

2018 was a year of significant strategic progress. RB 2.0 is the platform for future growth and outperformance.



Rakesh Kapoor
Chief Executive Officer

Our purpose is to make a difference, by giving people innovative solutions for healthier lives and happier homes. In our first fully operationalised year under RB 2.0, we have focused sharply on fulfilling this.

Performance in 2018

At the beginning of 2018, we set a target for Net Revenue growth of +13% to +14%, which implies like-for-like (LFL) growth in the range of +2% to +3%, in line with the overall market. In July, we increased these targets to +14% to +15% total Net Revenue growth, due to the strong H1 delivered by our infant and child nutrition (IFCN) category. We achieved the enhanced targets we set.

From a margin perspective, we delivered Adjusted Operating Margin expansion of 20bps to 26.7% on a pro-forma basis, or a decline of -60bps on a reported basis as we consolidated the lower-margin MJN business for a full 12 months in 2018, compared with only six-and-a-half months in 2017.

We earn high-in-class margins in both Health and Hygiene Home business units from our portfolio of high value products. Our goal is to maintain that position. We will continue, year-in-year-out, to improve the efficiencies of our business – as we have always done. We will also emphasise top-line growth and resilience and will support this with appropriate re-investment of our efficiency savings.

The first year in our RB 2.0 journey

Our two business units – Health and Hygiene Home – commenced operations on 1 January 2018. Each business is fully accountable on an end-to-end basis from innovation, through brand development to supply. Innovation is the lifeblood of RB and our performance in 2018 once again demonstrated the strength and depth of our skills in bringing successful new products to the market. We are very excited about our current pipeline. We believe RB 2.0 is the right platform to deliver future growth and outperformance.

Health

Our Health business unit has the focus and expertise it needs to build on its strong portfolio of market-leading and trusted brands, which support people to live healthier lives. We focus on five consumer health categories:

- IFCN
- Health relief
- Health hygiene
- Health and wellness
- Vitamins, minerals and supplements (VMS)

Our aim is to expand on our position as a global leader in consumer health with a strong presence in major categories and a strong geographic spread. We are developing a sharper consumer health expertise along with a strengthened focus on science and R&D.

The MJN portfolio has now been fully integrated into our Health business unit as part of our IFCN category. Its performance is on track with improved top-line growth as well as back office and procurement synergies from the acquisition. Despite the supply disruption in the third quarter, IFCN saw a strong turnaround in every geographic region during the year. We continue to make progress in accelerating innovation, improving in-market execution and developing new channels, particularly in e-commerce. We have made significant investments in infrastructure and people to provide a sustainable platform for long-term growth and outperformance. During the first half of the year, we benefited from the launch of our new Enfamil NeuroPro range in the US as well as expanded distribution in 'Mom and Baby' stores in China.

In Health, our new product initiatives for the second half of the year included Nutramigen with LGG, which reduces the impact of cow's milk protein allergies, and Durex AiR – a new variant of our thinnest condom. We also introduced K-Y Duration Gel for Men, our Scholl Aid treatment range, our Mucinex Fast Max Cold & Flu All in One, a new range of Move Free supplements and our MegaRed omega-3 supplements. In infant nutrition, we also launched Enfamil NeuroPro, with a ground-breaking fat-protein blend that supports brain function and immune health in babies.

Hygiene Home

During 2018, we improved Hygiene Home's portfolio of leading global brands. This business unit is now solely focused on the household sector and has the management agility on which we pride ourselves at RB. During the year, we were able to speed up innovation, create more opportunity to invest in our brands, and sharpen our go-to-market focus.

Growth in our Hygiene Home business unit was encouraging, with a particularly strong performance in North America. This compensated for weaker growth in Europe, where we saw significant pricing pressure in the first half of the year. Our Hygiene Home business unit has a lot of growth potential in developing markets, the two largest markets – Brazil and India – experienced good growth in 2018. From a brand perspective, growth was strong across our leading global brands, including Finish, Lysol, Air Wick and Harpic.

In Hygiene Home, our Harpic Swachh Bharat (Clean India) is a new format that makes Harpic affordable to more Indian households. We also announced Finish In-Wash Dishwasher Cleaner tabs, the Air Wick 2018 season range, new fragrances for Air Wick ViPoo spray, and the SBP Repellent PRO spray.

Chief Executive's statement continued

Expanding our reach

Achieving a strong platform in developing markets is an important goal for RB. At the beginning of this decade, RB's business was around 25% in developing markets and 75% in developed markets. We now have a more balanced split with around 40% of our business in developing markets. This reflects our strategy to move RB into the right geographies, not just the right categories. MJN's strong presence in developing markets, especially in China – the world's largest infant nutrition market – has enhanced this geographic footprint. We continued throughout the year to build our expertise in digital and e-commerce to drive transformational growth. In a world of increasingly fragmented channels, in 2018 we made excellent progress in creating tailored solutions across a variety of new platforms. This is a particular focus in China and we have been highly successful in using that market as an incubator for our e-commerce strategy.

