

Transcript Earnings Conference Call Q1 2014 May 7, 2014

Participants

Kasper Rorsted; Henkel; CEO

Carsten Knobel; Henkel; CFO

Christian Faitz; Macquarie - Analyst

Hermine de Bentzmann; Raymond James - Analyst

Gael Colcombet; MainFirst - Analyst

Warren Ackerman; Societe Generale - Analyst

Marcus Mayer; Kepler Cheuvreux - Analyst

Rosie Edwards; Goldman Sachs - Analyst

Pinar Ergun; BofA Merrill Lynch - Analyst

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Operator

Good morning and welcome to the Henkel conference call. With us today are Kasper Rorsted, CEO; Carsten Knobel, CFO; and the Investor Relations team. (Operator Instructions).

Today's conference call is being recorded and the webcast is available at www.henkel.com/ir. At this time I'd like to turn the call over to Mr. Kasper Rorsted. Please go ahead, sir.

Agenda

- 1 Key developments Q1 2014
- 2 Financials Q1 2014
- 3 Summary & outlook FY 2014

Kasper Rorsted

Good morning, ladies and gentlemen, and welcome to our conference call. First I'd like to focus on the key developments of the first quarter 2014. Then Carsten will provide you with the first-quarter financials in greater detail. And after that I will close my presentation with a summary for first quarter and the outlook for 2014, and finally we'll take your questions.

I'd like to begin by reminding everyone that the presentation which contains the usual formal disclaimer to forward-looking statements within the meaning of relevant US legislation can be accessed via our website at henkel.com/ir. The presentation and discussion are conducted subject to the disclaimer. We will not read the disclaimer but propose we take it as read into the records for the purpose of this call.

Good start into the year

OSG +4.3%	Adj. EBIT margin 15.8%	Adj. EPS growth +8.3%
OSG in EM +9.2%	NWC in % of sales 4.8%	Net financial pos. 923 m€

Now let's get started. We had a good start into the year with an organic sales growth of 4.3%, an adjusted EBIT margin of 15.8% and an adjusted EPS growth of 8.3%, very much in the line of our current guidance.

We saw organic sales growth in the emerging markets of 9.2%, net working capital of 4.8% and a net financial position of EUR923m.

Continued profitable growth path in all business units

- Solid organic sales growth driven by all businesses
- Emerging Markets with very strong organic sales growth
- Hair Salon & Electronic Adhesives positive
- Very strong improvement in adj. EBIT margin, supported by all businesses
- High single-digit adj. EPS growth



The emerging market share was 42%, which was currency related -- currency, quote-unquote, adjusted, which we normally don't do and we don't do is 45%. But overall we saw very strong growth. It was the strongest growth in the emerging markets since 2011 and the strongest growth in the mature markets since 2012, driven by an exceptionally strong China.

So on the topside, solid organic sales growth driven by all businesses, the emerging market with very strong organic sales growth, as I said, was the highest growth since third quarter of 2011. And for the mature markets it was the highest growth since the fourth quarter of 2012.

We saw our hair salon business and our electronic adhesive business coming back to positive. I'm sure that you can remember it's been on the red side of our chart, so it was very good to see it was coming back to positive.

We saw a very strong improvement in our adjusted EBIT margins, supported by our businesses. And as said on the introductory side, high single-digit EPS growth, very much in line with our guidance of high single-digit EPS growth.

FX headwind and geo-political uncertainties

- High pressure from FX headwind
- Continued geo-political / social unrest in some countries and high uncertainty on developments in Russia & Ukraine
- North America with negative organic sales growth
- Competitive intensity in HPC remains high



What were some of the challenges we saw throughout the first quarter? We saw an exceptionally high pressure from the FX, which you can see in the translation for organics reported and Carsten will go into the details of this.

We saw a continued geopolitical and social unrest in some countries, and of course the high uncertainty in developments in Russia and Ukraine. Russia is today our fourth largest market and Ukraine is one of the top 10 of our emerging markets. But despite that we saw a strong organic sales growth in Russia. But the bigger challenge in Russia was the more than 20% devaluation of the ruble in the first quarter.

Regards to North America, we came out with negative organic sales growth that was partially due to weather and partially due to less flawless execution. So it was a mix of the two, a very slow start given the weather, but also less-than-flawless execution.

And we see a continued high intensity in the HPC environment.

Laundry & Home Care

Strong OSG & excellent margin improvement in Q1 2014



Sales

- Strong OSG
- Both Laundry & Home Care strong
- Emerging Markets OSG double-digit
- Mature Markets OSG positive

Return

- Adj. EBIT margin showing excellent increase
- ROCE further increased

Now let me move to the business groups.

Laundry and homecare had a strong organic sales growth and excellent margin improvement in the first quarter of 2014. I'm sure you can remember back that we had an exceptionally strong first quarter last year. We're going to have this this year, with strong organic sales growth. Both in laundry and homecare was strong.

The emerging market, the organic sales growth was double-digit. And the mature market, sales growth was positive.

We also saw the adjusted EBIT margin showing excellent increases and ROCE further increased.

Just to set the reminder and set the expectation, very similar to last year, we do not expect that the first-quarter growth rate is the run rate for the year that is very similar to last year. Part of it is due to very strong introductions of new innovations, but a good quarter for our laundry and homecare business.

Laundry & Home Care

Strengthening innovation leadership across categories

Stop Sorting



- Prevents discolorations, anti-dye transfer technology
- Global roll-out

Vernel 8 weeks freshness



- Superior scent performance, new encapsulation technology
- Roll-out in Europe

Pril Duo-Power



- Strong against grease & starch-crusts, new enzyme technology
- Global roll-out

And as I said, it was due to very strong innovations across the board.



Now let me just highlight one, our Pril Duo-Power, which is the first time that we have taken enzyme technology to hand dishwashing, which is substantially increasing the performance of our products.

So over the last set of years we have seen a substantially increased pipeline of innovation. And you can see that now here also on the Pril and the hand dishwashing that new technology bringing much better performance to this market segment, and of course it's accretive when it comes to the [rest of] the margin, which is part of our strategy.

Beauty Care

Solid OSG and very strong margin improvement in Q1 2014



Sales

- Solid OSG
- Retail solid, Hair Salon positive
- Emerging Markets OSG strong
- Mature Markets OSG positive

Return

- Adj. EBIT margin showing very strong increase
- ROCE below level of previous year (restructuring)

Moving on to our beauty care business, where we saw solid organic sales growth and very strong margin improvements in the first quarter of 2014.

