

RECKITT BENCKISER

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Introduction

In this presentation, we will analyze the financial performance of Reckitt Benckiser, one of the leading consumer goods companies in the world.



Company Profile

Reckitt Benckiser is a British multinational consumer goods company that specializes in cleaning and personal care products. Founded in 1823, the company operates in over 60 countries and has more than 40 brands in its portfolio.

Brands	Revenue	Employees
Brands include: Dettol, Lysol, Nurofen, Scholl, Strepsils, Vanish, Veet, and Air Wick.	Revenue of £14.8 bn in 2021.	Approximately 43,000 employees worldwide.

Industry Analysis

The consumer goods industry is highly competitive and constantly evolving. Industry trends include increasing focus on sustainability, rising demand for e-commerce, and shifts in consumer behavior due to the COVID-19 pandemic.

Trend 1: Sustainability

Reckitt Benckiser has committed to using 100% recycled plastic in all its packaging by 2025.

Trend 2: E-commerce

The company has seen a 60% increase in e-commerce sales in the first half of 2020.

Trend 3: COVID-19

During the pandemic, there has been a high demand for products such as disinfectants and hygiene products.

2021: In 2021, RB's revenue was £14.8 billion, a 5.5% increase from the previous year. The company's net income was £1.9 billion, a 10.5% increase from the previous year.

2020: In 2020, RB's revenue was £14.0 billion, a 1.8% increase from the previous year. The company's net income was £1.7 billion, a 3.9% increase from the previous year.

2019: In 2019, RB's revenue was £12.8 billion, a 2.5% increase from the previous year. The company's net income was £1.6 billion, a 5.4% decrease from the previous year.

Financial Profile

RB's stock is publicly traded on the London Stock Exchange (LSE) and is also listed on the Frankfurt Stock Exchange. As of March 28, 2023, the company's market capitalization was approximately £51 billion. RB's stock has historically performed well, with an average annual return of around 12% over the past decade.

Financial Performance Evaluation

Reckitt Benckiser has shown consistent growth in revenue and net income over the past 5 years. In 2020, the company reported revenue of £14.8 billion and a net income of £2.1 billion

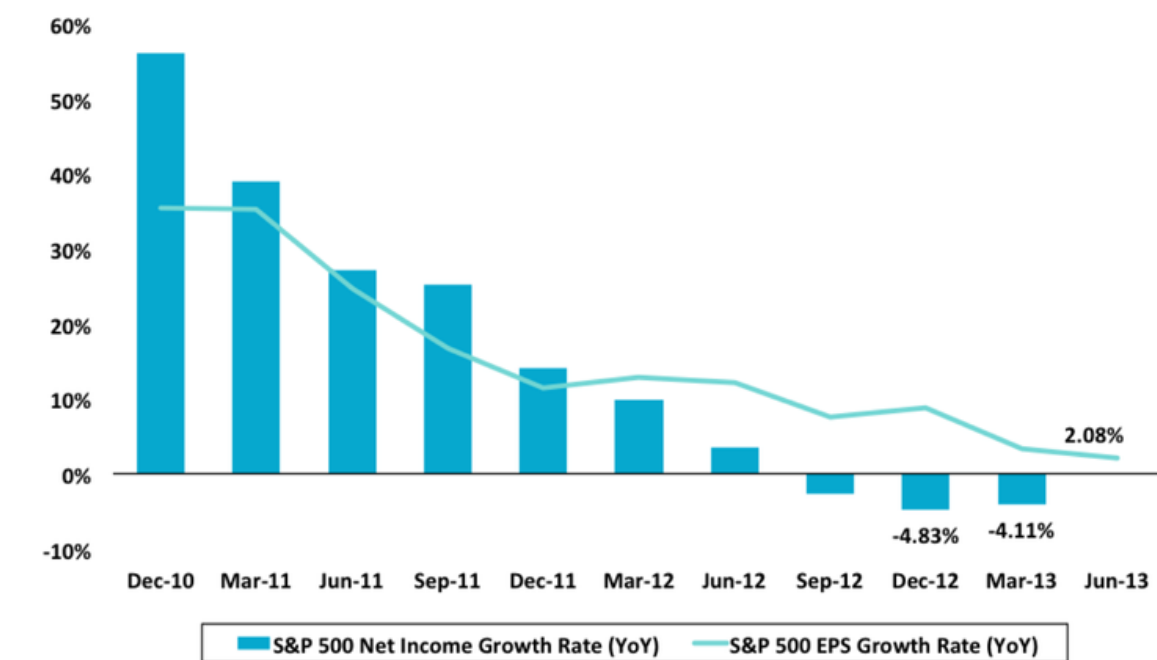


Net Income Is Actually Declining Even As Earnings Rise

"I have been disappointed in the earnings reports of American corporations all year, but the market has continued to head higher because of the Federal Reserve's easy money policy. The chart shows that quarterly net income has actually declined recently on a year-over-year basis, but because of share buybacks, earnings per share have increased modestly."

