean but not only does it give you a clean but it gives you a visible clean in the sense that the water will be colored with any of the colors you choose to be. So I think in between use of cleaning, you can see your toilets should be cleaner, cooler look actually. So this is going in under Harpic, called Harpic Colour Power 6. Lots of interesting new things here.

On Vanish, we're launching Vanish Gold with yet another torture stain, and that torture stain is body marks. Now what happens is interesting. Body marks are a combination of built-up sweat, sebum that settles into your fabric and attracts actually dust and pollution. That's what makes it more difficult to remove. So if you have sweaty armpits, they're more difficult to remove because the way the sweat and sebum attracts basically pollution, dirt, et cetera, et cetera. And very tough to remove with first time clean. This is where Vanish comes in. Not only takes your sweaty stains out first time, but you don't have to scrub. Your fabrics are safer, and therefore, with Vanish, you get what it stands for, amazing stain removal and yet safe. So have you given it to them, Richard?

Richard Joyce
Senior Vice President of Investor Relations

Not this time.

Rakesh Kapoor
Group CEO & Director

Please buy it then. It's good, we should not give everything away. I think this thing that Adrian was hinting at is -- Adrian, this is going to do very well. So -- and I know it because you don't like it because then -- if you don't like hair care products, I'm cool with it because it's going to do very well.

Adrian Nevil Hennah
CFO & Director

I love hair care products. Put it here, Rakesh.

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Rakesh Kapoor
Group CEO & Director

Now you're saying. So okay, listen, what is happening -- what is -- this is a vaporizer, and this is a vaporizer without water. So that is different. And I think we have a 30-second ad, maybe we should show it and then I can explain what it is.

[Presentation]

Rakesh Kapoor
Group CEO & Director

So it's going into a number of countries. Actually, I have to say that the innovation rate on Air Wick has been dialed up despite, let's say, maybe not having the same kind of focus before. But we have dialed up the innovation rate on Air Wick, and this one basically comes with multiple settings that you might be able to see and, therefore, you can customize your fragrance experience. It is battery-operated. You can put it anywhere you want, including a bit away from you if you don't want it.

So moving to Health. Okay, cool. Let's talk about Enfa, and I did tell you that we have put a new innovation in the market, but I want to talk to you about the science first actually. And there's a lot of things to admire about Mead Johnson. It's a company from 100 years for something, and that something is they're dedicated to science. Mead Johnson was the first company to launch DHA, which became the benchmark for brain health. And actually, after so many decades after, they have launched -- they have discovered MFGM. It's a milk fat globule membrane which is the biggest breakthrough in the formula. It is a nutrient-rich compound found in human milk, and has important outcome benefits.

Let me say it, so the MFGM formula has been clinically shown to help close the gap in cognitive development between formula-fed and breast-fed milk. So if you just follow the simple chart, other studied formula without MFGM, this is MFGM in cognitive health, and this is breast milk. So it is seen as the most significant advancement. We did not -- RB did not discover it. It was there. What we have done is we've launched it in the U.S. in very fast -- with very fast speed as the first formula with DHA and MFGM. It is going to be -- it has also -- we are also creating a platform for clinical research on this MFGM so that we can actually solidify this as an ongoing opportunity going forward. And we should be in the stores, like I said, in March, April time in the U.S. So very, very interesting and exciting. Now we know that U.S., our U.S. business does need innovation because it has had a tough time and, therefore, we are hopeful that some of this will play out to be a positive fact for the U.S. business.

Okay, moving from here to Scholl because I need to confront and take Scholl all the time because that's what we have always done. Now let me give you the good news. This is not coming at a price premium over the previous gadget even though it has more benefits. And the more benefits are, apart from removing your hard skin, we know that people also exfoliate. One of the things when you talk to people what do you do with your hard skin, well, after hard skin, we want to exfoliate. So we're providing an exfoliation benefit with the hard skin remover and that people can use by simply replacing the head with a hard skin refill and get, let's call it, a 2-in-1 benefit of not just hard skin removal but a very nice exfoliating benefit. Also going into a large number of markets in Q1 this year. Okay, so that's what's happening on Scholl.