Retail was solid. Hair salon was positive, which means that we're seeing a slight turnaround in Japan and Southern Europe. Too early to say if it's here to stay, but slight positive.

The emerging market OSG was strong and the mature markets organic sales growth was positive.

The adjusted EBIT margin showing very strong increase.

The decrease in ROCE is purely related to an acceleration of restructuring to ensure that we adjust our market structures to the changes we continue to see and some of the changes we already spoke to you about last year, which are particularly related to Southern Europe but also to Asia.

Beauty Care

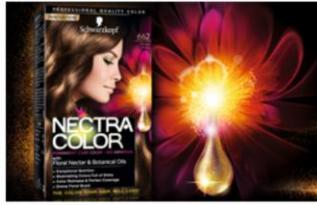
Strengthening innovation leadership across categories

Diadermine N°110



- 1st anti-age line with 110 drops of elixir activating 11 signs of youth
- Celebration of 110 years of dermatological expertise

Nectra Color



- 1st nourishing Hair Color from Schwarzkopf with floral nectar
- Botanical oils for exceptional nutrition and illuminating colors

essence ULTIME



- 1st celebrity co-created hair brand in retail
- High-performance formulas with luxurious pearl essence

Again here, we have a very strong innovation pipeline, going from skin to hair, so to speak.

Schwarzkopf
Professional HairCare for you.

DISCOVER MY
ULTIMATE ESSENCE
OF BEAUTY.
FOR DAMAGED, DEPLETED HAIR.

NEW

OMEGA REPAIR

- SUBLIME HAIR REBUILD AND SPLIT END CONTROL
- REPAIR EFFECT
- WITH LAVISHLY RICH OMEGA OIL

DEVELOPED WITH
CLAUDIA SCHIFFER

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And one of the most exciting innovations that we've brought into the marketplace has been the announcement of our new hair line, the essence ULTIME, which is a high-end hair line that we have now introduced in more than 25 countries.

It is not comparable to SYOSS. SYOSS is more in the volume space.

This is more moving up in the high-end space and the first time that a so-called supermodel has co-branded with us. And we're very excited about selling this product. This is a purely retail product that we have launched.

Adhesive Technologies

Solid OSG and strong margin improvement in Q1 2014



Sales

- Solid OSG
- Emerging Markets OSG very strong
- Mature Markets OSG positive

Return

- Adj. EBIT margin showing strong increase
- ROCE further increased

Moving on to adhesive technologies.

We saw solid organic sales growth and a strong margin improvement in the first quarter of 2014.

Emerging markets OSG was very strong and the mature markets OSG was positive.

We saw a strong increase in the EBIT margin and ROCE also further increased.

So overall a good performance also from adhesive technologies business in the first quarter.

Adhesive Technologies

Fostering technology leadership with strong innovations

Pritt Liquid Glue	Loctite TAF 8800	Bonderite Flex Process
		
<ul style="list-style-type: none">• High performing all-purpose liquid glue for handicrafts• Safe formulation: 90% natural ingredients, solvent free	<ul style="list-style-type: none">• Versatile thermal absorbing films for increased design flexibility• Significant reduction of handheld temperature	<ul style="list-style-type: none">• Surface treatment process allowing more aluminum in cars• Implementation in cooperation with key customers

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Again we have also here a strong innovation pipeline across the board, whether it's from our consumer side or electronic side or in automotive side.

We continue to do -- bring new products in that makes -- that are margin-accretive. And you've been able to see that over the last set of years, where we had seen a consistent strong increase in our margin due to a higher technology component on one side, but also the brand consolidation that we've undertaken over the last couple of years has helped tremendously.



One example here is the Bonderite Flex Process, which is a game changer in the automotive industry in introducing lighter materials for the automotive industry.

That is significantly helping driving the weight down, thereby gas consumption down. It has already been implemented at Audi, at Chrysler and at Ford and is an integral part of the F-150 truck, which is the most successful truck I think ever introduced into the marketplace approximately 18 months ago by Ford in North America.

With this I'd like to stop my part. And I'll then handover to Carsten for giving you the details on the first quarter. Carsten, please.

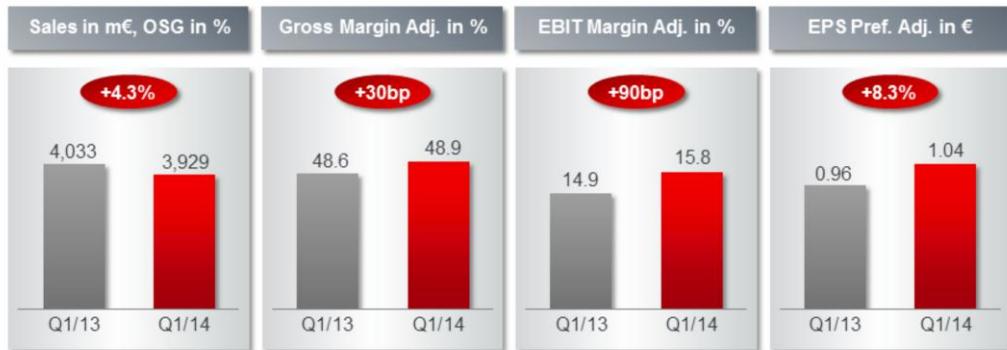
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Carsten Knobel

Thank you very much, Kasper. Good morning, everyone. After having had a look on the overall picture, let me now guide you through the financial details.

Further improvement of all key financial indicators



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Let me start giving you an overview on our key financials.

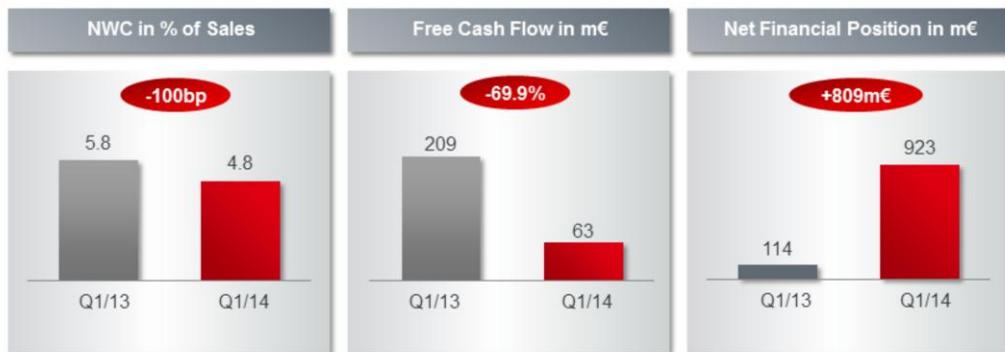
We started the year with a solid top-line growth of plus 4.3% organically. In nominal terms we reached a level of EUR3,929m, which is, as you can see from the chart, below the previous year, the increased size minus 2.6% in nominal terms, and this is due to a negative -- a significant negative FX effect amounting to 6.8% in total.

