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PRESENTATION

Operator

Good morning, and welcome to the Henkel conference call. (Operator Instructions)

I will now hand over to Leslie Iltgen, Head of Investor Relations. Please go ahead.

Leslie Isabelle Iltgen - *Henkel AG & Co. KGaA - Head of IR*

Thank you. Good morning to everyone. A warm welcome, everyone joining our call on Henkel's Q1 performance. I'm Leslie Iltgen, Head of Henkel's Investor Relations, and today, I'm joined by our CEO, Carsten Knobel, and our CFO, Marco Swoboda. Carsten will begin with an overview of the key developments and highlights in the first quarter. Marco will then follow with a more detailed review of the financial performance and also discuss our updated 2024 full year guidance. As always, following the presentation, we will open up the lines, and Carsten and Marco will be happy to take your questions.

Before handing over to Carsten, please let me remind you that this call will be recorded and a replay will be made available on our Investor Relations website shortly after this call. By asking a question during the Q&A session, you agree to both the live broadcasting as well as the recording of your question, including salutation, to be published on our website.

Also, please be reminded that this presentation contains the usual formal disclaimer in regard to forward-looking statements within the meaning of relevant U.S. legislation. It can also be accessed via our website at henkel.com. As always, the presentation and discussion are conducted subject to this disclaimer.

With this, it is my pleasure to hand over to our CEO, Carsten Knobel. Carsten, please go ahead.

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

Thank you, Leslie. Warm welcome also from my side to everyone joining today's conference call. As always, we do appreciate your interest in our company, and we really look forward to answering your questions. After walking you through the key developments of the first quarter, we will elaborate on Henkel's business performance and full year outlook in more detail. So let me move straight to the key topics and the highlights of this quarter.

Our first quarter results demonstrate that we had a strong start to the year supported by both businesses. On Group level, Henkel recorded 3% organic sales growth, with our consumer business clearly standing out, delivering 5.2%. Adhesive Technologies achieved growth of 1.3%, which is ahead of our peers and fully in line with our expectations.

Pricing also continued to contribute positively. Volumes again improved sequentially versus Q4 2023. In Adhesives, volume development remained in positive territory despite an overall demanding environment. In our consumer business, we also reached positive levels when considering the impact from portfolio measures, which accounted for roughly 2 percentage points and which reflects the fact that the impact from these measures will be more front-end loaded.

In the meantime, we also succeeded in closing the Seal for Life and the Vidal Sassoon acquisitions earlier than initially anticipated. And backed by the very strong business performance in Q1 and our expectations for the remainder of the year, we clearly raised our guidance last week for both top and the bottom line and, important, also supported by a strong start into Q2, considering our April results.

Let me share some more color on the drivers behind our guidance raise. In Adhesive Technologies, we saw an overall more robust performance than initially expected in a still demanding environment. This includes a better mix, for example, resulting from the recovery of our Electronics business and also very strong gross margins.

Strong gross margins and an improved mix was also driving the performance in our Consumer Brands business. Here, our well-performing Hair business showed a strong contribution -- a clear proof point that the continued work on our portfolio is increasingly bearing fruit.

We also saw benefits from the ongoing valorization of our Consumer Brands portfolio, resulting in strong pricing, while volumes further improved, in particular, when considering the impact from the portfolio measures. And we also continued with investments in marketing and R&D on elevated levels, fueling strong growth of innovations and core brands such as Persil, Perwoll, Pril, Schwarzkopf and the American brand all.

With the recent closing of the acquisition of Seal for Life in Adhesives and Vidal Sassoon in China in Consumer Brands, we also benefit from the earlier-than-expected contribution to both top- and bottom-line.

So in short, we deliver what we promised. Our strategy is working. Henkel is on a successful and a consistent profitable growth path.

With that, let us take a closer look at some of the highlights in our two business units, starting with Adhesive Technologies. While our Automotive business, yet again, was a growth engine, as just mentioned, we also benefited from the market-driven recovery of our Electronics business. Beyond driving our financial performance, we are strengthening our businesses and capabilities.

The acquisition of Seal for Life, which forms an integral pillar in building a growth platform for the Maintenance, Repair and Overhaul business, was closed beginning of April. As a joint team, we now focus on developing this business further. We are also expanding our innovation capabilities backed by additional Inspiration Centers, which contribute to driving customized innovations, outperforming the market, and more on that in a minute.