On Durex, actually very clever. Adrian, do you want to talk about this one? No? Okay, because it has things like Light my fire and Be my sweet addiction. So -- and it's actually for people who are awkward in talking about sex, and actually most of them are first-time people. Now I'm not saying that is the case here, but it is for people who actually have their first moments and they find it very awkward. And we know that Durex wants to bring in people into their first time with safe sex. Why? Because we know that STIs are on the rise. We know unwanted pregnancies are on the rise. So apart from this being something fun, it's also a very serious topic for RB. We want to take care of that serious topic. And therefore, what we wanted to do was bring a range of Durex products which have -- how people -- the new language of millennials, emojis, send each other emojis rather than send messages. And we just put something funny there so that people can actually -- so what you do, you buy a Durex pack, you get a special emoji and you can put that emoji and use that to communicate basically your awkward moment. And I think -- we

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thought it was a crazy idea. We launched it in Europe -- in Russia last year. Did extraordinarily well. Taking everywhere basically now. So that's Durex emoji.

And just to prove the point, on VMS, I want to talk to you about 2 VMS innovations, although I said that we are launching 4 products, 4 innovations in Move Free itself [indiscernible] this year, but this one is just one of them, and this is Move Free 2in1. And what is happening is that Glucosamine Chondroitin is in some quarters not seen as the most, let's call it, the latest generation of joint health. So what we are launching here is something better and it has a patented combination of calcium fructoborate that improves joint comfort in as little, and you might think it's not early enough, as little as 7 days and then keeps getting better for longer you use it. And we measured this over a 90-day study. So it is really the first and the best-proven joint care product which is being launched in the U.S. but also, of course, in some other markets, too.

Moving on from here to Digestive Advantage, and here, we are launching an innovation which I think is also first. There's something first here, too. It's not just a probiotic, which a number of people have, but it also has a prebiotic; and a prebiotic actually helps your probiotic feed. It feeds your probiotic. So probiotic is good bacteria and it mix -- it feeds your good bacteria so it becomes more effective. So this is the first one with a prebiotic fiber. And the probiotic also is a superior probiotic. It has a compound called UC30, which is basically again a special patented compound which has, I think, 100x performance over normal prebiotics. So this is quite a different innovation -- yes, 100x it says there somewhere, 100x better prebiotics. So again very exciting; launching in a new format called gummies, which are doing quite well actually as a format, and we are happy about that.

Moving from Schiff/VMS brands, let's talk about Nurofen. And I think this is also very interesting because, for the very first time, we have a Nurofen patch. And we know that some people, particularly those who suffer from chronic pain -- people, those who suffer from chronic pain, do not like to take systemic analgesics, don't want to pop pills day after day and, therefore, use topical products. The problem with topical products is sometimes, they're messy and not easy and they don't last long enough. This one is the first ibuprofen 24-hour patch. So this has been a long time making, I have to say that. There was a lot of clinical work here, and this is going to be quite a breakthrough in terms of topical relief for 24 hours. So we are very excited about that, it's going progressively. As we get the regulations -- regulatory approvals, it's going to go through all the key markets going forward. Again, I don't think this is in the goody bag. Not allowed to. There you go. Not allowed to.

I think I'm going to -- I think, yes, I'm going to finish actually talking about health with not an innovation actually. If you choose to call this not as an innovation. Now as I said that Mucinex is the #1 OTC brand in North America, which is a phenomenal thing to do. But this is the first RB brand ever to get into Super Bowl. We never used Super Bowl. It's too expensive. $5 million a spot, by the way. So we said how do we actually spend less money and get as much? So that is another starting point. And yet, of course, we know Super Bowl happen at a time when there is a flu season already, right? So we came with this idea -- all those people who are from America probably can visualize this, the #1 day where people call in sick in the whole year is the Monday after the Super Bowl, okay? There are no RB people who call in sick, but I know banks, generally are people who call in sick. Bankers generally call in sick. RB people come to work.