Our adjusted gross margin came in with 48.9% and by that being up 30 basis points compared to the Q1 of last year. Let me allude to that a moment. Already the 48.6% of last year had been an all-time high for Q1 and for the Company, and so is the 48.9% in quarter one of 2014.

On the back of that, our adjusted EBIT margin came in with 15.8%, being up 90 basis compared to the year before, supported by all our three businesses.

And finally, adjusted EPS earnings per share came in with EUR1.04, and by that being up 8.3% despite the negative FX effect I already have alluded to.

Disciplined cash management & strong financial position



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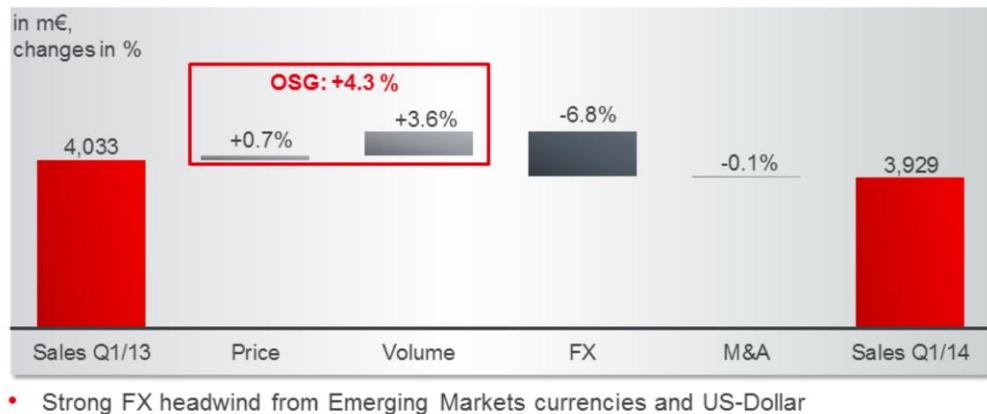
Let me now move and look on our cash side, starting with net working capital. Our net working capital ratio for the Q1 2014 could be improved again, and this was supported by all our three business divisions. We reduced the net-working-capital-to-sales ratio to a level now of 4.8%, being an improvement of 100 basis points compared to the Q1 2013.

Our free cash flow came in with EUR63m, being down compared to the Q1 2013. And this was due to a lower operating cash flow, mainly caused by two factors. Firstly, and we have already mentioned that in our full-year release call at the end of February, that we are approaching a net working capital ratio that we deem appropriate. The improvement, the 100 basis points I alluded to, is lower than the 170 basis points' improvement over Q1 2013 versus Q1 2012. And from a cash flow perspective, you can imagine then this leads to a lower inflow.

Secondly, we have received extraordinary tax incomes or refunds in Q1 2013 and that caused a lower outflow for taxes paid in that quarter of 2013. Now in the quarter one of 2014 we are seeing normal cash outflow from income taxes paid.

And finally, our net financial position, as already mentioned by Kasper, came in with EUR923m, and in that respect being an improvement of EUR809m compared to the Q1 2013.

Solid organic sales growth, FX headwind persisting



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With that, I would like to take a closer look on our sales development.

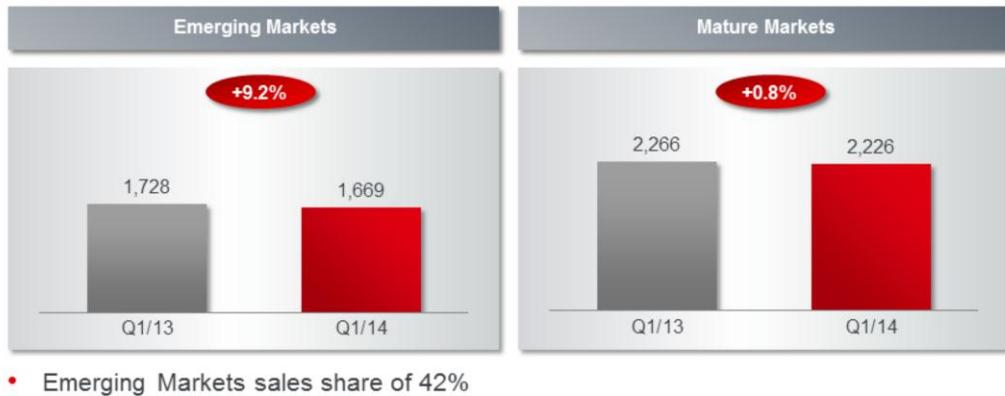
As pointed out before, our organic net sales growth came in with plus 4.3%. And this was driven by a component of price of 70 basis points and volume driven by 360 basis points.

As already mentioned by Kasper and also by myself, all of that was significantly influenced by an FX headwind of 6.8%. And this headwind was caused by depreciation of several emerging market currencies, but also of the US dollar.

The M&A effect was minus 0.1%, was quite low in that respect, bringing us to a nominal sales for Q1 2014 of EUR3,929m.

Emerging Markets very strong, Mature Markets positive

in m€, OSG in %



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Now looking and coming to our regional performance.

First on the emerging markets, in absolute terms we reached a level of EUR1,669m. And as you can see, this is slightly below the previous year. In organic terms we reached with 9.2% the highest growth in the emerging markets since Q3 2011. And this represents an emerging market share of 42%.

This is slightly below the Q1 2013, but taking into account the FX adjustments which Kasper also said before, would have increased the level, FX-adjusted, to 45%.

The mature markets reached a level of EUR2,226m, showed a positive organic net sales growth of 80 basis points.

Broad-based growth across regions

in m€, OSG in %



- BRIC with very strong organic sales growth
- United States with a difficult start, Japan showing first signs of recovery

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With that, I would like to go a little bit more in detail in the regional performance and give you an overview of the individual regions.

First of all, we saw a broad-based growth across all regions. In that respect, the BRIC countries, Brazil, Russia, India and China showed a very strong organic net sales growth close to double-digit, in particular driven by our Chinese business with a clearly double-digit development.

