Unilever H1 2024 Results

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Speakers:

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Hein Schumacher

Good morning and welcome to Unilever's H1 Results announcement.

We expect prepared remarks today to take about 25 minutes, leaving around 30 minutes for Q&A.

All of today's webcast is available live transcribed on the screen.

In a moment, I will hand over to Fernando to take you through the details of the results. I will then return to give a brief update on the Growth Action Plan and some of our key priorities as we move into the second half of the year. After that, we will take questions.

First, though, let me set out some of the performance highlights from the first half, as I see them.

Our focus has been – and remains – on delivering high-quality sales growth and expanding gross margin, thereby enabling a step-up in investment behind our brands.

With that in mind, we made progress over the first half.

Underlying sales grew 4.1%.

Volume growth was broad-based and accelerated to 2.6%, with four of our five Business Groups delivering positive volumes in quarter 2.

Growth was led by our Power Brands, with underlying sales growth of 5.7%, and volumes up 4%. Focussing on these 30 brands is a core part of our plans and so we are encouraged by the progress here.

Gross Margin expansion was strong – up 420 basis points to 45.7%. We recorded lower material costs which helped. But we are also on track to achieve net cost productivity through tight cost control in our operations. Both these impacts supported the Gross Margin development in H1.

This allowed for nearly €700 million in extra brand and marketing investment, which went behind an increasingly strong and focused innovation programme.

Gross margin expansion also resulted in accelerated profit growth. Underlying operating profit increased 17.1%, to €6.1billion, with underlying operating margin up 250 basis points, to 19.6%.

Over the last quarter, we have continued to implement our Growth Action Plan at pace. As well as stepping up financial performance, the plan also incorporates sustainability leadership in 4 priority areas: climate, plastics, nature and livelihoods.

We made progress against all of these in the first half.

- On climate, our Scope 3 emissions targets for 2030 were validated by the Science-Based Target Initiative, or SBTI and we are making steady progress towards delivery.

- On nature, a series of newly-agreed regenerative agriculture projects is expected to bring incremental hectarage of 335,000 this year, keeping us on track towards our goal of 1 million hectares.

- On plastics, working with USAID, we were behind the launch of a new public-private collaboration – the CIRCLE Alliance – to scale solutions for reducing plastic and tackling waste.

- And on livelihoods, over 20% of our procurement spend is now with suppliers who have signed our Living Wage pledge, putting us on track to reach 50% by 2026.

We have also been working to progress the two important announcements we made in March: separating Ice Cream and improving our productivity. There is lots to do, but the simple message today is: we are on track with both.

As we go through the presentation, we will review the numbers for the first half – and the progress against our priorities – in more detail. And whilst I do believe we have made progress against our stated ambitions, I am the first to acknowledge that we still have a lot to do to implement the changes that are needed, to achieve the level of consistent performance.

On competitiveness, for example, even though we see some green shoots in the latest readings, we know this will take time and that it must remain an area of absolute focus.

In addition to that – and as we said last quarter - we are making key changes in our Ice Cream business, with initial focus on North America and Europe to drive sustainably better performance. For the first half this has led to better service to customers, better pricing and better competitiveness. Despite that however the business still had a disappointing quarter. And while market factors help to explain a lot of this, the performance reinforces the importance of continuing to make these operational improvements. We will do just that.

We will now go deeper on the results themselves so I hand over to Fernando to take you through…

Fernando Fernandez

Thank you, Hein.

Underlying sales growth in the first half was 4.1% with second quarter at 3.9%, both with strong volume contributions.

We delivered our third consecutive quarter of positive, improving volume growth. Underlying volume growth was 2.9% in quarter two, up from 2.2% in quarter one and 1.8% in quarter four of 2023.

As expected, given the reversal in commodities cycle during the last year, price growth has significantly slowed down to 1% in the last quarter.

Let’s take a closer look now, by Business Group.

Beauty and Wellbeing delivered a strong first half with underlying sales growth of 7.1%, underpinned by 5.5% volume growth. This is the third consecutive quarter in which B&W volume has been above 5%.

The strong performance has been anchored in our Power Brands that delivered double digit growth. Sunsilk and Dove fuelled Hair Care growth while Vaseline and Ponds were strong contributors in Skin Care.

For the 14th consecutive quarter, our combined Health & Wellbeing and Prestige Beauty businesses delivered double-digit growth. Health & Wellbeing was particularly strong in the quarter, while Prestige Beauty felt the impact of slowdown in the Beauty Market in the US.

Personal Care grew 5.6% with a good balance between volume and price growth.

Dove, Unilever's largest brand, achieved double-digit growth across its female and male franchises, on the back of strong innovations across both Deodorants and Skin Cleansing, like the premium range of serum infused Body Washes in US.

Deodorants, once again, delivered double digit growth, with strong contributions from the multi-year innovation platforms of Rexona and Axe, on top of Dove.

Although tempered by market challenges in Indonesia, deflation in India and subdued performance of our antibacterial brand Lifebuoy, Skin Cleansing still delivered positive volume and price growth.

Oral Care continued to grow mid-single digit with positive volume and price, led by Close Up and Pepsodent.

Home Care grew 3.3%, with volume up strongly – at 4.6%. The impact of commodities deflation in the basket of Home Care materials led to negative price of (1.3)% in several emerging markets, and particularly in Laundry Powders.

Fabric Cleaning grew low-single digit and Home & Hygiene grew strongly, high single digit, with very positive strong contribution from Europe in both. Our premium innovations in Europe like Persil Wonder Wash, Comfort Elixir and Domestos Power Foam, are all off to a promising start and we are reinforcing our investment plans to accelerate momentum even more.