Doing good by doing well

We sustained our strong record in health and hygiene education during the year in review. Highlighting the important role of clean water and good sanitation, our Harpic and Lysol brands launched the More than a Toilet campaign to support Water.org and World Toilet Day.

Our Durex campaign with (RED) is contributing to The Global Fund's fight against HIV and AIDS. This programme is funding the Keeping Girls in School programme in South Africa, which aims to reduce new HIV infections and pregnancies among young women and encourage them to stay in education.

As part of our work to make our products more sustainable, we marked World Environment Day on 5 June 2018 by announcing RB's own Plastics Pledge. This underlines responsible use of plastics in packaging as our overriding aim, and details our adoption of the 4Rs approach – reduce, replace, reuse and recycle. Recognising the need for collective effort to effectively tackle plastic, we also joined the Ellen MacArthur Foundation's New Plastics Economy Global Commitment and The UK Plastics Pact.

Building business resilience

Following the 2017 cyber-attack, we have enhanced the level of protection for our business. There was good progress in 2018 on building our resilience, through a significant upgrade of RB's IT infrastructure, systems and capabilities. We are working with a number of leading cyber security companies and implemented protection that meets the specific needs of our business model.

In South Korea, RB Korea continued to work with the government to support the victims of the tragic Humidifier Sanitizer issue.

The right organisation for success

We have entered 2019 with encouraging momentum, although all of us at RB recognise that there is much work still to do. In their first full year of operation our two business units have benefited from the new focus and accountability provided by RB 2.0.

Our work on creating two structurally independent business units (called Project Gemini) made good progress in 2018. It comprises seven workstreams: legal entity restructuring, ERP systems, shared services, operating model, financial reporting, application separation and readiness, and Product Lifecycle Management. These are important practical steps towards achieving the structural independence of our two business units which we aim to achieve by mid-2020.

We have a very strong platform for growth in our priority markets including US, China and India. This is complemented by digital and e-commerce excellence that has become a key contributor to growth. Our IFCN portfolio gives us a major value-creation opportunity in this fast-growing and high-margin category, where we can play a role in nurturing the best start in life. RB's deep understanding of consumer needs and its expertise in scaling global brands can help achieve significant growth in this category.

Looking ahead, I am confident that as we fully realise the benefits of RB 2.0, we will deliver growth and outperformance while delivering on our purpose of giving people innovative solutions for healthier lives and happier homes.

Our culture and our people

Our many achievements in 2018 owe much to our strong and distinct culture. We have the right management teams to deliver our ambitions. Throughout RB, it is easy to see passion, drive, discipline and an acute sense of ownership, along with agility and courage to disrupt the status quo.

We continue to celebrate that culture and one of the things I would like to highlight looking back over 2018 is the sheer spirit of our people right around the world. In this year of transition, I've been really encouraged to see that our people believe RB 2.0 to be the right strategy and 86% of employees are proud to work for RB – that's industry-beating levels of pride. It takes a very special company not just to meet the significant challenges arising from our RB 2.0 reorganisation, but to go a step further by delivering an improved performance on the previous year.

Together, we navigated successfully through difficult waters in a year that implemented immense change. I would like to thank all of our employees for their unrivalled dedication and professionalism.

I indicated in January 2019 my intention to retire as CEO by the end of 2019. It has been a huge privilege to lead RB and I am very proud of the hard work and commitment of our people in delivering our success and many achievements. The last two years, in particular, have been transformational with the acquisition of MJN and the reorganisation of our business under RB 2.0. 2020 will herald a new decade and I believe now is a good time for new leadership to take this great company through the next phase of outperformance. I will remain fully focused on driving the business until a successor is in place.

Rakesh Kapoor
Chief Executive Officer
18 March 2019



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FOCUS ON E-COMMERCE

Rapid progress in achieving digital and e-commerce excellence in Health

Our Health business unit is responding proactively to channel fragmentation. We focus on e-commerce in all our markets, but have successfully used China as an incubator for our global e-commerce strategy. The figures prove our success. To take just one example: by the end of 2018, e-commerce was contributing 58% of our Health business unit's sales in China, excluding IFCN.

We are also developing our digital marketing techniques based on a better understanding of how people consume content and messaging. In 2018, we more than doubled the number of people working in our Health e-commerce team.

At the end of 2018, our Health business unit continues to make strong progress in e-commerce as we meet consumers' changing shopping habits. E-commerce now contributes 9% of total Health Net Revenue, led by IFCN, VMS and our Sexual Wellbeing brands. In China, our VMS brands have been launched exclusively in e-commerce channels.



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