—Byron Wien, Vice Chairman at Blackstone Group

S&P 500 Net Income vs EPS Growth Rate



Source: Bianco Research LLC

BUSINESS
INSIDER



Key Financial Ratios

**Key financial ratios help to evaluate a company's financial health and performance. Let's take a look at some ratios for Reckitt Benckiser:
(follow Appendix 1A)**

In terms of financial ratios, RB's price-to-earnings (P/E) ratio is around 22.8, which is slightly above the industry average. The company's price-to-sales (P/S) ratio is around 3.7, which is also above the industry average. RB's dividend yield is around 2.2%, which is in line with the industry average.

In summary, RB is a well-established consumer goods company with a strong financial profile. The company has a diverse product portfolio, operates in multiple countries, and has a solid track record of financial performance.



SWOT Analysis

A SWOT analysis helps to identify a company's strengths, weaknesses, opportunities, and threats. Here's what we found for Reckitt Benckiser:

Strengths

- Diverse range of products
- Strong brand recognition
- Global presence
- Continuous focus on R&D

Weaknesses

- Dependence on a few major markets
- Product recalls
- High debt-to-equity ratio

Opportunities

- Expansion into emerging markets
- Increased focus on e-commerce
- Growing demand for sustainable products

Threats

- Impact of COVID-19 on global economy
- Intense competition
- Regulatory challenges
- Rising Labor wages

Comparison with Industry Peers

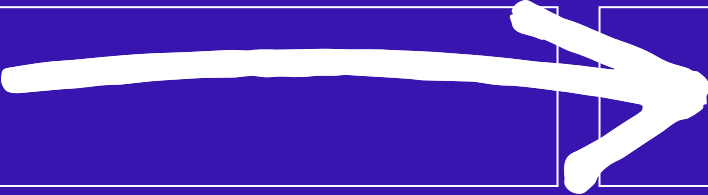
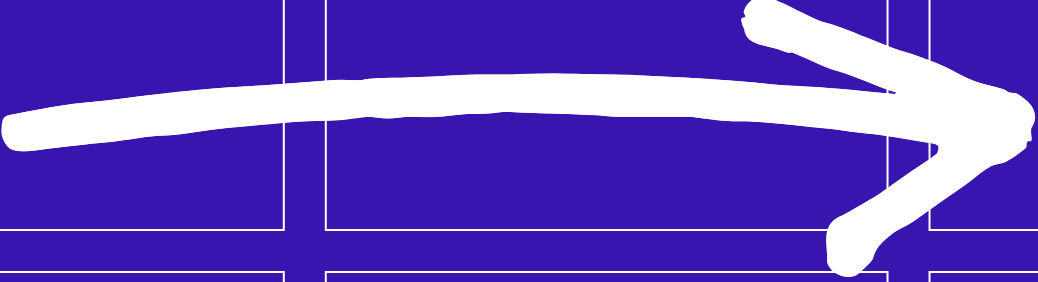


	ROE	x Net Profit Margin	× Asset Turnover	× Financial Leverage
Johnson & Johnson	23.36%	18.90%	0.51	2.44
Procter & Gamble	31.64%	18.38%	0.68	2.52
Hindustan Unilever	17.61%	16.03%	2.32	1.43

It shows that although Reckitt is comparable to its peers on the grounds of Net Profit Margin and Asset Turnover it is able to generate higher returns on equity owing to its high equity multiplier.

(Refer to Appendix 1B)



Assumptions and inferences

	Base year	Next year	Years 2-5	Years 6-10	After year 10
Revenues (a)	\$18,066.25	10.0%	8.26%		2.00%
Operating margin (b)	25.42%	22.0%			22.00%
Tax rate	21.90%		21.90%		21.90%
Reinvestment (c)		1.00	0.90	0.90	25.00%
Return on capital	15.96%	Marginal ROIC	=	16.50%	8.00%
Cost of capital (d)			9.43%		8.00%



Revenue

Healthcare allowed the
company to survive

COVID



**Operating
Margin**

Margins remain stable
overall.