Nutrition returned to positive volume growth in quarter 2, which helped to deliver 3.2% USG in the first half.
Growth was driven by our Power Brands, including Knorr and Hellmann's, which represent two thirds of Nutrition turnover and grew a combined 5.2%.

Both brands delivered positive volume growth, with Knorr leveraging local top dishes for its Cooking Aids offering and Hellmann's successfully expanding its flavoured mayonnaise ranges.

Once again, Unilever Food Solutions delivered a strong performance with high single digit growth, led by its China operation on the back of a successful digital B2B selling programme.

Ice Cream grew 0.6%, with price growth of 1.6% partially offset by negative volume.

We are disappointed with the IC performance that has been clearly below our ambition, despite the operational progress we have made in areas like customer service, competitive pricing and execution of our innovation. These operational improvements have reflected in improved competitiveness in the US and several of our European markets.

However, performance has been seriously affected by:

- Shortfalls in China, where we faced both, tougher market conditions and competitive pressure,
- And shortfalls in Europe, where poor weather negatively weighed on the start on the summer season.

We are responding to the challenges in China with the shift of our portfolio to premium and distribution expansion into provinces with high consumption potential.

In Europe we keep tightening our operational grip while innovating in our biggest and more premium brand with the launch of 3 new variants of Magnum Pleasure Express.

We run the business entirely through the lens of our five Business Groups, however we believe it is important to provide also some colour on performance in our different geographies.

During the first half of the year, we delivered broad based volume and price growth, with positive contribution from all regions.

We showed strong performance in Developed Markets, reflecting the return to volume growth in Europe and our continued solid performance in North America despite the weakening of consumer sentiment there. A stronger innovation pipeline and increased levels of brand investment are evidence of our commitment to accelerate performance in these important hard currency markets.

In Latin America, one of Unilever strongholds, performance remains strong with 7% volume growth in the first half and a positive, if even more subdued, contribution from pricing to total USG of 8.8%. We expect consumption slowdown in Argentina, but the strengths of our brands and operations in the Latin America region make us confident about our prospects there.

In Asia Pacific Africa, our biggest region, important to highlight the sequential improvement of our business in India. Our volume growth in India accelerated to 3.8% in Q2, as we consolidated the share gains achieved over the last 3 years.

Growth in South-East Asia also sequentially improved in Q2, despite the sales decline in Indonesia. Our longstanding issues in Indonesia have been exacerbated by the reaction of groups of consumers against multi-national brands in response to the geopolitical situation in the Middle East. Fixing Indonesia will require significant portfolio initiatives and the reset of our route-to-market strategy. It will take time and we do not expect to see significant benefit of operational changes in 2024.

Last, but not least, Africa and the Middle East delivered another period of strong performance with double-digit underlying sales growth, and both, positive volume and positive price.

Let me return now to performance at the Group level.

Turnover for the first half was €31.1 billion, up 2.3% versus the previous year.

Underlying sales growth of 4.1% was the main contributor. Net impact of Acquisitions and Disposals was (0.7)%. Acquisitions added 0.5%, driven by Yasso and K18, both performing in line with acquisition business cases. This was more than offset by a disposal impact of (1.2)%, driven by Suave, Dollar Shave Club and one month of Elida Beauty, which sale was completed on 1 June 2024.

Currency had an adverse impact in the half of (1.1)%, which was a considerably smaller impact than in 2023 when the Euro strengthened against most currencies.

During the first half of 2024, we expanded our gross margin by 420bps to 45.7%, building upon the improvement of 330bps achieved in the second half of 2023.

We continue to make progress in transforming Unilever into a structurally higher Gross Margin business, by driving volume leverage, positive mix, transformational procurement initiatives and net productivity gains in production and logistics costs.

In the first half of 2024, we also saw the combined benefit of deflation in some components of our commodity basket and the pricing carry-over from a period of higher commodity inflation.

This strong gross margin expansion gave us flexibility to both, increase investment in our brands and expand underlying operating margin.
We increased brand and marketing investment by 180bps to 15.1% of turnover, an increase of almost €700million, behind a much more focused innovation programme anchored in our 30 Power Brands, in which we have allocated 85% of the incremental investment.

Our underlying operating profit was €6.1 billion, up 17.1%. The underlying operating margin improved 250bps to 19.6% on the back of the strong gross margin expansion plus a tight control of overheads.

Underlying earnings per share were €1.62, up 16.3%.

Our operational performance, the combination of sales growth and strong margin expansion, contributed 20.4% to underlying EPS growth.

An increase in finance costs had an adverse effect of (1.0)%. As expected, higher interest rates impacted the cost of servicing our debt, while interest income and interest credit from pensions were lower than in the prior year. Net finance costs as a percentage of average net debt were 2.9% in the first half, and we now expect net finance costs be around 3% of average net debt for the full year.

Tax was a drag of 3.2% on underlying EPS as our underlying effective tax rate increased to 26%. This was driven primarily by lower benefits

from tax settlements and other one-off items. We expect our underlying tax rate to remain at around 26% for the full year.

The impact of our share buyback programmes made a positive contribution of 1.0%.

Negative currency effect in EPS was similar to the one experienced at turnover level at around 1% and explains the difference between constant underlying EPS growth at 17.3% and current at 16.3%

Our Free Cash Flow in the first half was €2.2 billion, down €300 million versus prior year.