Now this is a simple insight. We called it SuperSickMonday, okay? So what we did was we showed 2 commercials. The first one as a teaser and the second one just as Super Bowl finished, just the first one. A lot less expensive but very, very right. And as you know, Super Bowl is not just a theater of a game and show, there's also -- a lot of big commercials get launched that day and then they get talked about. And I mean, I was there on the next morning actually, I was in America, and they were talking about all the commercials and which ones were good and which ones were not good. I have to say, this was one of the top commercials in Super Bowl. So let me just show you the first teaser that we had. So let's play the first one.

[Presentation]

Rakesh Kapoor
Group CEO & Director

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So this is not the day of Super Bowl. We actually launched this to create this idea of SuperSickMonday and got a lot of -- obviously, so we talk about them on social media and digital media. This is it. You become part of the pop culture. You talk about something which everyone is talking about and we got there.

The spot I'm going to show you is the one we showed just as Super Bowl was finished. The final whistle blew, and this spot came on.

[Presentation]

Rakesh Kapoor
Group CEO & Director

And I have to say that it's this type of brilliance and innovation that we want to see in this company. It cost still a lot of money but achieved 4 weeks' worth of advertising with the number of social media and other engagements we got. So if this is not innovation, then what is?

So with that, I think I just want to come into the targets for 2018, which I think everyone has gone through, must've been probably the first thing you looked at. So let me just remind you all that what we are setting is actually total revenue targets of 13% to 14%, which implies 2% to 3% like-for-like because after first 5.5 months, we become total revenue. And let's face it, our company, everyone in the company has target to achieve total revenue. They don't always understand like-for-like. But I want to make sure that you have that clarification. And then the operating margin guidance, as Adrian has elaborated rather exhaustively, I would say, is moderate margin expansion in the medium term.
And with that, I'm happy to take, and Adrian is happy to take the next round of Q&As. Yes, [Stuart], you want to go first?

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Question and Answer

Unknown Analyst

I'd just like a question on your RB 2.0. In the light of the speculation around Pfizer or some other kind of health house asset, how do you think about that evolving?

Rakesh Kapoor
Group CEO & Director

Well, first of all, I cannot comment on any speculation because as you rightly say, it's speculation. All I would comment to you is that we have been very disciplined in looking at M&A. I mean, I know that the ones we do always come and get talked about. The ones we walk away from, some publicly actually and some not publicly, never gets spoken about. In all the M&As we've done, we have applied 3 very simple criteria: strategically compelling; we need to be better owners and in some cases, make us better also actually; and finally, of course, it has to have value for shareholders, and we are shareholders also ourselves, as you know, and we need to see value. Now that's the criteria we've applied and for every major acquisition we've done so far, my lifetime and before, all these 3 things have been proven to be true. That shows that we -- not by accident, it is by discipline. And to be -- to know when to enter and when to walk away. So I think we will be very disciplined in any future M&A that we may do at whatever point in time. All I would say is RB 2.0 is a great platform because it does enable us to manage not just our Health business, which we of course is very precious and we want to, but also our Health, Hygiene Home business, which I have to say has underperformed versus potential because they never got the focus. But now it does. Now we have a dedicated team. So I feel much better actually about our ability to have broad-based growth, which is what we want because there are some very large brands sitting in the hygiene home side. Some people call them billion dollar brands and there are billion dollar brands sitting on the other side of the equation. And we want to see that grow better. And I think RB 2.0 is better for that because theoretically, I mean, just theoretically, if we make any acquisition, large or small, it does not impact the whole company the way otherwise would be. So I think that is a good thing about the platforms. Martin?

Martin John Deboo
Jefferies LLC, Research Division

Martin Deboo, Jefferies. Rakesh, at the core of the guidance, I think, is this 4% to 6% in OTC health, and you think you've batted at about that rate in Q4. I mean, the other big 5 players seem to me to be sort of growing roughly 3%, so the inference is you're taking share both at the moment in OTC, but you're anticipating, depending on your assumption about the market, taking share going forward. And can you confirm I'm understanding that correctly and could you give some color around where you feel you are taking share? It looks from the release as if Durex was key to it in Q4, but any color you can give at a brand and category level, just to help us understand the dynamics of that guidance I think.