Tax Rate

Global/US marginal tax
rate over time



Reinvestment

Maintained at Reckitt's
current level



Cost of Capital

Cost of capital close to
median company



**Return on
Capital**

Competitive
acquisitions such as
Mead Johnson



Valuations

A company valuation can be used to determine the fair value of a business for a variety of reasons, including sale value, establishing partner ownership, taxation etc.

We have used the following methods to understand the fundamentals of the enterprise:

1. Free cashflow to the firm
2. Capital cashflow valuation
3. Equity flow to company valuation

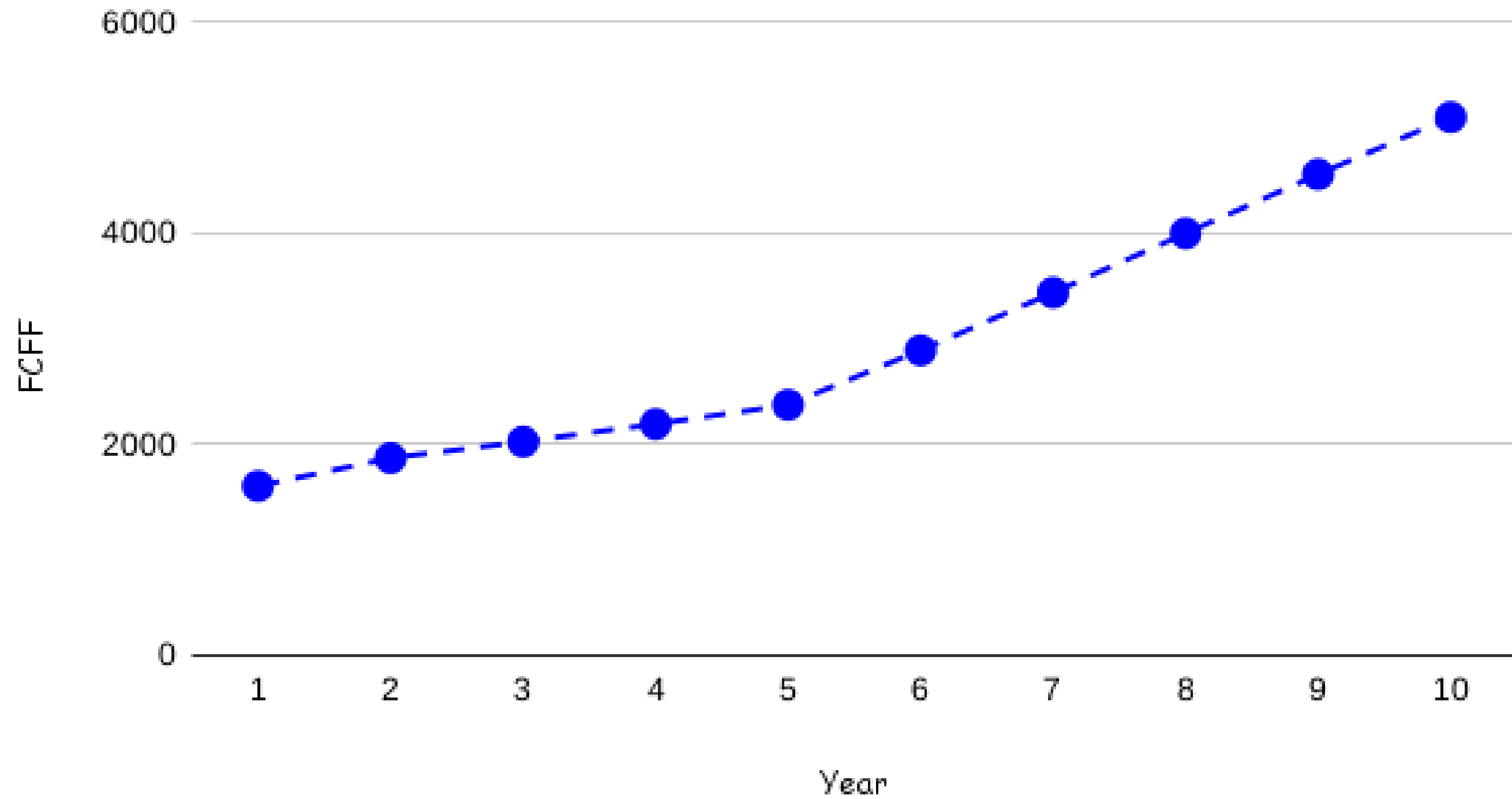
Free Cash Flows

Free cash flow (FCF) is the cash a company generates after taking into consideration cash outflows that support its operations and maintain its capital assets. In other words, free cash flow is the cash left over after a company pays for its operating expenses (OpEx) and capital expenditures (CapEx).

