

BUILDING FOUNDATIONS

CHRIS SINCLAIR

RB has negotiated a complex year with resilience and tenacity, while making decisive choices about our future. In a year that brought self-reflection, a series of operational challenges and new leadership, the people at RB have demonstrated the enormous value of this Company's unique, can-do culture.



Our culture is one of RB's most precious assets. Another is the power of our brands. RB's market-leading brands are in structurally attractive markets across the globe. Frequently they hold the number one or number two position in many geographies and are loved by their consumers. But we also know that, especially in Health, our performance recently has not matched up to our expectations.

As we indicated earlier in the year, reinvigorating performance is our immediate and top priority. Over the longer term, restoring and maintaining the outperformance and growth for which RB has been known, calls for an evolution in strategy. We need to revise our approach, based on a clear understanding of our strengths and weaknesses and the willingness to address those areas where we have fallen short.

I am pleased to report that our new CEO, Laxman Narasimhan, has wasted no time in getting to grips with this task. The Board is strongly supportive of his strategic vision, set out in his statement in the following pages, which seeks to create and sustain long-term shareholder returns while building a responsible company guided by a strong sense of purpose.

Business performance

RB has faced a series of challenges over the past three years, which have impacted performance and hampered growth. While macroeconomic issues have played a part in this, we must also acknowledge that some of our recent problems have been self-inflicted.

Total full-year (FY) net revenue was £12,846 million, with growth of +0.8% on a like-for-like (LFL) basis. On an adjusted basis, operating profit was marginally lower and equivalent to an adjusted operating margin of 26.2% (-50 bps versus 2018). This reflected solid performance in Hygiene Home offset by weakness in Health, in particular, declining volumes. The relative weakness of Sterling during the majority of the year resulted in +1.2% increase in net revenue. Total growth at actual rates was therefore +2.0%.

The integration of the Mead Johnson business has proved more challenging than anticipated. In addition, the business has been negatively impacted by macro-economic forces, particularly in China, where birth rates have fallen progressively since acquisition. This has led to the recognition of a £5,037 million impairment loss. The Company has also taken a one-off charge of £898 million in connection with the settlement with the US Department of Justice on Indivior matters.

The Board's continuing priority is to use RB's strong operating cash flow generation to reinvest in the long-term health of the business and to provide strong returns to Shareholders.

We have maintained our existing policy on dividend payments and are again distributing around 50 percent of total adjusted net income to Shareholders. The Directors have proposed a final dividend of 101.6 pence per share, which when added to the interim dividend of 73 pence, gives a full-year dividend of 174.6 pence per share, an increase of 2 percent. Subject to Shareholder approval at the AGM in May 2020, this will be paid on 28 May 2020 to Shareholders who were on the register on 17 April 2020, all in the commitment on sustaining the dividend.

Coronavirus (COVID-19) Pandemic

The COVID-19 health crisis is unprecedented in living memory. Our priority is the safety of our employees and the continued supply of products that are important to combating the spread of infection. I am proud of the way RB is rising to the challenge.

AGM date

The AGM is currently planned for 12 May 2020. As the COVID-19 outbreak is a rapidly changing and fluid situation, we will closely monitor the situation and will advise Shareholders on arrangements for the AGM, based on UK Government advice.

Board priorities

When I took on the role of Chairman in 2018, among the priorities I identified for the Board were restoration of organic growth, integrating the Mead Johnson business and delivering on the associated synergies, strengthening talent and culture, and exercising good governance and risk management.

There has been some limited progress on growth, with improved performance from Hygiene Home as it benefits from a more focused business model. It operates in structurally attractive markets and net revenue growth is built on both price/mix and volume improvements. We need to build on these capabilities to maintain and strengthen this position across the whole Group in an increasingly competitive environment.

The Board was also heavily involved in reviewing IFCN performance and projections for the future, leading to the partial impairment of its goodwill.

CEO succession

Building up our talent bench was a key priority for the Board during 2019. This was led by the search for a successor to Rakesh Kapoor following the announcement of his decision to retire as Chief Executive Officer. On behalf of the Board, I would like to take this opportunity to thank Rakesh for his many contributions over more than three decades. His vision and drive have helped to position RB as a global leader in consumer healthcare.

Laxman Narasimhan's appointment followed an exhaustive and rigorous search process. In a field of highly talented individuals, the Board was unanimous that he was the outstanding candidate. He joined RB in July as CEO-designate before stepping into the role in September 2019.

Laxman is an exceptional leader with a proven track record of developing purpose-led brands and driving digital innovation in the consumer goods industry. He has led complex operational businesses and inspired teams to achieve market-leading performance in both developed and emerging markets. I am confident that he will continue to evolve RB's exceptional culture and this will be key to our future success as we roll out our new strategy during 2020 and beyond.

Senior appointments

We have also been strengthening the pool of talent for this next phase in the Company's development with a series of senior executive and Board-level appointments.

I am delighted to welcome back RB alumnus Jeff Carr, who rejoins the Company as Chief Financial Officer in April 2020. He succeeds Adrian Henna who has kindly agreed to remain with the Company before retiring in October to ensure a seamless transition. I would like to thank Adrian for his many contributions during his time at RB.

After a decade with RB, Warren Tucker will also be retiring. He will not seek re-election to the Board at the 2020 AGM. My thanks go to Warren for his valued service and sage advice.

In July 2019, Sara Mathew joined the Board as a Non-Executive Director. Her considerable experience in digital technologies, healthcare and consumer goods has enriched our deliberations. The Board also appointed Mary Harris as the designated Non-Executive Director, for engagement with the Company's workforce. This reinforces our already strong connections with RB employees, which will be vital as we transform our Company to build up profitability and growth in the coming years.

Governance

Laxman's strategic vision of RB as a more rounded, purpose-led business, delivering sustainable long-term returns to Shareholders while engaging with the needs of wider society places responsibility at the heart of our business strategy.

Long-term success requires good stewardship of our business and fulfilment of our obligations to society. The Board is committed to strengthening governance and extending our risk management capabilities. I'm pleased to report excellent progress in this area. The Corporate Responsibility, Sustainability, Ethics and Compliance (CRSEC) Committee is gaining real traction across the Group as it seeks to move from a risk and safety-led approach to a more holistic stance that aligns environment and sustainability issues with performance and purpose. RB's retention of its FTSE4Good listing and readmission to the Dow Jones Sustainability Index provide external validation of the work we have been doing and the improvements we have made to put responsibility at the heart of the way we run our business.

Conclusion

I am extremely grateful to my fellow Board members, to Laxman and his executive team, and to all of RB's people for their continued loyalty and commitment during what has been a complex and challenging year.

We are now entering a period of transition. We have identified the priorities to help chart a course to more positive performance in the future.

We are sharpening our purpose, strengthening our culture and embedding responsibility to create a more rounded, holistic business that can innovate and act with agility in a fast-paced, interconnected world. We are investing in our brands and enhancing our frontline capabilities.

I am confident that these investments will underpin our future growth. As a Board we continue to have a clear focus on maximising long-term opportunities. RB is an outstanding company with leading brands, a strong sense of purpose and a track record of strong performance. We are building on firm foundations to create the conditions for long-term sustainable growth and outperformance.

Chris Sinclair

Chairman
26 March 2020