

REINVIGORATING PERFORMANCE

LAXMAN NARASIMHAN

RB operates in strong, structural growth categories with an outstanding collection of trusted market leading brands that benefit from the tailwinds of global mega trends. Our strategy combines this with focused playbooks in each one of these category spaces, while investing in capabilities at scale. This positions RB for faster, sustainable growth and significant value creation in the new decade.



I feel privileged to be RB's new Chief Executive. This is a company with a remarkable heritage. It can trace its roots back nearly 200 years in Germany and the UK and has well over a century of history in the US.

But it was not its past successes that most attracted me when I took on the role. What I saw was a company that was a good house, in a great neighbourhood; with amazing brands, a reputation as an innovator, strong commercial capabilities focused on outperformance – and with the potential to be a great house again.

I want to set out my plans for the future, but before doing that, I need to address past performance.

Unquestionably, there are areas where RB has underperformed in recent years. On my arrival, I conducted a detailed review of the business. This identified aspects of current performance that required urgent intervention. We are already moving on multiple fronts to make the required changes.

2019 performance

As regards our 2019 performance, I am pleased to report our Hygiene Home business achieved volume and price/mix growth during the year. It gained momentum as the year progressed, culminating in good volume growth in the final quarter.

Our Health business also finished the year on a more positive note, but overall this had a much more difficult 2019. I am not satisfied with the Health unit's performance during the year, particularly on volume growth.

Within Health, it was a particularly challenging year for our infant nutrition business. There were some successes – we saw good performance in the US, where we gained market share, and encouraging innovations, such as Enfitas in China. However, our overall share in China declined and volumes there were muted. Lower birth rates, expanding local competition and steeper regulatory hurdles all contributed to that. It has also taken us longer to recover from the manufacturing disruption we experienced in 2018. In addition, there were executional issues in the Latin America and ASEAN businesses.

Although the Mead Johnson business has made progress since the 2017 acquisition, its performance hasn't met our expectations. We have therefore had to take a £5 billion non-cash impairment, reflecting a revised valuation for the business we acquired.

Even so, I firmly believe the Mead Johnson business has strong longer-term prospects beyond this revaluation. RB's e-commerce and commercialisation capabilities, combined with Mead Johnson's reputation for science and quality, provide solid foundations for growth in new areas. And we are finding different ways to capitalise on its core strengths in China, the US and other parts of the world.

Performance was also disappointing in the 'rest of Health' business. The issues here are largely executional. We have taken urgent and decisive action to address the underlying causes. Improving execution is our top priority.

Business review

RB's brands are loved by their consumers, well supported by innovation, and with great market positioning and brand equity investment. The strength of our brands, the premium nature of our products and the level of our investments underpin a strong gross margin with good price premiums. With appropriate innovation and investments, I believe this is sustainable.

At the same time, my review identified clear opportunities for improvement. For example, I feel largely comfortable with our investments in brand equity and the level of our gross margin, with some pressure points to correct, but there are several areas where we've underinvested and overstretched people and assets.

We have to recognise that many of the issues we have faced in recent years have been driven by poor execution rather than structural changes in our industry. At the top line, we've had real issues delivering growth, particularly in Health.

Creating separate business units over the last two years brought a real focus to the Hygiene business. The leadership team invested in competitiveness, strengthened the innovation pipeline and put in place a strong operating rhythm. The business began growing again, and has been a steady performer, with further potential to increase market share and to outperform.

But Health has faltered. It became large, unwieldy and unfocused. While the Mead Johnson acquisition delivered synergies, integrating the business proved challenging and diverted management attention. We missed important innovations, particularly in our Durex business, and experienced a lot of innovation leakage. In addition, some pricing decisions backfired.

We've been tackling execution issues with vigour and are already seeing stronger performance as a result. But longer term fixes are also required; these are a parallel focus.

RB is rightly described as a lean company, but we need to be lean in the right ways. There are multiple opportunities to capture efficiencies and invest in capabilities – our end-to-end supply chain is currently set up for lowest manufacturing cost rather than to deliver customer service at the lowest cost with highest quality and lowest working capital; there is a need for some capacity debottlenecking; overhead costs have increased significantly; we don't yet make best use of process automation.

After examining all options, I have concluded that the previous approach of transforming the business to generate long-term performance was sub-optimal for value creation. Instead, our strategic approach should focus first on performance to rejuvenate and then transform the business. I believe this gives RB the potential to deliver growth in the medium to long term.