\$52.70 SHARE PRICE

	<i>Base year</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	Terminal year
Revenue growth rate		10.00%	8.26%	8.26%	8.26%	8.26%	7.01%	5.76%	4.50%	3.25%	2.00%	2.00%
Revenues	\$ 18,066.25	\$ 19,872.88	\$ 21,514.37	\$ 23,291.46	\$ 25,215.34	\$ 27,298.12	\$ 29,211.18	\$ 30,892.57	\$ 32,283.97	\$ 33,333.85	\$ 34,000.52	\$ 34,680.53
EBIT (Operating) margin	25.42%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%
EBIT (Operating income)	\$ 4,592.15	\$ 4,372.03	\$ 4,733.16	\$ 5,124.12	\$ 5,547.37	\$ 6,005.59	\$ 6,426.46	\$ 6,796.37	\$ 7,102.47	\$ 7,333.45	\$ 7,480.12	\$ 7,629.72
Tax rate	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%
EBIT(1-t)	\$ 3,586.47	\$ 3,414.56	\$ 3,696.60	\$ 4,001.94	\$ 4,332.50	\$ 4,690.36	\$ 5,019.06	\$ 5,307.96	\$ 5,547.03	\$ 5,727.42	\$ 5,841.97	\$ 5,958.81
- Reinvestment		1806.625	\$ 1,823.89	\$ 1,974.54	\$ 2,137.64	\$ 2,314.21	\$ 2,125.61	\$ 1,868.22	\$ 1,546.00	\$ 1,166.53	\$ 740.75	\$ 1,522.22
FCFF		\$1,607.93	\$1,872.71	\$2,027.40	\$2,194.86	\$2,376.16	\$2,893.45	\$3,439.74	\$4,001.03	\$4,560.89	\$5,101.22	\$ 4,436.59

How FCFF varies with time



Capital Cashflow Valuation

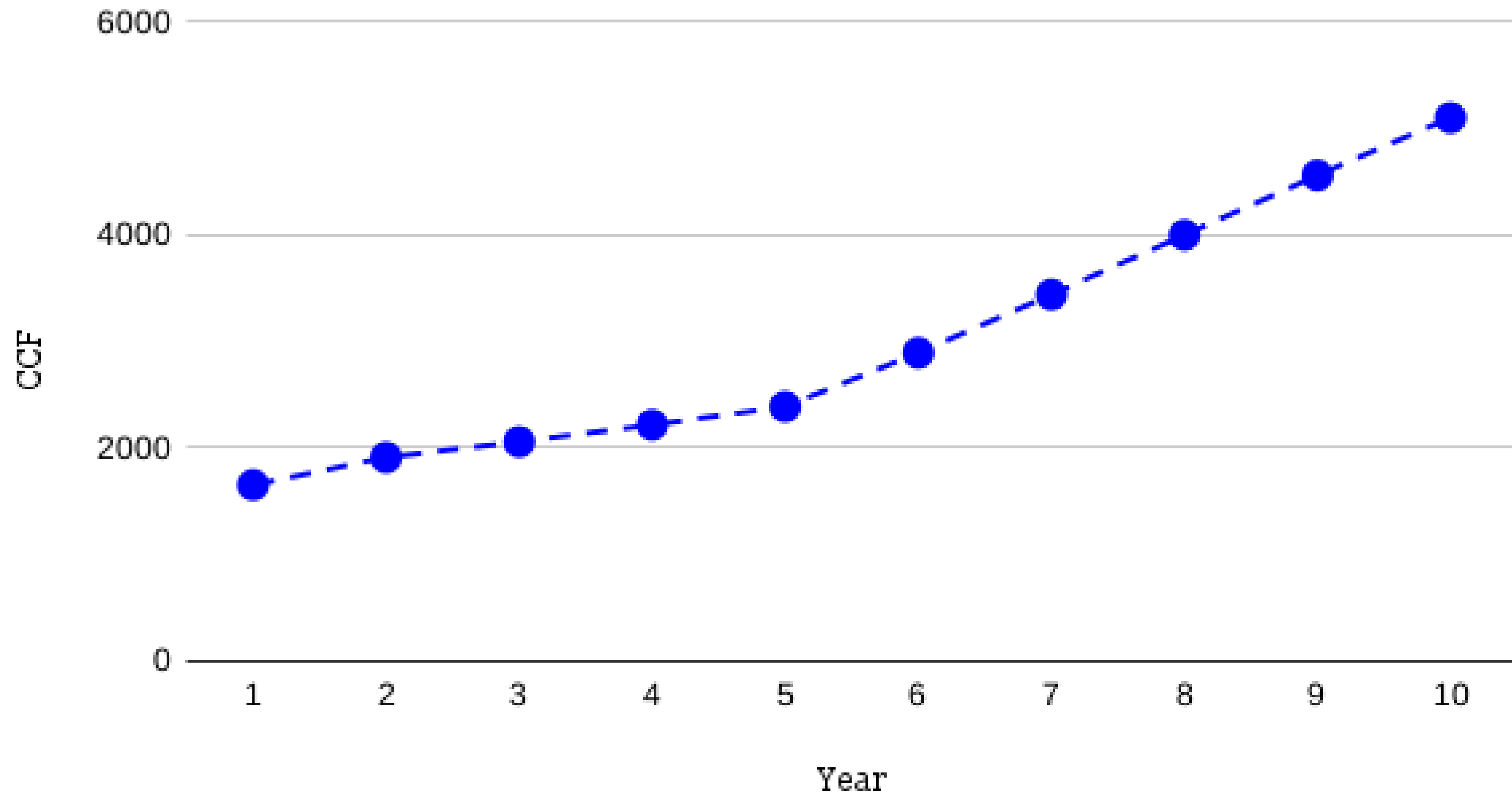
In this method of capital cash flow for valuing risky cash flows we calculate the cashflows to include the benefits of interest tax shields within a capital structure.