The increase in operating profit was more than offset by a higher seasonal outflow in working capital, a step-up in capital expenditure, and higher income tax paid against a prior year comparator that benefited from some refunds in India.

For the full year, we will work towards maintaining the levels of negative working capital with which we operated in in recent years. We continue to expect capital expenditure of around 3% of turnover in the full year.

As a result of the strong first half performance, the Unilever Board has decided to increase the quarterly interim dividend by 3%, the first increase since quarter 4, 2020.

In February of this year, we announced a share buyback programme of up to €1.5 billion to be conducted during 2024. The first tranche of €850

million commenced in May, and is expected to complete on or before 30 August 2024.

Turning to the outlook for the remainder of the year.

We continue to expect underlying sales growth for 2024 to be within our multi-year range of 3% to 5%, with the majority of growth coming from volume.

We expect underlying operating margin for the full year to be at least 18%, with increasing investment behind our brands. Year-on-year margin progression in the second half is expected to be smaller than in the first half, given the stronger comparators and some increases in replenishment costs given the moderate return of commodity inflation.

With that, over to you, Hein.

Hein Schumacher

Thank you, Fernando.

I want to come back to the Growth Action Plan, or GAP, which we see as key to improving our performance and restoring competitiveness.

In the nine months since it was launched, we have been implementing the plan at pace across all ten action areas.

As a reminder, those action areas fall under three broad priorities:

- To deliver faster, higher quality growth.

- To create a more streamlined and productive business.

- To embed within Unilever a sharper performance culture.

During previous results announcements, we have gone a little deeper on progress in specific areas.

Today, I want to touch on two areas that are key to driving faster growth. I also want to say something further about productivity.

On faster growth, we've been clear that this will come, primarily, from an increased focus on our Power Brands.

In practice this means stepping up investment. And you see that with today's announcement and with the details Fernando shared earlier. BMI is up 180 basis points, with 85% of the incremental increase going behind Power Brands.

But increased focus also means ensuring these brands are 'unmissably superior' and that we scale innovations more effectively.

The two elements are closely linked of course. Let me take them in turn, starting with unmissable superiority.

The concept here is as clear as it is compelling, namely that brands need to win – not just on product superiority – but across multiple drivers

of consumer preference. In our case, that means winning on product, but also on packaging, proposition, promotion, place and price.

The causal link between improvements in these 6Ps and stronger brand performance is clear. We have validated it now in more than 119 strategic cells.

That process involved taking 21 proven drivers of market share – everything from better quality perception to average price index to measuring the breadth and depth of distributed assortment – and then deploying these input metrics across the 6 P's, using both market and proprietary data.

The insights are very powerful and with this improved understanding of what drives market share changes – and by monitoring developments continuously over time – we are able to move with speed and precision in taking the actions needed.

Making our brands unmissably superior like this is a necessary – but not the only – condition for faster growth.

We also need to get better at scaling our innovations. We have the brand strength and the R&D capabilities needed to do this. Our focus, therefore, has been on leveraging these strengths more effectively. Specifically, working on the big science and technology platforms that span our portfolio – like biotechnology – to ensure we land innovations that are not only bigger in themselves, but that drive category growth.

Also here, we are making progress.

The first half saw a number of examples of market-making innovations across *all* Business Groups, with common themes around meeting consumer needs, premiumisation and differentiated technology.

You see just some of them on the screen here.

Persil Wonder Wash – as Fernando mentioned already - is a particularly good example.

One, it is technology-based. The product is developed with our patented Pro-S technology.

Two, it is differentiated. This is the first ever detergent for short cycle washes.

And three, its scalable. Already launched – and doing well – in the UK, France and China, the product is on track to be rolled-out across other key markets over the next 18 months.

Of course, we have a lot still to do, and it will take time for the benefits to come through, but based on the work we have done to date, I am confident of meeting our ambition of doubling the average size of our innovations overall and driving a select number of top innovation projects to over €100 million in 2025 and beyond.

We will come back to progress across all elements of the GAP later in the year, but I wanted to touch on these two areas today because of

their importance in driving our overriding priority of faster, higher quality growth.

In March, we announced two significant measures to accelerate the Growth Action Plan and strengthen Unilever's position further over the long term.

First, the launch of a company-wide productivity drive.

We are currently consulting on the details of the changes we want to make with employee representatives. However, I am confident that the proposals will more than offset the operational dis-synergies arising from the separation of Ice Cream.

More significantly, these measures will help to simplify Unilever. They will foster quicker decision-making, higher levels of accountability and they will put operational power more directly in the hands of those in front-line roles.

As such, we see them as an important part of the cultural change programme we have embarked on, which also includes other measures we've taken, such as strengthening the link between performance and reward.

The other part of the announcement in March concerned the separation of Ice Cream.

We remain convinced that this is in the best long-term interests of both Unilever and Ice Cream.

There is a huge amount of work ongoing, including:

- the legal entity set up;
- designing the standalone operating model;
- preparing the carve-out financials.

This work is on track and we are confident that separation will be complete by the end of 2025.

With that, let me sum up.

There is a lot to do, but we can point to progress over the first half of this year.

- For one, the Growth Action Plan is now firmly established across the business. The benefits are building steadily, not least in the performance of our Power Brands and the expansion of Gross Margin.

- And two, we are on track in progressing the two measures we've announced to accelerate the GAP and strengthen Unilever over the long term - a comprehensive productivity programme and the separation of Ice Cream.

- Taken together, we are confident that these steps will help to transform Unilever over time into a consistently higher performing business.

Thank you for your attention. We look forward now to taking your questions.