Western Europe experienced a 2.4% organic net sales growth, also here the highest growth since Q3 2011. We could over-compensate the development in Southern Europe. Southern Europe, [in apostrophes], only showed a slightly negative development in the Q1 and, as I said, over-compensated by the rest of the countries in Western Europe.

Eastern Europe came in with an organic net sales growth of plus 5.4%, mainly driven by a strong development in Russia and from Turkey.

Africa/Middle East, a strong double-digit growth of plus 17.9%, despite the geopolitical and social unrest we face in that region.

Broad-based growth across regions

in m€, OSG in %



- BRIC with very strong organic sales growth
- United States with a difficult start, Japan showing first signs of recovery

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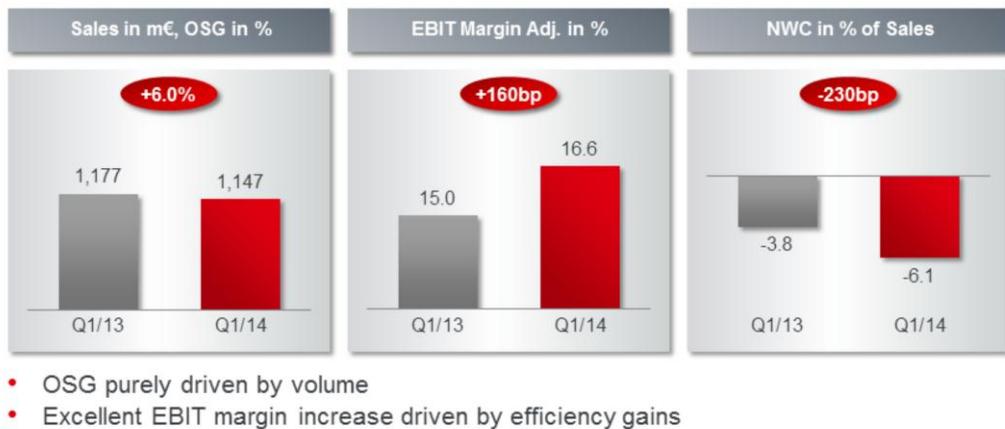
Coming now to North America, and you have heard it already before, that's the region with minus 3.1% where we are not satisfied with. There are different reasons for that development. First of all, all our three divisions showed negative organic net sales growth in that quarter one. And the three reasons behind are, one is obvious, that's the cold winter; the second one is a very intense competition within the HPC sector, combined with mostly negative markets; and thirdly, there are also internal reasons in the fact that we also faced supply chain issues in bringing new lines into production.

Latin America was a very strong growth of plus 8.4%, especially driven by our performance in Brazil and Mexico.

And finally, Asia-Pacific. Also here a very strong growth, plus 9.3%. Here please take into account that's the combination of Asia mature and Asia emerging, especially Asia emerging. And I have already alluded to that, China with a very strong double-digit growth in that respect, supporting our development. And we also had a positive growth in Japan. And we see that as a first sign of recovery in that respect, also supported in the region of Indonesia in terms of growth.

Laundry & Home Care

Fostering profitable growth path in Q1 2014



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With that, I would like to move to our three divisions and give you here some more details, starting with our laundry and homecare business.

A very good performance in quarter one 2014. Continued very good performance and overall strong organic net sales growth with plus 6%. This 6% growth was driven purely by volume. And both the businesses, laundry and homecare, showed a strong performance or a strong organic development.

Again, the emerging markets in laundry and homecare showed a double-digit development, supported or contributed by Africa/Middle East, Eastern Europe and Latin America the most. Despite a negative development in North America and in Southern Europe, the mature markets were managed to show a positive organic net sales growth, especially thanks to Western Europe.

With that, you also see an adjusted EBIT margin growth, an impressive margin growth of 160 basis points, now to a level of 16.6% in relation to sales and also when we have a look on our net working capital development in laundry and homecare, with minus 6.1% or an improvement of 230 basis points. We see a very positive development. Regarding our profit, this was especially driven by excellent improvements in terms of efficiency gains, in cost measures, but also improvements in production and supply chain.

Beauty Care

Fostering profitable growth path in Q1 2014



- OSG driven by 1.7% in price and 1.3% in volume
- Very strong EBIT margin increase driven by efficiency gains

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With that, having a look on our beauty care business.

The beauty care business showed another quarter of profitable growth, the 33rd quarter in a consecutive row. Organic net sales came in with plus 3.0%, showing a solid development, with pricing contributing 170 basis points and volume on a level of 130 basis points in that respect.

Looking on to the businesses, retail and professional, the salon business supported that development, while retail achieved a solid organic sales development. Our hair salon business managed to be back to a positive growth in that respect.

Also here looking in emerging markets and mature markets, the emerging markets showed a strong development, with double-digit contribution from emerging market of Asia and a strong growth in Middle East/Africa.

Mature markets, I pointed it out, North America was also in beauty care slightly negative, but this was compensated or over-compensated by a very good development in Western Europe, but also in the mature markets of Asia.

The adjusted EBIT margin, an improvement of 80 basis points, driven also here by efficiency gains in production and supply chain, as well as cost reduction measures, bringing us to a level of 15.7%. And also from a cash perspective, net working capital improved by 100 basis points also here to a very good level of 2.4% related to sales.

Adhesive Technologies

Fostering profitable growth path in Q1 2014



- OSG driven by 0.8% in price and 3.3% in volume
- Strong EBIT margin increase driven by portfolio optimization and efficiency gains

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Coming now to our adhesive technology performance. The performance of the division showed an organic net sales growth with plus 4.1%, prices contributing by 80 basis points, while the volume was up 330 basis points.

All our business sectors were contributing to that performance. In that respect also electronics reporting a positive organic development with a start into the year. A very strong development in our general industry sector. And all other business sectors remaining on a solid development when it comes to our organic net sales growth.