Rakesh Kapoor
Group CEO & Director

Yes, I think first of all, most companies will talk about OTC when they talk about growth. And I think OTC has characteristics which have their own growth algorithm. But our definition of consumer health is broader than that. I've always said that. And I think when you include -- I mean, for example, VMS is not OTC. VMS, at 4% to 6% of a very large category mathematically changes the growth rate of consumer health. This algorithm you'll see. But this is not just about VMS. There are other categories that we have, which are to us consumer health. Sexual health is consumer health, preventing AIDS and STIs is consumer health. So when we talk about 4% to 6%, we talk about that. Second thing I want to say is that we didn't say that it will be 4% to 6% in every quarter and in every year because it will not be. Because what happens is that you can have 1 big innovation or sets of innovations or switches or things that are actually which move markets materially higher in some area and could also be seasonality actually, by the way, could be seasonality and could be the other way around. So I think we -- nothing I've seen actually

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makes me believe that the 4% to 6% algorithm on consumer health should change. But when we bring IFCN and other things, of course, there is a different algorithm. But it should not change. And actually, I know we documented quite well the impact of Scholl probably in the release as well. And that is also okay to actually acknowledge. But our health brands and portfolio has performed really quite well throughout the year and throughout before. And yes, some brands always will perform better than others, but by and large, our Health portfolio has performed better. I just showed a VMS [product] actually I've never shown before. So we feel that 4% to 6% is the kind of growth rate we should still see, but it will not be in every category and maybe not in OTC.

Unknown Analyst

[Charles Warren], [indiscernible] Asset Management. Just a question on foot care. What confidence do you have that you can return to sort of historical growth rates from the past? And is it an area where private label is now becoming more important?

Rakesh Kapoor
Group CEO & Director

Yes, actually, foot care has a number of components. There is a core, what we call, core aid business, problem solutions business. You have corn, you have fungal nail and that kind of products, and we have a range for all those problem solution aid products. Then there is another range, what we call -- let's call it comfort range. You need -- sometimes people need insoles to improve their gait and the way they walk and sometimes a podiatrist would tell you that. And that range is, let's call it, the comfort range. Also compression hosiery is part of the comfort range. And then there are some special areas that we've actually created, and this is the new space of hard skin removal and the gadgets. If I look at these distinct things, I would say the aid segment, aid segment is still an important segment for Scholl and an important one where greater education, both in -- to consumers and in-store, is an important reason. Because a lot of people still don't treat their corn and their -- your fungal nails and verruca sometimes. And therefore, greater awareness, greater education is an important driver. And we feel that is a growth part, although it's just 1 part. Then there's the wellness part like I just described, insole and compression. And we've -- it's early days for us in this area because this is very much something that we have created over the last 2 or 3 years, but we had a compression business in Japan, which is very successful and we're trying to learn from that and see how that can be improved. But compression hosiery, again, is something that is about health. If you are on your feet all day long, you are going to have swollen feet -- legs. And one of the ways -- one of the reasons why is because your blood flow and circulation is not as good. Compression hosiery helps with that. I know that some people -- some women actually in Japan sleep in compression hosiery because they want to see their swollen legs come back to normal and look better. So that is a new part. And again, a lot of work to be done there. And then there's the third part, which has been, if you ask me, the greatest peak and trough, if you want to call it, the greatest delta in Scholl. So I still see Scholl as a very exciting category. I see it as a very important brand. I cannot think of 1 brand in foot health or foot care which is so global in nature, which is so -- which -- so it's quite a unique category for us and, therefore, we need to just move out of some of the challenges we've seen, although there are some peaks before that make it a more sustainable growth category. So that's the journey we are on. And I feel as interested to do that as I was before despite the fact that some innovations will always not work as well. I mean, I've just launched all these innovations. Very openly, some will do far better than I expect and some will not do as well as I expect. That's the nature of the industry. But you move on. You get on. And that's what we plan to do for Scholl, too. Yes, Richard?