OPERATOR**:** Good morning. Many thanks for joining the call. If you would like to ask a question, please press star 1 on your keypads. If you no longer wish to ask a question, press star 2 to exit the queue. When it is your turn to ask a question, your name will be called out. Finally, please keep your questions to a maximum of two.

JEMMA: Thank you very much for joining the call. Our first question comes from Celine at JP Morgan. Celine, please do go ahead.

CELINE: Good morning. Thank you for taking my question. Maybe my first question is on the outlook for a growth, you maintained 2% to 5%. You mentioned earlier that you expect volume to drive most of that. Are you still expecting volume growth to accelerate in the second half versus the Q2 level of 2.9%? If so, can you talk about where this acceleration is coming from because I think you mentioned that Argentina will be tougher, I think Indonesia as well will take time, and the comp is also more difficult for volume in the second half. That's my first question.

My second question. Obviously strong gross margin and EBIT in H1. You probably are going to be around the 44% gross margin for the full year. Could you elaborate about the potential for gross margin levels going forward? And in terms the EBIT margin of more than 18%, how much more upside do you see given the strength in the business and the productivity you are putting in place in the mid-term? Thank you.

HEIN: Thank you, Celine, for the question. It is Hein. I will start with the first question on volume and Fernando will take the question on the gross margin and EBITDA margin.

We have talked about our full year in the guidance, 3% to 5%. We have talked about it being volume-led and volume to be the majority of our growth. If you look at Quarter 2, you know, that's exactly what is happening and we expect, if you take the first half year in terms of the percentage split, we expect roughly similar in the second half. You know, as we already said, we are sticking to our full year guidance. So, you know, I would just take it as a volume-led with no material changes in the split between volume and price as it stands today. Fernando, on the margins.

FERNANDO: Good morning, Celine. We are very, very pleased with the development of our margins since Hein's arrival, I feel we have been very, very clear about our ambition to restore gross margin to pre-COVID levels and to structurally increase our gross margin. When we talk about restoring gross margin, we talk about volume leverage, positive mix, interventions in the value chain of some of our key materials, and finally a higher allocation of capital expenditure to massive expansion metrics. We have been making significant progress in all of these drivers and this is reflected in the 420 basis points of expansion in the gross margin of the first half. I'm sure you remember we increased around 330 in the second half of last year.

We benefited from a more favourable scenario of commodities in the second half. I feel with the expansion of gross margin we allocated around 40% of that to investment and 60% has gone into the bottom line. When it comes to full-year delivery, we have set up a floor of 18% Underlying Operating Margin. At this stage, we want to remain cautious given three developments that we see in different areas. We see some increase in competitive marketing spending, particularly markets like US and India. This demand higher in the near future.

We see a return of moderating inflation to some key commodities of some of our materials. I can mention aluminium or cocoa and we see some deterioration in the last few weeks on some emerging market currencies even if for the full year we see the negative currency effect to be much smaller than in previous years.

In summary, we are very, very happy with the progress we are achieving in making Unilever a structurally higher margin business. We expect gross margin improvement. We remain cautious for the second half of the year given the need of investing in our brands and the issues I have mentioned in terms of currencies and materials inflation.

JEMMA: Our next question comes from Olivier at Goldman Sachs. Go ahead.

OLIVIER: Good morning. I have two questions, please. You mentioned that you were seeing a slowing down partially in skin care, what do you

think is the underlying reason? How do you feel you can change the trajectory for Paula's Choice? That's the first question.

Marketing investment increased strongly to 15.1%. What do you expect the market share metrics to improve or do you just put down in each one because of a weaker margin in Ice Cream?

HEIN: Thanks, Olivier. Let me talk about the North America and the somewhat slowdown in Prestige Beauty. It is what we are seeing. Notably in Sephora and Ulta and in those type of chains. We also see it in China. We don't think it is structural. I should also point to, you know, there are different performance by brands. Some brands continue to beat the trend and obviously some brands are sort of more going with the trend. So, what we do is we stick to it. We believe, we have strong brands, we have strong presence in the channels that I talked about. Quite a few of our brands as you know are digitally native so, you know, we're capable of investing more behind them and control that. So, we feel that it is a very positive part of our business, and we will continue to invest. We don't believe it is structural. It may last for a bit, but we don't see long-term prospects in that sense changing.

If you think of the market shares, as we said last year, we are measuring that on a MAT business on when we communicate about it. We didn't expect major change in the first half but indications over the last 12 weeks, let's call it the last three months, MAT measurements, we are seeing green shoots and that gives us confidence that in the second half of the year which is also consistent with what we have said in October

that we start to see improvements. We don't expect for the full year to come into significant positive territory but we do see an improving trajectory in competitiveness. It is important that, as we have said a few times, when we look at market share developments, it is approximately 70% of our portfolio is covered and 30% is not in that measure.

JEMMA: Our next question is from James at RBC.

JAMES: Thank you very much. Morning, all. It is not your sector I know, Hein, but Carlsberg is acquiring Britvic, a predominately UK company. Do you see any reason to be concerned about the medium-term to long-term trajectory for emerging markets?

HEIN: Thank you for your question. You know, if you look at it over the last couple of years we have consistently, you know, invested capital in North America behind our Prestige Beauty business in particular and behind our Health & Wellbeing business. Since the time I've been here and together with Fernando, we have made some clear investment decisions there as well. We have acquired Yasso and K-18. We believe that both of these brands fit us very well.