Innovations also play a key role in Consumer Brands. We have put considerable resources when it comes to meaningful innovations, adding value to our customers and consumers. In parallel, as you all know, we have considerably stepped up our marketing investments to strengthen brand equity and to support the valorization process. And we can see the results already materializing. Our largest market, Europe, showed strong growth momentum in Q1.

And in parallel, we have been working stringently towards creating a winning portfolio. Particularly encouraging is the performance in our global key category Hair, where we are more advanced and recorded a positive volume and market share development, in particular with gains in our Styling category. And at the same time, we strengthened the Hair business by acquiring Vidal Sassoon in China, which will allow us to further expand our portfolio in an attractive market going forward.

When it comes to portfolio pruning, the focus at present is now more on the Laundry & Home Care space. Please note that this will lead to some distortions in volume and market share numbers. But we do expect to have concluded the portfolio measures, particularly when it comes to discontinuations, by the end of this year 2024. While enhancing our Consumer Brands portfolio, we are also driving the second integration phase, which focuses on the optimization of the production and supply chain, with full force. All in all, we are well on track.

Turning to the next slide. I would like to highlight our efforts in expanding our network of unique, state-of-the-art Innovation Centers in Adhesive Technologies, as they play a key role. Firstly, they enable co-innovations with our customers and partners from more than 800 industrial segments. Moreover, they foster collaboration within our Adhesive Technologies team of around 3,000 R&D experts and application engineers around the globe. And last, but not least, they serve as a place to showcase our entire portfolio on site.

To date, we have three Innovation Centers fully operational. Here in Düsseldorf - we talked about that quite a couple of times - , in Mumbai in India, as well as the most recent addition in New Jersey in the U.S. By the end of this year, our Inspiration Center in the Asia-Pacific region will also be opened. More than 400 R&D experts will be working in around 30 labs together with customers from across industries.

And in February this year, we announced the construction of our first integrated innovation and tech center in Latin America located in São Paulo. The new center aims to create a collaborative ecosystem for developing innovations and solutions. And additionally, it will serve as a hub for training, capacity building and interaction with customers and partners in the region. Thus, we are investing into our businesses and expanding our capabilities to enhance strategic collaboration and to drive innovations along relevant megatrends globally.

Moving to the next three slides. I would like to share some specific examples as to how we drive customer-related solutions. In the Automotive business, for instance, we enable lighter, safer and more sustainable vehicles with our solutions. Lightweight plays a key role - not only in the automotive space, by the way - , and we see growing demand for respective solutions from leading OEMs. We are well positioned to cater to their requirement with specialized solutions and thus outperform the market. In the first quarter, we recorded double-digit sales growth in the area of structural solutions for automotive OEMs.

Within the segment for structural solutions, I want to highlight our innovative foam solutions marketed under the Teroson brand. What makes them special is that it only expands during the manufacturing process, the so-called baking process. Depending on the specific requirement and the respective solution, the structural foam expands by 200% to 300% in the heat, filling gaps and ensuring perfect fit to the car frame. You can see the difference before and after car manufacturing on the right-hand side of the slide.

Our high expansion foams deliver superior design flexibility, structural stiffness and crash performance. And by reducing vehicle noise and vibration, they help improve the entire driving experience. Additionally, they offer substantial sustainability benefits and thus contribute to our customers' emission reduction targets. Our structural foam solutions reduce the weight of car components by up to 20% compared to conventional metal, which helps to lower the associated carbon footprint.

Sustainability is also a key theme in the packaging industry. As demand for convenience and home delivery is increasing, sustainable packaging solutions become ever more relevant. You might recall from previous calls that we are addressing the topic with a broad range of applications within our portfolio. One specific highlight is our EPIX technology platform. Our EPIX technology is a portfolio of materials designed to extend the functionality of paper. It allows paper products to support new features of barrier protection, thermal insulation and impact resistance. Thus, our solutions can enhance the paper experience for a wide range of products, including paper cups, containers, e-commerce packaging and beyond.

So in short, with our solution, we can make paper a true plastic alternative for popular disposable materials like padded mailers or to-go cups. The development of this technology platform is something we are particularly proud of.

EPIX is a business built from scratch. As we have been adding further innovations, we are continuously reinventing packaging with our portfolio designed for recyclability. For example, currently, we are addressing the big trend of cold chain packaging required for fresh food delivery to the house. This is a logistical challenge for providers of, e.g., meal subscription boxes, bringing foods that spoil quickly in high quality to the consumer while, at the same time, reduce waste, ensure packaging recyclability with success. Within only 4 years of launch, EPIX has achieved a substantial sales base in a highly attractive and also growing market.