With this we obtain the terminal value of cashflows as 73,240.19\$.

\$51.05 SHARE PRICE

Year	CCF
1	1653.884058
2	1911.620448
3	2058.103943
4	2216.686974
5	2388.368964
6	2895.255762
7	3439.74459
8	4001.030599
9	4560.894104
10	5101.217915
Terminal Value	\$ 73,240.19

How CCF varies with time



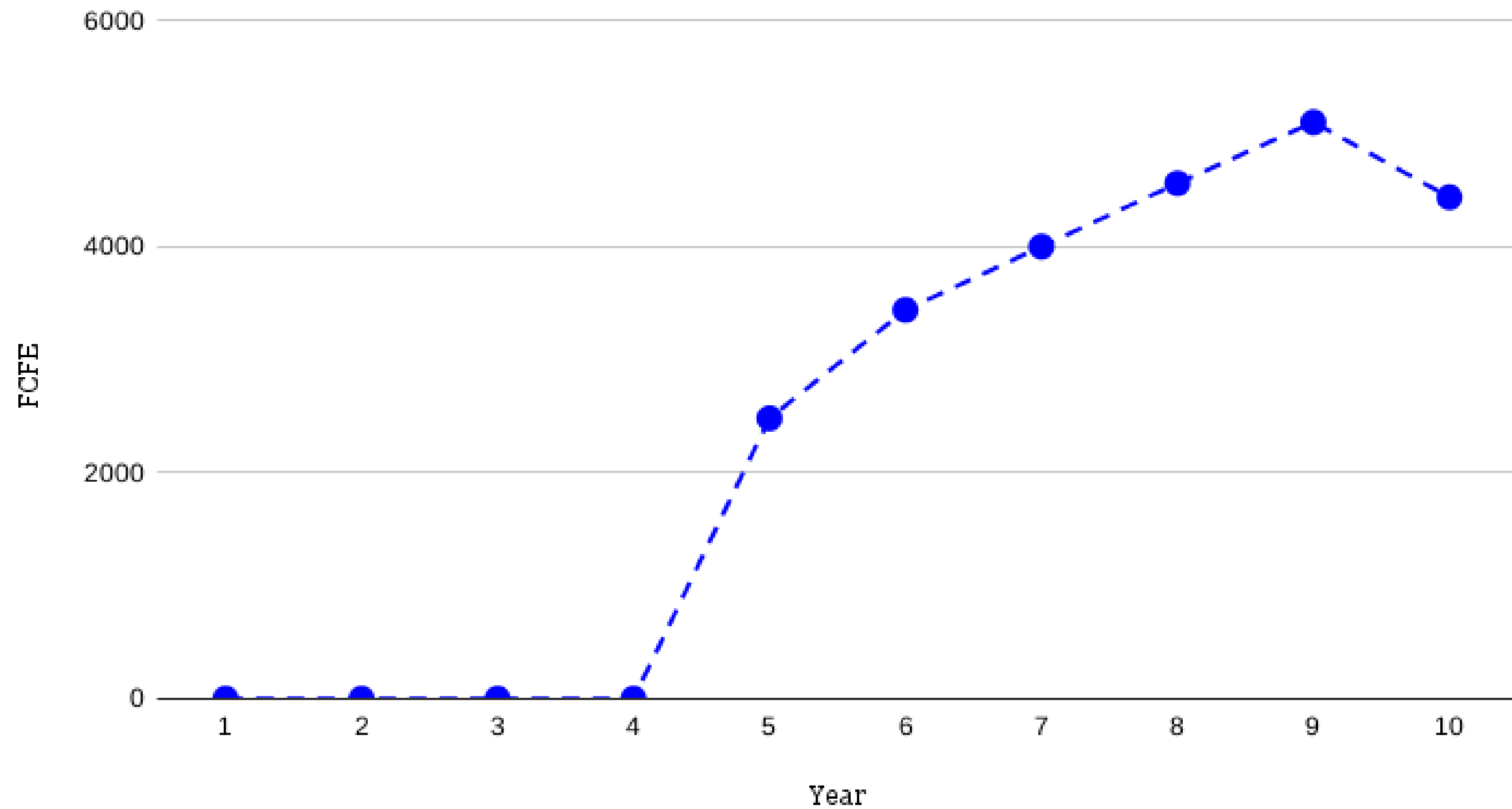
Free Cashflow to Equity

Free cash flow to equity is a measure of how much cash is available to the equity shareholders of a company after all expenses, reinvestment, and debt are paid. FCFE is a measure of equity capital usage.

\$44.91 SHARE PRICE

[illegible]

How FCFE varies with time



Sensitivity Analysis

Sensitivity Summary					
		Current Values:	Most probable	Conservative	Aggressive
Changing Cells:					
	Terminal Growth	2%	2%	1%	3%
Result Cells:					
	Share Price	\$51.05	\$51.05	\$50.12	\$51.90

Appendix

Appendix 1A

Some key ratios over time

	2022	2021	2020	2019	2018	2017	2016	2015
Debt to Equity Ratio	0.85	0.92	1.12	1.21	0.68	0.92	0.28	0.35
ROE	0.25	0.00	0.13	-0.39	0.15	0.46	0.22	0.25