Global trends shaping our future

RB is present in large categories with strong, sustainable, structural growth. In each of these – hygiene, health and nutrition – major global trends provide us with tailwinds.

The global pressures of urbanisation and global warming make the need for hygiene ever higher. Hygiene is the foundation of health, creating a strong, symbiotic relationship for our business. It is entirely visible in the difficult events around us today, with public health systems struggling to manage the challenges posed by COVID-19.

Pressures on governmental health spending is reinforcing self-care. Avoiding one visit to the health care system with available self-care products and digital information access saves money in developed markets, but also in developing markets.

Demographics are also a tailwind. We benefit from both the increase of youth coming of age and ageing consumers. Sexual health and wellbeing is a big societal issue. At the same time, ageing creates opportunities for our science platforms. When combined with digital, which is completely transforming what people buy and how they buy it, we can expect large growth in areas like personalised nutrition, wellness and digital health. Finally, all these positive global-trends require solutions that are sustainable. These underlying mega-trends will be very compelling for some time to come and directly support our presence in hygiene, health and nutrition.

Leveraging scale

As demand grows, the bar for how we meet that demand is going up, with consumers asking for convenience, superior experience, quality and value, along with information. Our customers want efficiency, flexibility, unique offers and service. There are clear capabilities that we either have or need to strengthen, and we need to leverage our scale to build them.

Having a portfolio of trusted brands in three broad categories gives us the scope to earn additional value from our brand equity investments. We can leverage insights and analytical capabilities to broaden our reach and extend our brands into adjacent areas.

We have built distinctive digital and e-commerce capabilities locally. We can use our scale to extend these globally and across all brands. Our global scale also gives us presence in the most important markets, which drives availability. That helps us build better customer relationships at the highest levels.

And our scale helps us access and develop stronger networks to progress science, incubate development partners that promote innovation, deliver on complex environmental goals and further our brands' social commitments.

We can use our scale to build capabilities in trusted brands, digital and e-commerce, proximity and partnerships. But a winning strategy is not just about scale, focus is also critical.

Focused business models

Historically, RB's success has been driven by each of its businesses having a clean, focused flywheel around which management operates: a detailed playbook that determines how we run our business to create and compound success.

In its simplest form, this is about having the right brands available at consumers' preferred points of choice, incorporating premium innovations that underpin an attractive gross margin which fuels high brand equity investment. When this is supported by flawless execution and a highly efficient business, it creates the resources to reinvest, thereby compounding growth, cash returns and long-term shareholder value.

When this is in place, as is the case for Hygiene Home, this playbook leads to compounding returns. There are large areas of commonality across our business. We therefore need to organise around focused playbooks, while leveraging scale where that helps build capabilities.

Our new strategy

Our strategy is founded on a clear sense of purpose. We exist to protect, heal and nurture in our relentless pursuit of a cleaner, healthier world. We do all we can to ensure that access to high-quality hygiene, health and nutrition becomes a right not a privilege. Ensuring product availability and offering attractive price points, promoting consumer education and behavioural change, and partnerships with other stakeholders are some of the ways we make this happen.

This purpose-led agenda represents a shift in business strategy. It is underpinned by the core set of values guiding our behaviour. They are set out in our compass. This places integrity at the heart, with the goal of always doing the right thing. Our compass describes the values needed to promote a culture that puts consumers and people first, continually seeks out new opportunities, strives for excellence and builds shared success. It celebrates what made RB successful in the past and aligns us with what is needed for sustainable growth in the future.

We will redouble our focus on environmental sustainability by, for example, reducing, recycling or reusing plastics, reducing our water footprint and meeting our science-based targets. At the same time, we will connect our brands even more closely with relevant social issues.

RB is active in three major categories: hygiene, health and nutrition. These are complementary demand spaces that share positive market dynamics and where consumers display clear brand preferences. Our emphasis on innovation together with close customer relationships and market presence are key attributes that support an attractive earnings model.

We will target 100 CMUs (category market units) with our Powerbrands, up from 75, and will invest to develop the requisite capabilities. We expect our Powerbrands to broaden the areas where they currently compete. We will use e-commerce to build customer engagement to scale rocket brands and our Powerbrands everywhere. We are working to ensure each of these spaces has clear flywheels that drive how we win and how we deliver compounding returns.