Third example: sustainable and cost-effective innovations are also indispensable in the furniture market, which we are addressing with our Consumer Goods business. Here, we serve a range of solutions to industry-leading customers. Our adhesives can be used to bond a variety of wooden parts in many applications in the furniture industry -- from edge banding and profile wrapping on to flat lamination and wood assembly.

And of course, also here, innovations are crucial. Although not seen by the consumer when buying a table, a kitchen or others in one large furniture stores, our products have significant impact on the quality and production efficiency of the furniture in all our homes. To give you a very specific example: We are currently scaling our highly efficient hotmelts for high-speed lamination processes, which we launched end of last year. And besides energy consumption during production, key benefit to our customer is the reduction of maintenance cost and scrap by up to 70%. That is highly relevant as hotmelt lamination processes are highly automated and even short outages or production stops can cause additional costs in millions.

With this, let us move on to our Consumer Brands business. When it comes to innovations, our ambition is very clear: We want to strengthen our technology leadership to offer consumers superior products under our strong brands. Our robust global network consists of state-of-the-art Innovation Centers located around the world, staffed with roughly 1,000 R&D experts, bringing together consumer insights and Henkel's strong technology expertise. We drive innovations along technology road maps, which define short, mid- and long-term innovation milestones centered around consumer needs.

And just like in Adhesive Technologies, we are continuously investing in our capabilities. Earlier this year, we opened our Innovation Center in Shanghai, China, which supports the research in both Hair and Laundry & Home Care and also contributes consumer insights from key markets across Asia. Our innovations play a key role in shaping and valorizing our Consumer Brands portfolio also going forward.

And also here, let me show you how exactly we are driving the valorization process. Take our brand Perwoll for example, which is the #1 in Fabric Care in our active markets. Just recently, we introduced an innovative Renew formula, which revives color and fibers after 10 washes. This innovation basically renews clothes with every wash, and it is suitable for all colored clothes. The effect is really impressive. You can see it on the left-hand side of the chart. And we started the global rollout in February, even including countries like South Korea. And overall, we are present with Perwoll in around 30 countries.

The launch is backed by a strong marketing campaign and the results are strong. Perwoll achieved double-digit organic sales growth in the first quarter and gained more than 150 basis points in in market shares. So really a fantastic brand and a fantastic development.

Also, the relaunch of all free clear is paying off. As a reminder, all is our biggest consumer brand in North America. And here, the free clear variant, which is leading in the sensitive skin segment, is a key pillar of our portfolio. With the relaunch of the brand last year, we reinforced the brand's top recommendation from dermatologists and broadened the brand scope.

And also here, we see a strong performance. We achieved double-digit organic sales growth and increased our market share. While the performance in other parts of the North American business remains to be diluted by the impact from portfolio measures, all free clear even expanded its share by 30 basis points. This is a good blueprint of how we want to build on strong brands and create a winning portfolio, delivering strong top line growth and that, coming along with an attractive profitability profile.

Staying with North America but switching gears to our Hair business. Kenra is the leading Professional Styling brand in the North American market. Building on this strong position, we launched an extended Kenra Hair Care line, which includes a complete range of shampoos and conditioners, including three completely new variants -- for example, Triple Repair Shampoo featuring our patented DualBond Complex. You might recall that we highlighted it in the call in March. And thanks to this technology, our Kenra Care products can reduce hair breakage by almost 90%.

In terms of marketing, social media channels play a key role to strengthen our relationship and interaction with hair stylists. And with Kenra, we are the #1 YouTube educator, streaming more educational videos than any other Hair Professional brand.

These are just a few examples of how we are pushing our products and solutions to the next level to shape a truly winning portfolio based on strong innovation capabilities, deep customer and consumer insights and very strong marketing support -- and, for sure, passionate teams behind.

So, wrapping it up: We continue to deliver on what we promised to you while continuously investing in our business. Backed by the strong performance year-to-date, we are looking ahead really with confidence. We are well on track to drive profitable growth, which is also reflected in the raised outlook for fiscal 2024.

And with that, let me hand over to Marco for some more details on the financial performance in the first quarter. Marco, please?

Marco Swoboda - *Henkel AG & Co. KGaA - CFO, Executive VP of Finance, Purchasing & Global Business Solutions and Member of Mgmt. Board*

Yes. Thanks, Carsten, and warm welcome, everybody, from my side. Building on what Carsten already shared, let me provide more color on the drivers of our Group sales performance in the first three months.