The way we look at it is, first of all, we are looking for brands that have the ability to scale across the globe and North American brands tend to have that opportunity to scale across a large geography of the US and then internationally as well. That, we think is very attractive. Of course, it happens on the hard currency side as well which is important for us.

I think we have mentioned this a few times but if the right opportunities would of course come along and in geographies that are very important to us, think of India, for example, we will of course take a hard look. But I would call out those criteria. It should be strategically in the categories in which we play or in the channels in which we play should be capable to scale up and should be in the geographies where we put our priorities.

FERNANDO: The fundamentals that make emerging markets attractive remain there. You know, when you look at population growth, when you look at the emergence of the geographies or rapid urbanisation, they are all clear. We continue very optimistic about our prospects in emerging markets where we have strong positions in all of the biggest markets. In 16 of the top 20 world's fast growing economies, Unilever is a leading player so we continue to see emerging markets as a key pillar of our strategy.

JEMMA: Our next question is from Tom Sykes.

TOM: Morning. Firstly, just exploring the six P's a bit. By the end of the year, what percentage of your portfolio will have some kind of renewal either innovation or packaging change? I think you have highlighted packaging before as an area of particular gain for you. So, what would that be by the end of the year and what would your view be on how that should be on an annual basis compared to history?

Then just on your productivity and capacity utilisation, I think you previously released in Annual Reports, you have about 280 factories, about 1,000 third-party supplier sites, about 80 or so are dedicated to Unilever. What does that infrastructure look like in three years' time, please?

HEIN: Thanks, Tom, for the question. Let me first talk about unmissable brand superiority. First of all, we believe that towards the end of the year, we will, in terms of the methodology, roughly two thirds to 70% of the portfolio, we are looking at unmissable brand superiority and the primary benchmark for taking actions and of course to see if our actions lead to the right results.

When you ask what are we changing to what percentage of the portfolio will see change in term of innovation and packaging, well, if you look at unmissable brand superiority, we are looking at the 6Ps. Of course, when we see gaps to where we need to be or where the consumer wants us to take action, of course we take action. And the first results I mean we have tested it, we are rolling it out now. There is always something to improve, you know! So, I would say on the whole assortment we will continue to take actions, whether it's price, whether it is proposition, whether it's place or whether it's in innovation. So, I think that's sort of a dynamic thing and we will continue to do that.

When it comes to innovation, there we have made a bit of a change. I mean, we have two goals. First of all, we want to make sure that the

average size of our innovations in totality would double this year and that means doing fewer, bigger and better.

The second thing we have talked about on innovations is that we're very keen that we will grow a select set, roughly you have to think about somewhere between 10 and 12 to platforms of more than 100 million and that's more important to make these bigger bets that we can scale across the globe. We're on track on achieving that.

FERNANDO: I can cover the questions in our supply chain. We are happy with our supply chain but we are investing fundamentally in increasing productivity. As I mentioned better, we are locating around more than 50% of our CapEx now to margin expansion initiatives that will fuel our gross margin development. We have a good balance between our own manufacturing and co-packets. I think they are used in categories where it is required in the underlying manufacturing due to the low value density of our products, a clear example, for example, is in the Home Care, or where the level of innovation is very, very high, it requires a lot of changeovers.

Let's take an example of that in Prestige Beauty. We have 11 million net book value of assets. We believe that with a consistent volume growth of around 2%, around 30% of our CapEx will be allocated to capacity or innovation activities. As I mentioned before between 50% and 60% will be allocated to margin expansion initiatives.

JEMMA: The next question is from Jeff at BNP. Go ahead, Jeff.

GEOFF: Thank you, Gemma. Good morning. Two questions, if I may. The first one, Heiko Schipper has had a few months to get his feet under the Nutrition desk. I'm just wondering if you could share on behalf of Heiko what his thoughts are or what he wants to do with Nutrition.

The second question is, could you just shed a bit more granularity on Ice Cream and what actions are really being taken across Europe, North America and China. Thank you.

HEIN: Thanks, Jeff. First of all, on Nutrition and indeed Heiko, as you say, has his feet under the desk but he made a good and flying start, so very happy that Heiko is onboard. You know, what he has done is obviously he has looked at the business, travelled around, made sure that he got very familiar with our operations. His first observations are that we have, actually, a very healthy and a very sound Nutrition business. You know, it is quite concentrated and it focuses on condiments and it focuses on cooking aids, it focuses on food solutions. We have a strong functional Nutrition business or a healthy Nutrition business in India with its domestic brands. So those are the four pillars that he identified where he's keen to grow and where he's keen to make the difference.

If you look at the first three pillars, so condiments, cooking aids, and food solutions, the similarity between them is that, you know, one brand

in each of those verticals, so in cooking aids that's Knorr, which is the second biggest brand of the company, in condiments it is Hellmann's, and actually in food solutions it is a combination of two. These key brands, these two brands are the vast majority of the Nutrition sales. We are keen to grow them and that's exactly what we did by the way in the first half. Together they grew 2.5% which is ahead of the company average and very close to the overall top 30 power brand story. So, you know, he's very much aligned with that. He's keen to streamline the Nutrition business further making sure we scale those brands and we roll out the strong innovations there.

FERNANDO: We know that the Ice Cream, after a very poor year last year, you know, there were many elements to fix in our operations. We have implemented actions in several areas. You know, our service has improved significantly. We have restored competitiveness in our pricing strategy and our promotion strategy, particularly in US and Europe. We believe that the level of execution in point of sale of our innovation is much better than the one last year and, as a result, we are seeing our competitiveness, our shares both in US and in several of our markets in Europe do get better. This being said, there is much more work to do in fixing some of our execution and operations. We are working on that.