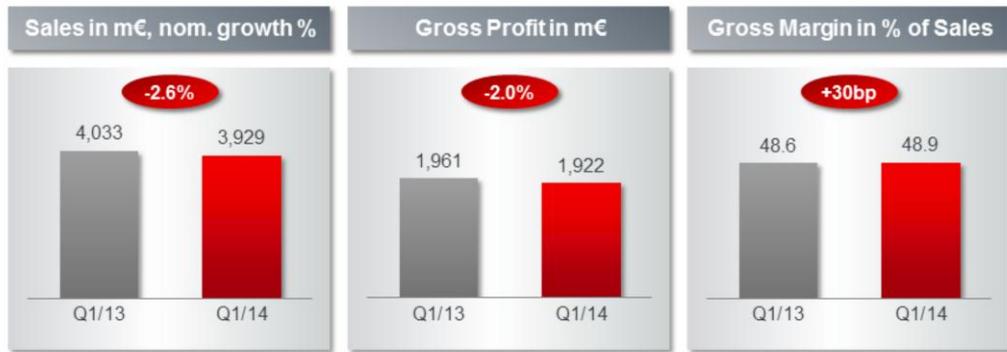
Regionally speaking, the emerging markets, with a strong or very strong development, particularly supported by Eastern Europe, Latin America and the emerging part of Asia. Also the mature markets showed a positive organic net sales growth, North America negative, but compensated -- over-compensated by Western Europe and by the mature part of Asia in that respect, particularly Japan. But we said it before, we see here first signs of recovery, but we would also like to see the development of the next quarters in order to see a general change.

Coming then to the adjusted EBIT margin, also here a strong positive development of 40 basis points to a level of 16.9%. And this was specially contributed by an ongoing -- our ongoing portfolio optimization and also efficiency gains, especially in the area of supply and production.

Also, like the other two divisions, net working capital shows a very good development, 90 basis points' improvement now to a level of 12.7%.

Gross margin further improved, on record level

Income statement adjusted



- Gross margin enhanced by cost savings, portfolio optimization and selective price increases

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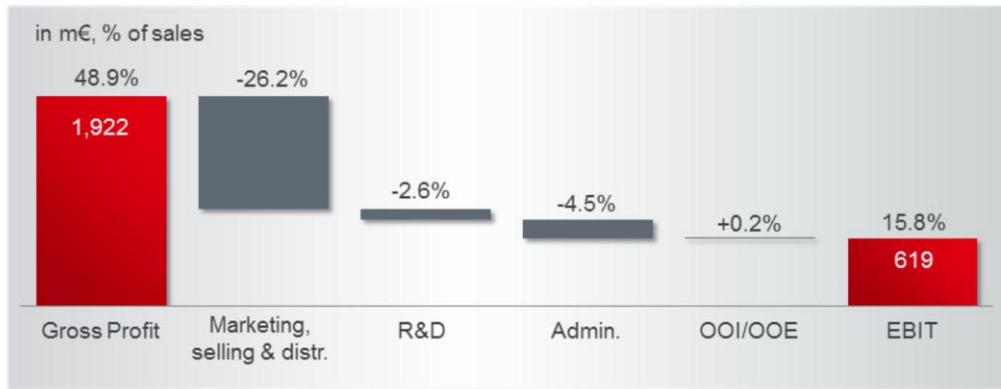
With that, I would like to come to our income statement adjustment.

And I will start with the development from sales to gross margin. I said it before, our gross margin further improved on a record level. We experienced sales of EUR3,929m on a nominal basis, being down 2.6%. Cost of goods on an absolute level came in with a level of EUR2,007m, which related then to a gross profit in absolute terms of EUR1,922m, being reduced compared to the previous year quarter of minus 2%. And that led already to the point what I said before, to an improvement of our gross margin level by 30 basis points to a level of 48.9%.

Let me allude a little bit to that. The negative impact of higher promotions, I think, which we clearly have said that this is a tendency in the HPC sector, driving promotions on a significant level now. The impact of the higher promotions and transactional FX effect could be over-compensated by savings in the area of cost reduction measures, supply chain, but also portfolio optimizations in that respect, and partly also selective price measures and price increases.

Very strong adj. EBIT margin increase, plus 90bp

Income statement adjusted



- Lower Marketing, selling & distribution expenses, mainly due to FX
- Administration expenses reduced compared to prior year's quarter

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Moving on and now coming to the income statement from gross profit to EBIT, starting with our marketing, selling and distribution expenses. They have been decreased compared to the previous year quarter, mainly due to the significant FX impacts we already alluded to. Additionally, we also see a rebalancing of our marketing mix in that respect, that it results into a shift from marketing investments into the area of promotional activities.

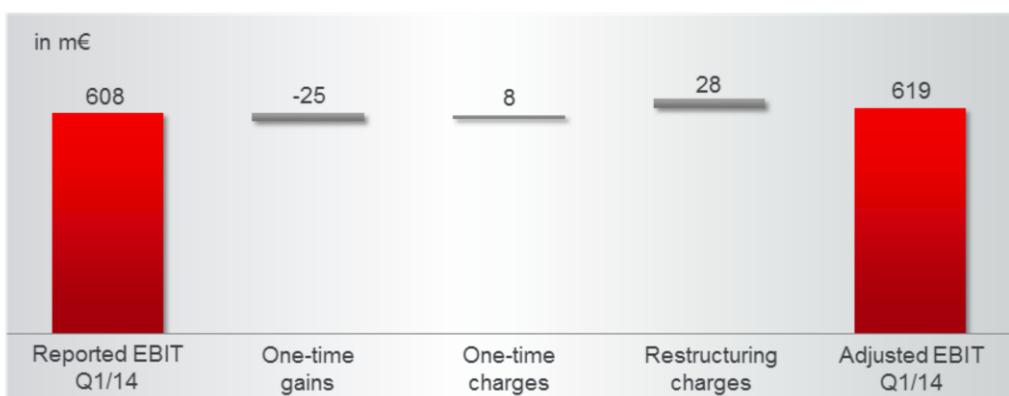
R&D expenses came in at the level of last year, with minus 2.6%.

Our admin expenses, with 4.5%, could be reduced by 30 basis points.

And the balance of our other operating income, other operating expense stayed or remained on a very low level.

With that, we reached an adjust EBIT in absolute terms of EUR619m, which translates into an adjusted EBIT margin of 15.8%, or effectively being up 90 basis points compared to the Q1 of 2013.