We achieved strong organic sales growth of 3%, which was driven by pricing in both business units. Volumes were overall slightly below the prior year. However, we saw a sequential improvement versus Q4 2023 - and adjusting for the impact from still ongoing portfolio measures in Consumer Brands, this is a very encouraging development. More on that in a minute.

M&A decreased sales by 4.3%, as you can see on the slide. Keep in mind that this is mainly attributable to the exit from our business in Russia last April and that our two recent acquisitions did not yet contribute to sales in the first quarter.

On the foreign exchange side, FX effects also were a headwind in a similar magnitude. However, also here, please bear in mind the prior year comparable, which was at plus 0.9% in Q1 2023. In nominal terms, sales amounted to around EUR 5.3 billion, thus around 5% below prior year.

Let's turn to the regional development. Europe achieved good organic sales growth of 2.5%, which was driven by a very strong increase of our Consumer Brands business. India, Middle East, Africa - IMEA -- showed strong double-digit growth of around 27%. And our business in the Asia-Pacific region recorded strong growth of 3.5%. This increase was driven by Adhesive Technologies, where we saw first signs of a stabilization in China versus a challenging market environment last year.

In contrast, Latin America sales were organically below the prior year quarter. This development is attributable to our Adhesives business, which was impacted by higher prior-year comparables and also a weaker demand in selective markets.

North America was down year-on-year due to both business units. Please note that in line with our strategy, we are stringently working on our portfolio in the Consumer Brands business, and more on that in a minute. As expected, this for sure has an impact on OSG. For the full year, however, we expect positive OSG in North America. That does not only apply to Consumer Brands but also to our Adhesives business, where we expect to see a pickup as the year progresses.

Turning now to Adhesive Technologies in more detail. We reached sales of EUR 2.7 billion in the first quarter. Organic sales growth was 1.3%, with a positive contribution from both price and volume. And as Carsten pointed out earlier, with that, we outperformed our peers.

Now looking deeper at price and volume. Pricing overall proved to remain resilient, which clearly shows the strength of our portfolio. Volume development was also positive and showed a further sequential improvement compared to Q4 2023. Adjusted for the more pronounced impact resulting from a lower number of working days in the first quarter, volume growth would have been at approximately 1.3% plus and OSG at around 2.3%. Overall, a very robust development.

Let me now turn to the performance in the individual business areas, where we continued to see different dynamics. Mobility & Electronics again was the main growth driver with a plus of 3.7%. This increase was first and foremost driven by the Automotive and Electronics business, the latter benefiting from a stabilization in the overall market environment.

Packaging & Consumer Goods recorded an overall flat development --

despite a continuously demanding environment -- , which was supported by a positive volume development. Packaging was supported by first signs of improvement in demand, leading to positive growth in Q1. Consumer Goods posted a slightly negative top-line performance against a very strong prior-year quarter.

Craftsmen, Construction & Professional delivered organic sales growth of 0.3%, particularly driven by positive growth in the Construction area. The development in the General Manufacturing & Maintenance business reflects the currently challenging market environment.

Overall, a robust performance of our Adhesive Technologies business in comparison to our relevant markets and peers, and considering the overall still demanding environment - clearly reflecting the strength of our business.

Turning now to Consumer Brands. The business generated sales of EUR 2.6 billion, which translates into very strong organic sales growth of 5.2%, which was driven by still strong pricing of more than 6%.

And the continued strong pricing also reflects the ongoing valorization of our portfolio with strong innovations and sustained elevated marketing support. Volume development showed a further sequential improvement versus Q4 last year. When adjusting for the impact from portfolio measures, which accounted for approximately 2 percentage points in the first quarter, volumes would have been at around plus 1% and thus clearly positive territory. Please note that as of today, our expectation is that the effect from portfolio measures is more front-end loaded.

To give you some more color - as you know, our main focus for the portfolio measures is on Laundry & Home Care. And here, from a regional perspective, more pronounced in North America. For example, discontinuations in North America include the Sun-branded products in the U.S. and the Dishwashing category under our brand Sunlight in Canada. While this is impacting volume and market share development as expected, we already see significant improvement in profitability of our Consumer Brands business in that region as well as market share gains of core products like all free clear.