Our organisation

Getting the right balance between scale, focus and accountability is key. As such, we are moving to three category-focused business units with full P&L accountability. These are Hygiene – effectively our old Hygiene Home business – Health and

Nutrition. Within each of these we'll develop capability centres of excellence that can be leveraged across the Company.

China is strategically important for the business. We are therefore elevating China to an integrated unit that will work across the three category business units and report directly to me. Digital, e-commerce and analytics are at a major turning point for the consumer and we can further speed its rapid growth by building leapfrog digital capabilities. The digital platform we have in China is one that other rocket brands can leverage. For this reason, the China business unit will also house our global e-commerce capability.

Our roadmap for growth

Each of our business units can grow more effectively than they do today. Driven by the strong underlying tailwinds of global trends, growth opportunities can be realised through increased product penetration, market share gains, expansion into new places ("white space expansion") or new spaces ("market adjacencies").

Penetration is about capturing new consumers entering the category. We optimise market share by servicing our existing consumers faster, better, and more efficiently. White space growth takes brands and products into new territories: through our existing network, via e-commerce and using our cross-border organisation. Adjacencies use our brand strength to penetrate other parts of the demand space a brand plays in.

Underpinning each of these are the capabilities around digital and e-commerce, the role and importance for each in China and common foundational areas, such as supply, quality, marketing capabilities, sales capabilities, regulatory and business development, that will make this happen.

Our brands have significant penetration potential, for example, in developing and urbanising India and China. Hygiene has 40 core CMUs today that drive a significant portion of its growth – growing over 5 percent per annum in a 3 percent growth category. By investing in breadth and capability and adding 10 more CMUs to the core list, we can add 100 bps to our top-line growth. Our e-commerce capabilities, coupled with expansion to nascent China and the emerging markets can drive further growth, including with custom innovation.

As with hygiene, we are investing resources to expand our CMU footprint in health. Health is made up of two distinct parts; self-care and sexual well-being. We have Powerbrands addressing pain relief,

upper respiratory and gastro-intestinal conditions, and general wellness. We continue to see a large opportunity for OTC through penetration, multi-year innovation and brand building. There is also significant scope to optimise market share. We have revisited our commercial and supply strategies to ensure we do not miss out on seasonal opportunities.

There is considerable growth potential in sexual wellbeing as well. Focusing on better execution and more innovation will also improve our growth prospects. We are putting more emphasis on this category and ensuring it is adequately resourced.

In the nutrition space, we currently only operate in infant nutrition. This category has strong fundamentals with steady growth and very attractive margins. At the same time, it is also highly competitive, subject to changing regulations, and requires higher than average capital investment in sophisticated manufacturing and effective marketing. Our brand is perceived as a science-driven leader in the US and in China. We have strong endorsement from the medical community. There are considerable penetration opportunities for this business, particularly in specialty nutrition.

In the long term, birth rates will decline, and seniors will increase in number. We see exciting longer term opportunities for leveraging our nutrition capabilities in adjacencies like adult nutrition, personalised nutrition and science-based supplements. Neuriva, for example is an innovation for ageing seniors that came out of the technologies inside Mead Johnson. There will be others that help us broaden the consumer cohorts we serve.

Developing our digital and e-commerce platform

Our digital strategy is central to the future success of the Company and e-commerce is at the heart of it. Our e-commerce platform has had significant success in China where it benefits from the scale of the Mead Johnson business. These capabilities are readily scalable to new white spaces, including rocket brands in wellness. In the future we'll be leveraging e-commerce everywhere, benefiting all parts of RB with scalable tools and best-practice capabilities embedded as a competitive advantage in the business.

We are already incubating and scaling a portfolio of digital-first brands. In our Hygiene business our work with Launchpad and Founders Factory is testing new approaches to developing digital-first brands. UpSpring, a small women's health

brand that started in Texas, is another recent example. We launched the brand in China on Alibaba to coincide with the platform's Singles' Day mega-shopping event on 11/11. Our investments in rocket brands and digital partners such as Pharmapack and YourMD are still small, but their strong growth so far suggests that our e-commerce business can be a potent platform for our own and partner brands.

Investing £2 billion in capabilities

Alongside e-commerce, we will invest in key capabilities to replace some of the muscle that we've taken out of the business as well as add new muscles relevant for this new world.