Profit Margin	0.16	0.00	0.08	-0.29	0.17	0.54	0.19	0.20

Comparison with industry peers (Appendix 1B)

	Reckitt Benckisser	Hindustan Unilever	Johnson & Johnson	Procter & Gamble	Henkel
Employees	41,800 (4% lower)	150,000 (2% lower)	141,700 (5% higher)	106,000 (5% higher)	52,450 (1% lower)
Valuation (in \$)	55.2 bn	69.3 bn	478.3 bn	346.3 bn	31.17 bn
Revenue	£13.2b (FY, 2022)	€60.1b (FY, 2022)	\$94.9b (FY, 2022)	\$80.2b (FY, 2022)	€22.4b (F Y, 2022)
Gross profit	£7.7b (FY, 2021)	€26.1b (FY, 2022)	\$63.9b (FY, 2022)	\$38b (FY, 2022)	€10.6b (FY , 2022)
Countries	60	190 (FY, 2019)	175	180 (FY, 2022)	79

DuPont Analysis for Reckitt Benckiser (Appendix 1B)

	Dec 31, 2022	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
ROE	0.25	0.00	0.13	-0.39	0.15	0.46	0.22	0.25	0.47	0.27
Profit Margin	0.16	0.00	0.08	-0.29	0.17	0.54	0.19	0.20	0.36	0.19
ATR	0.50	0.49	0.45	0.40	0.33	0.31	0.53	0.58	0.57	0.61
EM	3.03	3.62	3.43	3.43	2.58	2.74	2.14	2.21	2.27	2.39
ROE using DuPont method	0.25	0.00	0.13	-0.39	0.15	0.46	0.22	0.25	0.47	0.27