And turning now to the performance by business area. Laundry & Home Care delivered very strong organic sales growth of 4.6%, to which both Laundry Care and Home Care contributed - with Fabric Care and Dishwashing plus Toilet Care clearly standing out. The Hair business area, which comprises both the Professional and Consumer business, grew by almost 7%. The Consumer Hair business clearly stood out, supported by a strong performance in Styling. Our Professional business also developed successfully, achieving strong growth driven by our key markets Europe and North America.

In the Other Consumer Businesses, growth was primarily driven by our Soap category, with a significant contribution from North America.

Based on the strong performance in the first quarter, the strong start into Q2 and our confidence for the remainder of the year, we significantly increased our guidance for 2024 end of last week. And Carsten already alluded to the drivers earlier.

We now expect organic sales growth of 2.5% to 4.5% on Group level. Before, we had anticipated 2% to 4%. While the top-line guidance for Adhesive Technologies remains unchanged, we now guide for 3% to 5% in Consumer Brands, which compares to our prior guidance range of 2% to 4%.

We also saw a strong bottom-line performance so far, supported by better mix in both businesses and the successful execution along our strategic initiatives. And we remain confident that this trend will continue throughout the remainder of the year, which is why we also raised our margin expectations accordingly. And for the Group, this translates into an adjusted EBIT margin expectation in the range of 13% to 14%. For Adhesive Technologies, we now expect 16% to 17% and for Consumer Brands, a range of 12% to 13%. And regarding phasing, we expect H1 to come out stronger than the second half of the year.

Breaking it down to our adjusted EPS expectations at constant currencies, we increased our former guidance range significantly, from previously plus 5% to plus 20% to now plus 15% to plus 25%.

With regard to FX, we expect less headwinds, now anticipating a negative impact on sales in the range of low- to mid-single-digit percentage range, and this compares to a negative impact in the mid-single digits previously.

Considering the earlier-than-expected closing of the acquisitions of Seal for Life in Adhesive Technologies and Vidal Sassoon in China in our consumer business, we also updated the M&A impact on sales - now expecting it to be flat versus a negative low single-digit impact before.

Our expectations in regards to direct material prices, restructuring expenses and CapEx for fiscal 2024 remain unchanged.

So overall, we significantly lifted our expectations for fiscal 2024 and are confident to continue on our profitable growth path.

And with that, back to you, Carsten.

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

Thank you, Marco. So let me summarize today's key takeaways. We sustained Henkel's growth momentum with a strong organic top-line performance, which was supported by both business units. We saw continued positive pricing and sequentially improved volume development in both businesses, which is quite encouraging. In addition, we successfully closed our two recent acquisitions. With Seal for Life and Vidal Sassoon in China, we are expanding the attractive MRO platform in our Adhesives business, and also strengthening our global key category Hair in our Consumer business as well as our footprint in the APAC region.

We are delivering what we promised, pursuing clear strategic priorities and commitments and pushing further ahead with our growth agenda. And last, but not least, we clearly raised our full year guidance for 2024 last week, which reflects further growth expectations for both top- and bottom-line. Thus, we have a clear strategy, which we are executing on stringently. We are delivering on what we have promised, and we are on the right track for further profitable growth, not just short term but also in the view of our mid- to long-term targets.

And with that, let us move on to the Q&A. Marco and I are looking forward taking your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of David Hayes, Jefferies.

David Hayes - *Jefferies LLC, Research Division - Equity Analyst*

Two for me. Just on the outlook and just digging into the Consumer volumes - it feels like given the adjustment for the 2 percentage points and then on the growth that you've seen ex that, 1%, and then the sequential improvement - the question is, are you committing to the headline volumes being positive in Consumer for the full year, even with the adjustments to discontinued? And I guess just within that context, the 2 percentage points at the beginning of the year, I think you talked about it, phasing through the year, but should we assume that discontinuations are almost negligible in the second half? Is that kind of the phasing dynamics roughly?

And then the second question, just on the marketing spend still coming through, which you talked about. I know you don't give A&P spend, but in terms of percentage of sales or growth of A&P versus organic sales in Consumer, if you were at the top end of your guidance of 5% growth in sales, would the A&P spend still be higher than that in your budget at the moment? So still a percentage of sales increase even at that 5% level?

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

So David, starting with the outlook question. So first of all, when we made the outlook, we made the point that roughly 100 basis points are related to portfolio measures. And we also said today that it is more front-loaded than back-end loaded. And therefore, we have set around 200 basis points in quarter 1, which has driven the volume, adjusted by this effect, to around 100 basis points of positive volume.