Richard Taylor
Morgan Stanley, Research Division

Richard Taylor here from Morgan Stanley. Three questions for me. The first one is on incentives for the 2 different businesses. Will you have different incentive structures for the different businesses? And do you expect the cultures to diverge at all?

Rakesh Kapoor
Group CEO & Director

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Yes.

Richard Taylor
Morgan Stanley, Research Division

So that's question one. Two, thank you for the color on Schiff. I'd be very interested what you see as the ROIC metrics on that Schiff business looking back now versus perhaps what some analysts were expecting at the time? And then lastly, I was a bit surprised in the quarter of the impact from Scholl still, and also, I guess the lack of impact from flu. So a couple of questions on that. How big is the devices business now for Scholl? And how big was the flu impact in Q4? Did weakness in one offset the strength in the other?

Rakesh Kapoor
Group CEO & Director

Right. Okay, listen, I think there are too much detail that you are looking for, and I think I'm not going to give you all that detail. All I would say is that the importance of Scholl gadgets is coming down over a period of time mathematically, and you know that. Q4, the reason we called out was because it's not like any other quarter. It's a gifting quarter, and Scholl had a big gifting thing last year, and that's why I think the CFO called out the gifting part. But today, as we sit, it's materially lower than what it used to be. So therefore, the impact, if any, is going to be materially lower or better depending on how it is. On flu, I think there's something to be -- well, flu is basically -- the incidence of flu and the sales related to flu are not in exact sync, okay? Never, actually. What happens typically is retailers buy, and then they prepare for a certain season depending on how they feel. And then at the end of the year or at some point in time, they realize whether or not they need to get another big order in or a small order in or none at all actually. And that happens during the flu season, which starts maybe in October and finishes maybe in Feb or March, depending on -- and sometimes a bit later, but that's -- so I think order and reorder patterns decide whether or not you'll see it in your numbers. The incidence of flu has been high. Everyone knows this. You don't need me to say that. But what he was alluding to was although there has been an impact in Q4 of that, it is not so material to actually call it out as a big factor because a lot of our health care brands did well. They are not seasonal and not flu related. Then I think you had another question on incentives actually. I have to say that in RB, you get incentivized for what you control. You don't get incentivized on things that you have no control over. So for example, in the past, if you were in Europe and North America, you would be incentivized on the performance of Europe and North America in the year. And if you are in developing markets, you would -- the [health], I'm talking about the [health], but also true in India, for example. Indian performance, you have nothing do with what happens in Germany. So I mean, why would you even [do]. So the [India] performance is incentivized on what you control. In the long term, the long-term incentives are company performance. And as you know, the more senior you are, the more of your weight is on long-term performance so that -- and we have ownership guidelines, too. So we have both ownership guidelines and vested on the long-term performance of the company so that people behave the right way, not getting incentivized to do the short term. So that's the philosophy I think you are very aware of. And that's the philosophy going to be followed. So I don't think anything is changing in the way we incentivize people. Although for '18, just in transparency, everyone will be on common objective, which means that if you are in U.K., and you're looking after RB Health or RB Home, we are going to have one common incentive for U.K. as a whole, which will be shared. Because the last thing I want in this year is for people to spend too much time inside the company; much better do it outside. But by and large, the philosophy is the same.

Richard Taylor
Morgan Stanley, Research Division

And just on the Schiff ROIC?

Rakesh Kapoor
Group CEO & Director

Yes. And I don't think we are going to give you ROIC for any acquisition we've made. All I would say, it has been a good acquisition for shareholders.

Adrian Nevil Hennah

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CFO & Director

And it's earning today more than its cost of capital.

Rakesh Kapoor
Group CEO & Director

Yes, yes. Good. Done? Okay. Last one.
Cool, I think we are done. Thank you very much. Thank you for coming.

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