Continuous adaptation of our structures to the market



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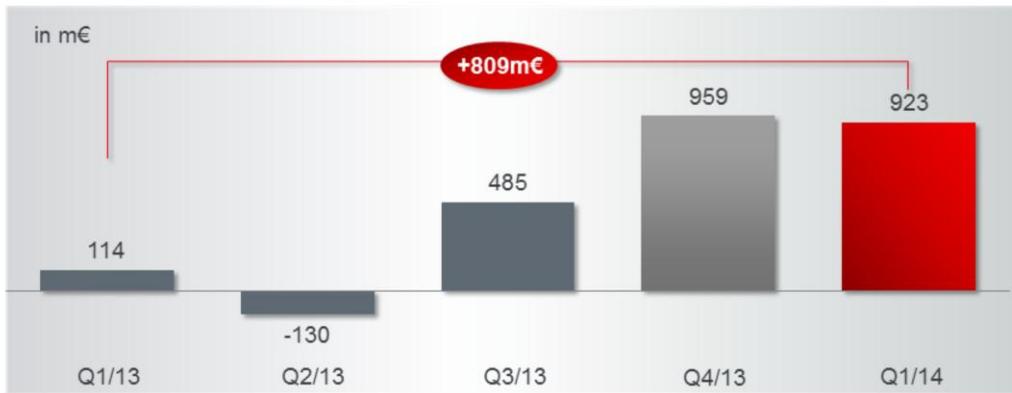
Now focusing or having a look on our bridge from reported to adjusted EBIT, the reported EBIT came in with EUR608m. We face one-time gains with an amount of EUR25m. This amount reflects completely our decision to no longer pursue the selling of our Iranian business following the positive signs respective in the geopolitical environment. Therefore we have reclassified the assets and liabilities from asset and liabilities held for sale into the respective balance sheet positioning.

Following that, we have incurred a write-up of EUR25m. This represents a reversal of the EUR35m impairment loss we booked in Q2 2013 upon classification into assets held for sale. The difference between the EUR25m and the EUR35m, the EUR10m, is related to the impact of the further devaluated Iranian currency on the existing foreign current liabilities in our Iranian entities.

One-time charges of EUR8m relate to the extraordinary investments we are doing for setting up our scalable platform -- scalable business platforms we are operating over the next years.

And finally, we continue to adapt our structures to the market, and this is reflected with EUR28m restructuring charges, bringing us to an adjusted EBIT level of EUR619m for the Q1.

Strong net financial position



- Significant improvement compared to Q1 2013
- Ongoing high level despite increased investments in Q1 2014

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Q1 2014 – Henkel Analyst & Investor Call



I would like to close the financial overview and the details by having a look on our net financial position. You have already heard it. We experienced a strong net financial position with EUR923m. This is an improvement of EUR809m compared to Q1 2013 and more or less on the level of Q4 2013 at the end of the year of last year.

With that I am at the end of the details and would like to hand back to Kasper. Thank you very much.

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Kasper Rorsted

Thank you, Carsten. Overall it was a good start into the year and we continued our profitable growth path. And let me just stop here for a second and say the following.

Good start into the year

- Continuation of profitable growth path
- Solid organic sales growth, driven by all business units
- Emerging Markets very strong, Mature Markets positive
- Very strong adj. EBIT margin development
- High single-digit adj. EPS growth

Over the last many years we have consistently been able to gain market share while, at the same time, expand our market position -- our margin position. And that is our strategy, so when we look upon our investment profile, how we invest into the market. What we are aiming to do is grow market share while, at the same time, also expanding our margins. I think you can see, particularly also in the first quarter with 4.3% organic growth, we've found a very good balance between strong top-line growth and, at the same time, strong expansion of our margin.

We saw solid organic sales growth driven by all businesses across the board.

The emerging markets were very strong, up at 9.2%, so the highest for three years. China, as Carsten said on a couple of occasions, double digits. So no slowdown in the emerging markets. And we saw the mature markets being positive but a negative North America, which we also discussed.

With our very strong adjusted EBIT margin improvement and high single-digit adjusted EPS growth, which is of the 20-10-10, the primary KPI, like the 14%, was in the range between 2008 and 2012.

Counteracting headwind with operational excellence

- Persisting FX headwind, with impact particularly in the first nine months
- Strong innovation pipeline across all business units
- Focused and balanced investment in growth initiatives
- Continued strong focus on cost optimization

At the same time we are doing what we can to counteract the headwinds with operational excellence. We expect that the headwinds coming from FX will continue to impact us, particularly in the first nine months of the calendar year of 2014.

We also believe we have a strong innovation pipeline, which I gave you an insight to right here, that will help drive the growth and also margin expansion in the business groups.

We have a very focused and balanced investment in growth initiatives to ensure that we grow the top line also in areas where we have volatile currencies, but with the overall aim of growing market share at the same time as growing our margin.

And we continue to have a strong focus on cost optimization. This is one element where we believe we have never done and we can always find new areas here. That is a very important part for us that costs will never lose our eyesight. And as you can see also, part of the margin expansion over the last many years has been through cost optimization. We will continue to do so in the future. We believe cost is always an item that you need to get down.

Guidance FY 2014 confirmed despite headwind

	Guidance FY 2014
Organic Sales Growth <ul style="list-style-type: none">- Laundry & Home Care- Beauty Care- Adhesive Technologies	3 - 5% All Business Units 3 - 5%
Emerging Markets sales share	Slight increase
Adjusted EBIT Margin <ul style="list-style-type: none">- Laundry & Home Care- Beauty Care- Adhesive Technologies	~15.5% All Business Units contributing
Adjusted EPS Growth	High single-digit



We will continue to adapt our structures to the market

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Q1 2014 – Henkel Analyst & Investor Call



So how do we guide for the year? Unchanged, meaning 3% to 5% top line, emerging market sales share slightly increased, adjusted EPS -- EBIT margin of 15.5% and our adjusted EPS growth at high single digit. And as I said earlier on the call, 8.3% in the first quarter.

At the same time we are very much aware of the changes we're seeing in the marketplace. And we'll continue to adapt our structures to the market at the same rate as we did last year, which Carsten at the end of last year spoke about. So we are knowing at the end of -- where to change our structures.

Upcoming events

- June 4th, 2014
Investor & Analyst Day Beauty Care, Düsseldorf
- August 12th, 2014
Q2 2014 Financials
- November 11th, 2014
Q3 2014 Financials



With this I'd like to come to a close.

Thank you for dialing in. Look forward to your questions. And just remind you that on June 4 we have the investor and analyst beauty day -- beauty day meeting here in Dusseldorf; August 12, second-quarter numbers; and November 11, the year is pretty much over, third-quarter numbers. That's the roadmap.

Q&A Session

Operator: *Christian Faitz, Macquarie.*

Christian Faitz: Yes. Thank you. Chris Faitz from Macquarie. Two questions, please. First of all can you please comment on the weather impact for adhesives in the US with some specific numbers?