I hope you understand that I will not guide now on each specific quarter what the volume is. But you see us very confident in that part. The impact of the portfolio measures, the discontinuations are to be expected to have an impact on the volumes for the total year of around 100 basis points, and we stick to that statement. And as I said, we expect the impact more front-end loaded than back-end loaded.

On the other side, we are confident, and you see that, how the business is developing. And the other part, and I think that is important to mention - for us, the main KPI is profitable growth. And that's the combination, what we are striving for. And you know that we are still in the phase of changing the business. And by that, the discontinuation is an important part to concentrate on businesses with higher growth profile or top-line profile. And the other part is, for sure, with higher gross margin businesses.

And therefore, as I said, the portfolio measures should be finalized by the end of the year. And as we said, our expectation is very clear that we see a flat to positive territory when excluding the portfolio measures.

So we are on a good track record, and we will continue to drive what is right for the business. And that's, I would say, quite a little bit longer answer on that, but I hope that clarifies the situation.

Coming to your second question, which is more related to the spending. So we continue to strongly invest in our business, and that also includes the marketing spend, especially in Consumer. And we are convinced that with our strategy, we can fuel a growth cycle. And I think that's the most important part, which we emphasized also during the part when we changed the structure and bringing the two businesses together.

So what does it mean? A healthy portfolio starts with strong gross margins, and that is what we are concentrating on last year and also this year. We started earlier in the Hair category, and we are now more focused on our Laundry & Home Care. With healthy strong gross margins, with that, we are able to increase investments and, by that, also further valorize our portfolio across our global core categories and markets and, by that, strengthen our brand equity. And that is again a part which is then fueling sustainable, profitable growth.

So, and the point is it makes only sense to increase the marketing support if you have strong innos. That was the reason why I was concentrating today and giving more examples on the inno part for both Adhesives but, for sure, in that context, more on our Consumer Brands business.

And one thing is clear, for sure, we did not cut back on marketing. The outlook, which we have raised indeed is even more significant, because what you see is that the numbers are supported by more marketing investments, and that makes the whole situation even stronger, and that's the part what we are doing. And for sure, we are pushing that in the categories with strong growth, for example, with the brands like Persil, Perwoll, all, which I mentioned.

And I think these are the clear proof points - we are seeing in these parts market share gains and top line growth, which is stronger than anticipated in that context. And I think, again, that is the cycle which we are striving for. And therefore, creating that strong platform with consumer, with combining Hair and Laundry & Home Care was absolutely the right strategic direction, and it's paying off, and it will continue to pay off.

Sorry for the long answer.

Operator

The next question comes from the line of Guillaume Delmas, UBS.

Guillaume Gerard Vincent Delmas - *UBS Investment Bank, Research Division - Analyst*

Two questions for me, please. The first one is on your 2024 guidance because it seems that in the span of two months, you've considerably increased your expectations for adjusted EPS growth for this year. Now acquisitions are clearly contributing to this. Organic sales growth, only modestly. So de facto, the key driving factor here is operating margin.

And my question here is, what has significantly changed in the past two months to make you so much more upbeat on your level of profitability? Is it just mix that has proved far more stronger than you anticipated? And related to this, so early into the year, why not continuing to maybe guide a bit more conservatively on margins to allow for greater investments or potentially absorb any unforeseen, unexpected future headwinds?

And then my second question is on your IMEA region. I mean, another strong print, 27% organic sales growth in the quarter. Yet if I look on a nominal basis, growth was only a modest 2%. So what I'm wondering here is, growth in IMEA, is it mostly driven by hyperinflationary economies? And I think in the quarter, IMEA was 90% of your total organic sales growth. So would be also curious to hear your perspective on this strong reliance on IMEA to drive Group's organic sales growth.

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

Thank you for your two questions. I will take and elaborate on the first one, and Marco is taking then your second question, which is focused on IMEA.

So let me give you, for your first question, a twofold answer. The first one is, please note that the planning cycle when we needed to make the outlook and finalize the outlook, was end of January. We had closed our books for 2023 at the end of January. And at that time, we also needed to provide a statement for the outlook of 2024.

So therefore, that's the first thing. There is a timing topic. So it's not only the March, when we communicated the outlook, but we really had to make the outlook already at the end of January. So that's maybe more a technical answer.

But now I'm giving you some more reasons -- or give you more light why we changed the guidance. So first of all, overall, a more robust performance than initially expected in a still demanding environment, especially including better mix in Adhesives. Here, especially due to the recovery, particular in the Electronic business, which also has, from a mix perspective, a positive impact on the margins of Adhesive Technologies, which is reflected also in the outlook where we have not changed the top line guidance, but we changed the bottom line.