The disappointing performance has been fundamentally driven by what I would call a very weak performance in China, where the market conditions has been tougher and where we have been under competitive pressure and many actions have been taken in order to premiumise our portfolio and expand the distribution in the regions in which we see more

consumption growth potential. And, of course, some bad conditions of weather in Europe but the weather sometimes plays good and sometimes plays bad. We will not hide behind that. Many actions are in place. We expect sequential improvement quarter on quarter in Ice Cream. Our intention is to really put this business in a very good footing prior to separation that as we have mentioned before it will be completed by the end of 2025.

JEMMA: The next question comes from Guillame at UBS.

GUILLAME: Morning, Hein and Fernando.

HEIN: Good morning.

GUILLAME: Two questions from me please. The first one is on pricing. I mean, not Unilever specific but we are seeing a rapid nominalisation of pricing. In your case, it is particularly visible in Europe and North America in the quarter with a marked sequential deceleration. I'm wondering here what the outlook is for pricing. Would you expect a further softening over the coming quarters and particularly could we return to negative pricing in developed markets as it's been the case in the past? Generally, do you see major changes in consumer behaviour, be it around buying more on promo or still some fast adoption of product level?

My second question is from the key gross engines of Health & Wellbeing and Prestige Beauty. I mean, I'm just wondering if you could provide some colour on what is happening in Health & Wellbeing because continued strong performance. You start to roll out some of your brands internationally outside of the US, I'm wondering how this is going.

On Prestige Beauty, does the muted development of the Chinese beauty market change a little bit your plan for the rollout of your brands there? Thank you.

HEIN: Thanks, Guillame. I will tackle them one by one. There are various questions here. First of all, on pricing, you know, we have been seen lower pricing in the first half of the year as well as in Q2 but it was quite regional for us. We had negative pricing in South Asia and in Southeast Asia, in some categories. So, where we have seen real commodity deflationary impacts we have adjusted pricing accordingly to also of course give back to the consumers where that's needed and to focus on our competitiveness and ensuring a volume-led growth story that we have talked about. We have been really very close to pricing and making sure that we stick close to what we want to achieve. If you look forward, we expect inflation to go to more normalised levels. You have to think somewhere in globally and I'm not talking particularly commodities but think of level of somewhere between 2% and 3% and that means that I would say over time towards the end of the year and possibly in the beginning of next year, we would need to start preparing for slightly higher pricing levels, but not close of course to the levels that we have seen in 2021 or 2022 in times of the very heavy inflation.

I think we're now seeing that negative pricing in pockets. I think that will rebound a bit based on moderate inflation in our key commodities overall.

When you look at consumer behaviour, there is somewhat heightened promotional activity in Europe. If you look at the market there, we are seeing more promotional activity in Europe. The US is pretty constant. For us we have participated in that but not to a significant extent so we didn't promote much more than the market did and, in fact, we scaled here and there, we scaled down a little bit.

You know, I think the European consumer, as we said, of course they look for value. We have also seen increased market share of private label brands in Europe over the last years and that continued somewhat in the first half of 2024. I believe that going forward and in a more normalised inflationary environment, things will settle there a bit.

On Health & Wellbeing and Prestige Beauty and just a few words but asking Fernando to add, we are internationalising our Health & Wellbeing brands. We introduced Liquid IV in Australia and in Canada and a few European countries. Liquid IV grew from over seven years to what it is today so it will take a bit of time in Europe as well. On Prestige Beauty, it's a similar story. If you look at the brands, we have actually rolled them out in some other markets, but our exposure on Prestige Beauty in China is very limited. So, we can be quite clear we have introduced Olly the Health & Wellbeing brand in China that's going pretty well for us but the Prestige Beauty exposure to China is very low.

FERNANDO: Yes, I feel regarding what is behind the success of our health and wellbeing business and Prestige Beauty, we have built a portfolio of what we believe are very, very strong brand equities, digitally native brands, brands that are authentic and lifestyle brands. We are riding the wellness trend in areas like hydration or hair fall, for example. You know, we believe that it is an advantaged portfolio, the one we have built in the US, and we are rolling out internationally.

About China, I feel that Hein has mentioned that, we have a very focused internationalisation plan for our Health & Wellbeing and Prestige business. In China, two keys brands Hourglass and Olly that are doing very well in a market that is muted relating to growth rate. We are very, very selective to where we send our brands. In China, we are focused in the high end of Prestige Beauty, and in a brand like Olly that is riding in the female health trend.

JEMMA: Our next question is from Bruno at Bernstein. Go ahead.

BRUNO: Good morning. My first question is on product superiority. Hein, you mentioned brands need to win, indeed. Clearly, your competitiveness data was in the low 30s, so you're actually not winning most of the time. It could be a timing element. I remember Alan, your predecessor, was talking about the highlights of product superiority. I'm thinking on the one hand in terms of product superiority. You say you're winning but the market says you're not winning. Is it a matter of timing

and we just need to make a bit longer for that to be true or how long would you have to wait before you start to see the product superiority?

My second question is on volumes. My understanding is you have pricing in there as well. From my estimates, most of it is pricing. Can you quantify how big the mix component is out of your volume measure for the quarter? Thank you.

HEIN: Thanks, Bruno. I will take the first question and Fernando will take the second question on mix.