Our plan is very specific, with targeted initiatives to build brands, accelerate innovation and sharpen execution. Our investment programme is focused and sequenced first to improve performance and then drive sustained mid-single digit revenue growth over the longer term.

It requires significant reinvestment of resources in the business. In our first phase, we are investing £600-£700 million a year on a sustainable basis to address underlying capability gaps, rejuvenate the business and drive sustainable volume and price-mix growth. Over £2 billion will be invested over the next three years; around two-thirds funded by an enhanced productivity programme and the remaining third by taking investment as a charge to the P&L.

We are ramping up the productivity programme which will generate £1.3 billion for reinvestment. We are also making direct investments in key capabilities now, which will help fuel the change in the short term.

We need to execute on our plans swiftly to allow them time to gain traction in the marketplace. The bulk of that starts now. Accordingly, 2020 will be a year of maximum investment.

Outlook

2020 is a transitional year, as we rejuvenate RB to accelerate growth to deliver long-term shareholder value. For 2020 we should generate a higher level of revenue growth on a like-for-like basis than achieved in 2019 (2019: 0.8%) and make steady progress toward our medium-term target. While we have started the year strongly, there are a number of challenges, including the uncertainty already being seen around the impact of COVID-19 (see below). From an operating margin perspective, in addition to the 100 bps of operating margin headwinds, principally normalising variable pay assumptions, we will invest a further

£200 million (c.150 bps) in the business to rejuvenate our commercial capabilities and address issues where needed with consumer service and value. In addition, we will invest in cost-to-achieve transformation spending of roughly £125 million (c.100 bps) in each of the next two years (total of £250 million). These one-time costs to achieve will be included within adjusted operating profit. As a result, we expect 2020 adjusted operating margins to be around 350 bps lower in 2020 than those achieved in 2019.

COVID-19

The spread of Coronavirus disease 2019 (COVID-19) represents one of the most serious global health emergencies in the last 100 years, with the pandemic having now reached over 120 countries.

As a leader in both hygiene and health, RB is uniquely positioned to provide tangible assistance to consumers, governments and healthcare authorities. For example, in China we have already announced a donation of RMB 50 million (£5.5 million) in cash and antibacterial products. Demand for certain RB products, in particular Dettol and Lysol, has increased substantially in recent months, and we are working hard to increase the level of available supply. At present, our supply chains and distribution channels are proving both resilient and flexible, though there has been some unavoidable disruption in many parts of the world. At the same time, as the situation develops, it is likely that we will experience increased levels of disruption, particularly in those countries and regions that are hardest hit. Longer term, the economic consequences associated with COVID-19 are difficult to predict, however they may lead to weakened demand for some RB products. We have also assessed the impact of COVID-19 on the going concern and viability statement set out on page 77 and this is further discussed in the financial review.

The spread of COVID-19 has also raised serious safety concerns for our own employees and contractors. Keeping the RB family safe is one of my key priorities, and where required we have put in place alternative working arrangements. We will continue to monitor the situation around the world, responding decisively to events as and when they develop.

A winning culture

Our ambitious, exciting programme for change takes the best of today's RB and positions it to address the challenges of tomorrow's society. I am confident that it is achievable, but our success will depend

on having a winning culture – we need the right people in the right places who want to do the right thing for the world and for our business. Alongside the internal RB talent, including Harold van den Broek and Aditya Sehgal, I am delighted to welcome Kris Licht, Ranjay Radhakrishnan and Jeff Carr to my Executive team. Further appointments will be announced in the coming months.

Rejuvenating RB

As I said in my opening remarks, we have a good house, in a great neighbourhood with the potential to be a great house again. As we've outlined, we have a clear strategy, anchored in purpose, to rejuvenate mid-single digit growth in the medium-term. We have a detailed £2 billion three-year investment plan, funded by enhanced productivity. This will create long-term shareholder value, while engaging with society with purpose. I believe we have an organisation and team inspired by this mission to carry this through.

I would also like to take this opportunity to thank our Shareholders and other stakeholders for their loyalty and trust, and our employees for their hard work and loyalty in what has been a complex and challenging year. As we look to the future, that trust and commitment is RB's greatest asset and our most important measure of success. I look forward to reporting on our progress next year.

Laxman Narasimhan

Chief Executive Officer
26 March 2020