And then second, your underlying growth in Eastern Europe during Q1 was quite solid on an [ex-Russia] basis. Can you share with us some details having gone into Q2 how has the situation developed also with the political economic crisis there? Thank you.

Kasper Rorsted: Hi, Chris. As you're certainly aware, we cannot share with you any numbers on how the second quarter has started. But what you did see in the first quarter, and I think that is the positive part, underlying growth is still solid. As I said, Russia continued to be very strong in the first quarter. Negative was Ukraine.

So it's very much up to which extent will the sanctions have a continued impact on the overall economy in Eastern Europe. But our expectation is, and you can see it in the numbers, a slower growth rate in 2014 and 2013, but overall a strong growth in the first quarter. I think there's a big question mark that nobody can really quantify at this stage as to which extent will the Russian Ukraine crisis impact the remaining economies. And that's where your assessment is as good as mine. And I'll give you all the details on the Eastern European growth in August.

Carsten Knobel: Regarding your first question regarding the weather situation, let me start in a different way. I think we wanted to make sure that we have different effects while our North American performance was not in the line with our expectations. And a part of that is internal, and we will fix that as we have done that also with other countries or regions. And secondly, for sure we also have been impacted on the weather.

In that respect we cannot quantify that in terms of what kind of impact that has on sales. The only thing what I can tell you, but as I said, again, we don't want to over push that topic. We had a round of production closures, especially in our industrial sector, of around 20 days in the first quarter. So for sure that's significant. But nevertheless I think we are here to make business independent where -- about weather conditions or whatever it is. And I think we were clear on that that we overall have been not satisfied with the development in North America.

Christian Faitz: Okay. Very helpful. Thank you.

Operator: *Hermine de Bentzmann, Raymond James.*

Hermine de Bentzmann: Hi. Good morning. The first question will be on the laundry and homecare. You had a very strong growth in Q1 and you expect the growth to be between 3% and 5% in two years. Why do you expect such a slowdown through the rest of the year?

And second question on marketing and distribution and selling expenses. You had a strong decrease in Q1 and you explained the reason behind that. But what can we expect for the rest of the year for those expenses? Thank you.

Kasper Rorsted: So as you can see, we're guiding between 3% and 5% for the Company but also for each of the business groups. And our strategy for laundry and homecare business is to drive a lot of innovations into the market in the first quarter. You saw that also last year. You saw an exceptionally strong first quarter. And that's what you're also seeing here.

So right now we still believe that a range of 3% to 5% is the appropriate guidance for our laundry and homecare business. As I said, we do believe that the first quarter will continue to be abnormally strong, very similar to last year. So I don't think there's a strong decline. We're right now reporting 6%. We're guiding between 3% and 5%. And depending on where you end in the range, I don't think you're that far away, very similar to last year

The reason why I said you shouldn't expect that is that that is actually how we planned it, very similar to last year. So we're quite happy with the start of the year, but that is also how we plan our innovation pipelines. So we said expectation will be in the range, but we don't expect -- we would like to, but we don't expect to be at the first-quarter run rate throughout the year. Carsten, the second question?

Carsten Knobel: Regarding your question on marketing expenses, so first of all, we do not guide on marketing expenses. Nevertheless, I think -- I hope I was clear in the comments. The reduction in the first quarter was significantly impacted by the FX. But I also clearly said that there is definitely a change in the marketing mix. That is on the one side related to a further driving into the area of promotions and that has a shift in the P&L from marketing line to between gross and net sales. That's the first thing.

The second thing, we're also getting more efficient. I think you clearly have noticed over the last years that we have significantly brought down the number of brands from more than 1,000 to now a level of around 300. And as a consequence, that's clear; if you have less brands you can put the same amount on a lower number of brands and by that you get more efficient.

And on top there is a third part which is also clear, digital comes more into this setup. And all of that, we have increased our market shares in that respect over - in Q1. And looking into the rest of the year we will continue supporting our brands in a very efficient way, and that's what I can say to that topic.

Hermine de Bentzmann: Thank you.

Operator: *Gael Colcombet, MainFirst.*

Gael Colcombet: Yes. Good morning, gentlemen. My first question is on Russia. It seems you continue to have a pretty strong rate, growth rate in Q1. Was the trend pretty similar across the quarter or did you see any change in trends towards March/April when the crisis broke out?

Secondly, any -- is there any change to your tax guidance for the full year?

And lastly, if I may, an additional one. On Japan it seems that your beauty business performed reasonably well there. Was there any impact from the VAT increase on April 1? Thank you.

Kasper Rorsted: Thanks. On Russia, as I said in the previous, we don't guide separately and it's far too early to say what will happen in there. And that's where, depending on what the sanctions will be, that will drive that. So we don't guide separately. We continue to be long-term bullish on Russia. But short term happens. Politically we can't comment on that.

On the Japanese side, as you correctly say, we're starting to see an improvement in Japan. It's too early days. There's no doubt that there is an overall positive development in the first quarter for most companies on the change and the VAT side. We expect a better performance in Japan in 2014 than 2013. But with one quarter in the bag, it's too early to (inaudible).

Carsten on the tax guidance?

Carsten Knobel: Yes. Regarding tax guidance, we don't guide on tax. Can somebody put yourself on mute? Thank you. Regarding the tax guidance, we don't guide for tax in the year, but I think you can recall our strategy meeting in November 2012, where we were saying that we are calculating with around 25% tax over the period from 2013 and 2016. And we said around. And we have experienced now an effective tax rate in quarter one of 24%. And we believe, I think, that's around 25%. So that's the area where we are also sliding over the next quarters and years. Thank you.

Gael Colcombet: Thank you.

Operator: *Warren Ackerman, Societe Generale.*

Warren Ackerman: Good morning, Kasper. Good morning, Carsten. It's Warren Ackerman here at SocGen. Two questions. The first one is just talking about your financial position. You're now almost EUR1b in net cash. Could you just discuss, Kasper, the M&A landscape in broad terms as you see it? And if you're not able to find suitable M&A, could you outline your priorities for uses of cash? Would you consider a buyback or increasing your dividend payout ratio? That's the first one.

And then secondly, just on China, you gave us a little bit of color in terms of strong double-digit growth. I was just wondering whether you could tell us exactly what the organic growth in China was in the first quarter and maybe discuss which divisions are particularly driving that improvement. Is it macro in China that's improving or is it market share? Thank you.