Yes, we have made quite a change on looking at our brands, so you are absolutely right. Previously, we did look at product superiority as the most important metric and product superiority is about a functional benefit. You know, does the benefit do what it is supposed to do? What we introduced in October is a framework called unmissable brand superiority and that looks more holistically at our brand performance but also through the eyes of the consumer, not just product superiority. That's part of it, but also, you know, the proposition, so is the marketing campaign clear, is it working and is it clear what the brand stands for? It looks at place, is it distributed in the right way and does it have the right varieties on the shelf? It looks at price, is the price actually the price pack architecture? Is that at a good place versus competition? I can go on.

We look at it much more holistically. We are looking at in total 21 metrics behind the six Ps. We are very convinced by looking more holistically and therefore improving the execution power in the entire organisation that this is the recipe for success. Now, if you look at competitiveness, you're right, competitiveness on an MAT basis, as I explained, and it is what we expected. This is not something that you turn easily, certainly not on a global scale, we're encouraged by some recent improvements we have seen in the last quarter and we're all, you know, focused on making improvements in the second half of the year which we believe are likely to materialise.

FERNANDO: Bruno, we don't usually disclose the direct volume between that and mix. I will give the number for the Quarter 2, 75% of the contribution of UVG comes from volume and 25% from mix.

JEMMA: Our next question is from Jeremy at HSBC.

JEREMY: Hi, good morning. Just a couple of questions from me. The first one is just following up on the previous question on health and wellness. Can you tell us what the health and wellness business specifically grew at in the quarter and half and also what the scale of that business is on a half-year basis?

The second one is on China. It seems as though that market has really become very, very difficult in the quarter. Can you talk a little bit about what you're seeing in the consumer there and whether you think that this

is going to remain the case over the balance of the year or whether there is any hope that the market starts improving in the second half and what your current assumptions are for that market?

HEIN: Thanks, Jeremy. Let me first talk about health and wellness. I mean, what we're saying is the combination of our health and wellness business, as well as the Prestige Beauty business, we grew double digits in its combination. We don't disclose the individual ones. But I mean we were quite clear that Prestige Beauty, you know, was muted. We talked about shopping behaviour and consumer behaviour in the US, particularly behind luxury and we are seeing that.

Fernando explained it I think before. We are very excited about our Health & Wellbeing brands, Liquid IV, Nutrafol, and they more than compensated for that. The combination is still strong for us and more than 5% of our turnover in the company.

If you look at China, China indeed muted and market growth in China is truly on the low side. We believe that is not going to be obviously forever, but we believe that it will take quite a bit before that rebalances.

Rather than talking about the China dynamics because there's so many and I'm sure you have a very clear view about it yourselves, I would like to talk a bit about our business. You know, if you look at China as I said, we don't have massive exposure to the Prestige or luxury side of things. We're the market leader in hair care with our Clear brand, that is pretty

mainstream, it is on the upper side of mainstream. Dirt is Good in our Home Care business is developing and we introduced Persil Wonder Wash and also introducing it in China. If you think of Nutrition, it is primarily our Food Solutions business. We don't see major changes in terms of restaurant visits by the China consumer, at least not in the type of restaurants we supply to. I feel pretty good. Yeah, I feel pretty good about our China business. It is not a fast growth story, but it is clearly holding. We will continue to invest behind the brands as we have done before. You know, in an organic way we will continue to invest and bring innovation to the China market and selectively we will introduce some our Prestige and health and wellness brands there.

FERNANDO: Health and wellness is around 2 billion for the year. Nutrafol and Liquid IV are in the top 25 brands of the company now.

JEMMA: The next question comes from David at Jefferies. Go ahead.

DAVID: Morning all. Two from me, one on margin broadly and then one specific question on cost savings. Just on the margin more broadly, you obviously substantially increased BMI and R&D but this commitment to 18% margin or 18% and over 19% from what you said earlier. Is there a risk you should be doing more to spend back on BMI and R&D even now to try and arrest or improve these trends that you struggled with on market share and volumes for a few years now?

And then, are you making a decision on short-term pressure to deliver versus a long-term focus? How have you made that decision in the first half and then with your plans in the second half? I guess just to push on that, margin wise beyond this year obviously the company was looking at over 20% back in the Kraft Heinz approach days of 2017, is that the right ambition for this company, looking back on it, but it was a challenge to get there but it is where the company might end up.

The second question is on the savings in first half. What was that number net wise and productivity wise, was it all in cost of goods sold and is it pre the programme you talked about in the last release? Thanks so much.

HEIN: Thanks a lot. I will take the first part of the question. Fernando will take the second part of the question.

You know, very importantly we are shying away from operational operating target. I was very keen to change that in October. We talked about underlying profit growth initially in our guidance and, you know, that's really what we want to stick to. So, you know, it's super important that we talk about profit growth and not about an operating margin target for the reason you talked about. You know, we are seeing good growth margin expansion but we're keen to continually invest behind our brands.

I think, you know, that's something, that's a bit of a journey. We increased 180 basis points already in the first half, we are now at 15.1% of turnover, that represented euros. For the second half, as Fernando has explained, we do see opportunities to increase our spend but it has to go behind strong plans. You know, we're not looking for a particular brand marketing investment as a percentage target. We want to look at, hey, where do we have momentum and strong plans and then we will continue to invest behind it. So, we're not afraid at all to spend but we're not spending for the sake of spending. I guess that's the message we want to give. We're not looking at a particular Underlying Operating Margin target or guidance that we want to give today.

FERNANDO: Yes. As a reminder, 40% of the expansion was allocated to increasing investment in our brands in the first half. As Hein said, you know, we do it behind 85% in our power brands, incremental spending, and we do it behind a very focused innovation plan.