Second, very strong gross margins in Henkel Adhesive Technologies, despite the challenging environment, with volumes remaining in positive territory despite, also here, negative working day impact.

Third, a better mix and strong gross margin in the Consumer Brands business. I answered before when David was asking the question, the cycle I alluded to - I think, it's absolutely important that we, with that focus, really have strong gross margins in the Consumer Brands business in the first quarter, but also, I can say also in the first 4 months.

A very strong contribution from a well-performing Hair business. Here, we see the benefits from the ongoing valorization, the portfolio measures, and these are really bearing fruit. The strong performance of the core brands, I also just mentioned Persil, Perwoll, Schwarzkopf, all in America and, and, and.

Fourth, in parallel, we are keeping up with the elevated levels of investments, particular in marketing. I also talked in the prior question on that to support the core brands and the innovations that we are launching in the market and that we had, again, a clear double-digit increase in marketing spend in the quarter 1.

Strong pricing in HCB reflecting the ongoing valorizations of the portfolio while volumes turning positive when considering the impact of portfolio measures.

And the last one, you mentioned by yourself, the topic of the M&A transactions, which we closed earlier than that. And for sure, also China in that context.

And the last thing to close this question: For sure, we also have now more visibility and confidence when we concluded Q1, and you also heard me talking that also the closing of April with other means, the start in Q2, is really a strong start in the quarter. And all of that made us coming to the conclusion that we wanted and needed to update the guidance. I hope that answers and gives more light on your question.

And with that, I would hand over to Marco to the IMEA question.

Marco Swoboda - *Henkel AG & Co. KGaA - CFO, Executive VP of Finance, Purchasing & Global Business Solutions and Member of Mgmt. Board*

So on your question on the development of India, Middle East, Africa. So indeed, IMEA has seen significant price growth. And here, the teams needed also to push pricing in order to compensate for higher cost of imported raw materials as we saw devaluations also in that region. But also, it's important to note that getting prices up is a key achievement also of the teams, and we're actually very happy about that, that also we could succeed in protecting our margin in that region.

Beyond pricing, it's important to note, we also had volume growth in markets such as Turkey. So also, it's not just the price component. It's also volumes that have developed positively in important markets like Turkey. And when we look at the other countries in that regions, we saw also growth across many countries in the regions. We saw India and United United Arab Emirates, for example, growing in particular in the Adhesives field. And we also saw markets like Algeria or Saudi Arabia, also having a positive momentum when it comes to Consumer Brands.

So yes, it's a strong pricing component. That is what we had to implement also through the various teams, but also we saw volumes developing positively.

Operator

The next question comes from the line of Jeremy Fialko, HSBC.

Jeremy David Fialko - *HSBC, Research Division - Head of Consumer Staples Research of Europe*

Jeremy Fialko, HSBC here. So just a couple of questions for me. So the first one is perhaps you could go into a little bit more detail about what is happening within the Electronics business, I guess, given that was a relatively key source of the guidance increase for you.

And then maybe just secondly, perhaps you could talk a little bit about your end markets in Consumer, what you're seeing in terms of consumer behavior in Europe, North America and, in particular, things like private label, whether you're seeing that is definitely a more kind of stable trend rather than the private label having increase, which is what you saw when you were going through all of that inflation and pricing. So those are the two questions.

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

So maybe starting with your first question on Electronics. So first of all, yes, as we stated it, Electronics is getting better in terms of top-line growth. And with that, you know that Electronics is a quite high-margin-business. And that in a combination, for sure, is impacting the Adhesives business positively on both sides, on the top and the bottom.

And if you go a little bit behind that, why is Electronics getting better? One of the main reasons is the recovery in China in Electronics, and that has both positive mix in terms of top-line and margins as I already alluded to. And we see that this is, for sure, affected by the lower customer demand visible in lower smartphone shipments during 2023. And this improved significantly in Q1 2024 with organic sales in terms of having a significant growth impact for the APAC region and also for the total business. And also the strong gross margins in Henkel Adhesives, overall, year-to-date were one of the reasons for changing or positively updating our margin guidance overall. That's to your first question.

Your second question was more to the end markets in terms of Consumer, what we are seeing here, how this is further developing. So first of all, with our differentiated and broad-based brand and product portfolio, we are covering different price points. And with that, the different price sensitivities, we are well positioned, I would say, in the Consumer business.

