

STOCK STORY: RECKITT

Reckitt commits to a greener future



In 1819, Isaac Reckitt and his brother Thomas established a corn mill business in England, marking the beginning of what was to become Reckitt Benckiser, a UK-headquartered multinational business selling household staples the world has come to trust and love. After humble origins, Reckitt Benckiser now has operations in 68 countries, employs nearly 40,000 people, and generated revenue of approximately £14.5bn (ca. US\$18bn) in 2022. Brands such as Lysol disinfectant spray, Dettol antibacterial, Finish auto dishwash, Enfamil infant formula and Nurofen analgesic contribute to its performance.

In 2020, Reckitt's portfolio of disinfectant brands became an important weapon in the global fight against the covid-19 pandemic. Reckitt worked responsibly with governments and its employees to ensure increased capacity of sprays, gels, and wipes to help prevent the spread of the novel coronavirus. By the end of 2022, Reckitt's disinfectant brands earned 40% more revenue versus 2019 and Lysol gained 300 bps of global market share. With a growing middle class in emerging markets, aspirations for a more hygienic and healthier way of living should continue to favour structural growth for Lysol and Dettol.

Reckitt's brands are also captive to an ageing population as well as rising demand for trusted and efficacious self-care products. Approximately 18% of Reckitt's revenue is exposed to brands such as Nurofen, Strepsils, and Mucinex, which grew about 10% on average over the last three years.

These trends help explain Reckitt's 7.7% average organic revenue growth from 2019 to 2022, exceeding the usual 4-6% organic revenue growth investors expect from consumer staples companies. The company has reset margins to encourage better growth outcomes through investments in innovation and brand equity as well as growth in new regions. This investment is yielding results, and returns on invested capital are now greater than the company's cost of capital, a key measure in assessing management's effectiveness.

Reckitt has not only benefited from growth in these well-known household brands, but also, it continues to innovate products to improve sustainability characteristics and meet growing consumer demand for environmentally friendly products. The company has prioritised strategic issues such as climate change, setting a net-zero strategy by 2040, and circularity, setting goals to use only recyclable packaging

while reducing the use of virgin plastic. To ensure goals are met, Reckitt developed a Sustainable Innovation Calculator to measure the impact of new product innovations on greenhouse gas emissions, waste streams, and consumer health and wellbeing. Key to its challenge in achieving net zero is that 97% of its carbon footprint lies in its supply chain, requiring strategic collaboration with suppliers and careful planning to achieve their goal on time. Half of the company's emissions come from raw materials sourced for its products and their packaging. Their Sustainable Innovation Calculator guides new product development towards Reckitt's climate goals by recommending novel ingredients, alternative packaging inputs, and lighter materials to reduce the carbon intensity of transporting goods to retail locations – a source of another 41% of carbon emissions.

In addition, the Sustainable Innovation Calculator helps move towards Reckitt's goal of a 50% reduction in virgin plastic by 2030. By reducing virgin plastic in packaging and using high-quality recycled plastic resin, the company makes a positive contribution to reducing plastics in our waste streams. These initiatives can help reduce production costs as well as reinforce Reckitt's brand advantage as some consumers increasingly reach for brands with a purpose.

By creating tools that innovate sustainable outcomes and developing a portfolio of brands that benefit from health and wellness trends, Reckitt Benckiser not only positions itself to achieve a stable earnings growth profile with high-quality returns, it also sets itself up to be a trusted provider of brands we expect consumers to choose for decades to come.

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