On productivity, we announced in mid-March an 800 million of savings in supply chain and overheads. The plan is in motion. We have several pillars on that plan.

During the first half, we have made some progress, basically I would say of the 800 million, you can say that only 5% to 10% has been implemented up until now. We have kicked off the consultation process in Europe on July 10th. We are in consultation with the European Works Council on that and we are making good progress. You will see the

benefits of productivity coming more in 2025 than during this year and beyond that of course.

JEMMA: The next question is from Sarah Simon at Morgan Stanley. Go ahead, Sarah.

SARAH: Hi. Sorry, I have a couple of questions. On Personal Care you have previously alluded to the desire to premiumise and you'd said that you weren't sure whether, you know, the existing brands are the right place to do that. Given the slowdown in Prestige Beauty, are you still focused on premiumisation in Personal Care? If so, can you give us an update on what you're thinking.

And then on China, B2B generally is more of a kind of lagging business than B2C. I'm just wondering if there’s any risk on that Nutrition in terms of the services business and thoughts on that.

Finally, just in terms of re-thinking about zero to 100, on the net productivity in the cost of goods sold where would you say you are as of H1 in terms of that zero to 100 range? Thanks.

HEIN: Thanks, Sarah. I will take the first two questions and Fernando will talk about net productivity. You know, when it comes to the desire to premiumise, yes, that continues to be there. You know, as I said before, we are seeing some slowdown from premium luxury in the US as well as

in China but we don't believe that is in itself structural. You know, I think the consumer in the US we see a strong demand actually in a segment we would call masstige, that's between that premium luxury and mainstream. So, the consumer is still really looking for brands that provide that bit of extra, you know, that bit of extra in terms of experience, in terms of convenience and particularly in the Personal Care and in the beauty categories. So, yes, when you look at our innovations, we just entered the market with a whole-body deodorant under the Dove brand. It is more in that segment. Shea Moisture is a very important hair care brands in North America is more in that segment. We are premiumising there. We upgraded our treatments and styling range under the TRESemmé brand in a bit more premium way. So, yes, we look for that premiumisation but of course with our brands you do that gradually and, hey, when the right action comes along, we will also look at it organically. We believe that trend is very important, the north American market and Europe and for the short term we talked about China a few times and probably not too much.

That's a good bridge to the Nutrition question you asked. Yes, usually B2B is lagging, that's correct. If I look at the delivery of our products and thinking of cooking aids to restaurants, you know, more mainstream restaurants, you know, we're not yet seeing that slow down. Our food solutions business is still high single digit up in China and yeah, look even over the last couple of weeks we're not seeing a major change in that behaviour but we stay of course very close to it for sure.

FERNANDO: Yeah, when it comes to net productivity in our cost of goods sold, I believe there are fundamental components we have mentioned many times. One is interventions and we are doing in the value chain of some of our key materials. I mentioned before the example of surfactants in the US in which we are really integrating vertically there to ensure that we don't have any kind of material disadvantage versus key competitors in PC and beauty liquids. But there are many other extremes of work in value chains of materials in which we're working.

When it comes to production costs and logistics costs, as I mention before, we are allocating more than 50% of our CAPEX to these kind of initiatives. If you think in a logical, I'd say, payback period of three to four years, you can see the kind of ambition we have in terms gross margin in this type of area. I cannot give you a percentage in terms of delivery of our plans. We look at this as a continuum. We will try to do it quarter in, quarter out.

JEMMA: The final question comes from Fulvio at Berenberg.

FULVIO: Good morning. Thank you for taking my question. I have a couple of quick ones. The first one is on the gross margin development. Can you share some comments on how this progressed for the power brands given that these are the products that have been receiving more of the incremental allocation of investment?

My second question is on Europe. I mean, Europe has been stronger than expected for you guys but also some of your peers. Can you maybe just give us a quick outline of your expectations for the European consumer as we look ahead? Thank you.

HEIN: Thank you for the question. I will start with Europe and Fernando will take the gross margin question on the power brands.

Look, I think what we're seeing in Europe is, you know, the consumer is responding well to significant innovation. You know, we have introduced in Europe as we talk, we have introduced Wonder Wash but we have introduced new deodorant varieties. In fact, our new flavoured mayonnaise ranges in Europe are responding very well. I think the European consumer after a couple of years with high inflation and, you know, being more cash strapped and of course migrating to private label, I think there is genuine more appetite for meaningful and strong innovation behind our brands and that is exactly what we are doing.

Obviously, I won't talk about what peers are doing. But overall, Europe has been pretty stable for us in the last couple of months. The growth we're seeing in Europe is primarily behind the innovations that I talked about.

Fernando, on the gross margin and power brands.

FERNANDO: The gross margin progression on power brands has been similar to the rest of the portfolio. But just to remind you that our power brands operate outside 400-500 basis points high they were the rest of the portfolio.

HEIN: Thank you, Fernando. Thanks everyone for joining our call. You know, I think it is important for us that we have focused so far on delivering high quality sales growth and we have focused on the expansion of our gross margin. That is very much at the heart of our Growth Action Plan and that enables a step up in the investment behind our brands to improve our competitiveness.

You know, we did make progress on those ambitions in the first half and this continues to be our focus in the second half. Very much guided by the plan that we laid out to you last year in October.

We believe that the benefits are building steadily and we're confident that these steps will help to transform our company over time into a more consistent and in a higher performing business. As you know, we look forward to updating you on the progress through the rest of the year but for now we wish you a very good day. Thanks all for dialling in.