Across categories, we continue to see elevated private label shares, although shares have come down a bit recently in important markets, especially in Germany and France, but that's the start of the year. So there is only one proof point in terms of the market shares at the beginning of the year, but at least that's something what we can see.

The relevance of private label and, hence, the effect on our business, for sure, also differs by region and by category. And we see particular higher private label shares in Laundry & Home Care in Europe. That's not new because that is something which we have been always alluding to. And the overall inflationary environment for sure as well as the pricing is likely to impact consumer behavior also going forward.

However, there are signs, as I mentioned, that inflation is clearly coming down from peak levels. And I think it goes back to what I would say -- yes, was commenting the last couple of calls, we have seen these kinds of waves when markets are under pressure from inflation, that this has an impact on consumers, that this is driving private label shares. But if the markets are getting better into that or more balanced, then this also have an impact on consumers shifting more than also again to branded businesses.

So first signs to be seen, but I would say, other proof points needed on that. Hope that clarifies, Jeremy.

Operator

Our last question comes from the line of Christian Faitz, Kepler Cheuvreux.

Christian Faitz - *Kepler Cheuvreux, Research Division - Co-Head of Chemicals*

Congrats on the results. I have a question for Marco again, on your phasing comments in your outlook. So H1 is stronger than H2. Is this season? Or would you expect the demand weakening in any of your activities in H2? Because if I listen to the peers at this point, at least on the Adhesives side, it seems like they would expect a stronger H2 versus H1. So maybe can you elucidate that?

And then second question, you apparently saw negative organic growth in Hair in Asia. I take it that Shiseido has not really contributed yet. Is this correct? And can you comment on the performance of the Shiseido business and perhaps also the Vidal Sassoon activities?

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

Good. Thank you, Christian. So as you pointed out, the question of the half year change to Marco. I think Marco, there is no other chance then that you answer that question.

Marco Swoboda - *Henkel AG & Co. KGaA - CFO, Executive VP of Finance, Purchasing & Global Business Solutions and Member of Mgmt. Board*

So on the phasing comment I made, that was in respect of our EBIT margin. Just to be clear, that was not so much a top-line comment, per se, but in particular, our margin profile that we see. And that margin profile is influenced by our expectation on how raw material costs will move. And we see quite some relaxation more at the beginning of the year that will span into the first half. But that for the second half, we do expect also that raw materials will be less of a tailwind. So that will also drive some higher cost levels in the second half, and that is in particular true then for (Corrected by company after the call) Consumer Brands.

In addition, which is more than on the Consumer side, we also expect, due to the phasing of innovation projects, for example, that we are also going to see some further investments in the second half. So that also on the Consumer side, we do expect a stronger margin in the first half than in the second half, but all that in combination is, of course, included in the annual guidance.

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

Christian, before I answer to your question, can you come back to the point of where you said negative in terms of Asia? What do you mean specifically?

Christian Faitz - *Kepler Cheuvreux, Research Division - Co-Head of Chemicals*

I mean, I take it from your written comments that Hair in Asia actually saw negative organic growth. Is that correct in Q1? And in that context, can you comment on the performance of the acquired brands, Shiseido and Vidal Sassoon?

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

Good. So thanks for the clarification. So yes, there is a reported slightly negative OSG for Q1. And here, given the really high comparables, which we had to the COVID rebouncing effect in the prior year. So that's the pure reporting point.

In the context of your question of how is Shiseido or how is the Hair business overall doing - the integration is really in line with our expectations. It's working well. We have really great products, great tech things behind, and we are also bringing these innovations to the market.

And also to be differentiated, the comment of slightly negative was only to the Retail business, not the Professional business. The Professional business in APAC is and was positive, and you know that Shiseido is playing mainly in the Professional area. So from our point, nothing to worry. It's really the comparables in Retail of last year to this year and the Professional business, and especially the former acquisition business - now the integrated part of Shiseido - is performing really well.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Mr. Knobel for final closing remarks.

Carsten Knobel - *Henkel AG & Co. KGaA - CEO & Chairman of the Management Board - Henkel Management AG*

Yes. Thank you all for your questions. And with that, let me close today's call with reminding you of the upcoming financial reporting dates. We are looking forward to connecting with you again in August when we will comment on our half year performance.

With this, I would like to thank you for joining our call today. Have a good day. Take care, and goodbye. See you soon. Bye-bye.

Operator

You may now disconnect your lines. Goodbye.