Kasper Rorsted: Thanks, Warren. On the M&A side, as you know, we are a patient company. So that we have a strong balance, it does lead us to a short-term changes. And we increased the dividend from 25% to 30% payout this year, so we are paying more out.

If you look upon the current multiples that are paid, they are very, very high. The availability of assets is still scarce. So what we do do is that we do spend a lot of time and energy, but you've got to put something -- you've got to cross the finish line before you say you want anything. So we don't see a big change in the availability. We see very high multiples. However, we're not discouraged. We're very certain that we can put our balance sheet to use. So that's the first one.

Carsten did, in the announcement of our strategy in 2012, also say that of course, over time, we look upon three areas. One is investing heavily in the business, taking our CapEx up to EUR500m plus. Second is using it for M&A. And thirdly is other ways of returning money to shareholders. One is increasing dividend and eventually also share buyback. But I think we have said consistently that share buyback is not part of our strategy at this stage and will not be until 2015/2016, if we have a very different balance sheet.

On the dividend payout, as you know, we paid 30% out. The new policy actually says between 25% and 35%. So we would like to actually invest. But I think, as all shareholders, we don't want to do silly investments because if we buy just for the sake of buying, you will be chasing us at the next call and say we paid too much.

On the China side, let me just first start with the macro. We have been consistently bullish in China for a very, very long time and have been less, I would say, wobbly in our view on China. And 7.4% or 7.5% GDP growth continues to be a very strong GDP growth. That is our consistent position and has been for a long period of time.

What we do see is we see our two businesses that we're active in, adhesives and our beauty care business, having very strong positions when it comes to coverage, when it comes to -- when it comes to coverage, when it comes to competence but also investment into the market, whether it being the largest [plant] in the world for adhesives or our biggest display center for flat-screen technologies. So we believe that we're gaining market share through a very strong coverage. And, as I said, we've been consistently bullish and we think that China will continue to develop strong growth for us, whether running at a 7.4% GDP or 7.8% or 7.2%.

Just going back to the investment into the market, we said EUR700 --EUR500m per year. Actually the right way of saying it is we said that we would invest EUR2b in the range between 2013 and 2016.

Warren Ackerman: Okay. Carsten, just to clarify, are you able to actually tell us what the organic growth number specifically was in the quarter for China, please?

Kasper Rorsted: No, we don't disclose that. But as Carsten said, they were strong double digit. So it was a very strong -- it was a very strong performance in the first quarter in 2014, and that was like-for-like.

Warren Ackerman: Okay. Okay. Thank you very much. Cheers.

Operator: *Marcus Mayer, Kepler Cheuvreux.*

Marcus Mayer: Yes. Good morning, gentlemen. Three questions as well. First of all, you mentioned first signs of recovery. Maybe you can shed more light on that, where they're coming from and what kind of divisions. Then maybe also in adhesives system, is there hope for electronics recovery or from the construction, the [steel] or wherever?

Then -- and also if you

Kasper Rorsted: Excuse me. Excuse me. Just go back to that, the first question, you said recovery. Recovery where? Japan?

Marcus Mayer: Yes. You mentioned several signs of recovery in Japan, but also for the adhesives business. But that would be my first question. And also if you then expect certain leverage impacts due to the recovery.

And then secondly, if you can update on the startup phase of Dragon Plant in China.

And then the last question is the promotional pressure, in particular in [DS], has intensified or is this just the ongoing level you mentioned already in the Q4 numbers and all the before? Thanks.

Kasper Rorsted: I will do one and two. Carsten will do three. On Japan, we're seeing a recovery for our business. We had a not-satisfying year. We're also seeing a Japanese economy that's overall stable, and we think that will hopefully continue throughout the year. It's not going to be a great growth recovery, but we don't specify by segments.

What has come back a bit this year, and you can see that, is the electronics business. And the electronics business is predominantly US, Asia and Japan being one of them. So that's the level of intel I can give you to that. Japan will be never a high-growth economy, but it will -- it is consistent.

On Dragon, we opened that plant in December -- September last year. It's running according to plan. We are in the process of building the second phase. That should be done by the end of the year, early next year. So Dragon is fully in plan, fully in scope, fully in budget.

Carsten Knobel: Regarding your question of promotional pressure, I think, from a worldwide perspective, I think we are on a similar high level as in the year before. But going more into the specifics, and I think I mentioned that when I was commenting on North America, we see here an extraordinary high pressure when it comes to promotional activities. So North America and selective countries in Western and Eastern Europe, so not overall in these regions but in selective countries, we face an extraordinary or a higher level of promotions. But in general, overall, I think it's on the same level, on a very high level as in the years before.

Marcus Mayer: Okay. Perfect. Thanks.

Operator: *Rosie Edwards, Goldman Sachs.*

Rosie Edwards: Yes. Good morning. Two questions. Firstly slightly struggling to reconcile the very strong improvement in margins that you saw in Q1 versus the full-year guidance. So I was wondering if you can give any color or any comments on what will change over the subsequent quarters to slow that improvement down.

And secondly on interest, saw a significant drop year on year. Are there any exceptional impacts within this or should we reflect this annual change in full-year numbers?

Kasper Rorsted: Rosie, I'll have to do the first one. We guide on an annual basis. And of course it would be misleading to change guidance on a quarterly basis because that way when things go up, you change up. When things go down, they go down.

We believe that the overall guidance of a high single-digit EPS improvement and 3% to 5% organic sales growth is the right one. On the margin, also the 15.5%, potentially with an upside, we don't change it at this stage. But if we believe it's appropriate, we change typically following either the second or the third quarter. Following the first quarter, frankly it makes no sense for us to change. And the primary guidance is built around the 20-10-10, delivering very attractive EPS growth.

Carsten Knobel: I think your question regarding interest, yes, we are seeing a very positive development in the quarter one from minus EUR30m to minus EUR15m. And I would say there are two effects in. There is one effect in which would continue because we have repaid or paid back two matured bonds, one in mid of last year and one in the first quarter of 2014. So the first senior bond will have an impact on quarter one and quarter two. So the second senior bond we paid back has an impact in the full year coming, in that respect. But Q1 was also impacted by one extraordinary item, which is related to one of our divestment gains we had in our financial results. So yes, we expect an improvement over the year, but not of the same level because of an extraordinary income in Q1.

Rosie Edwards: Thank you very much.

Operator: *Pinar Ergun, Bank of America-Merrill Lynch.*

Pinar Ergun: Thank you very much. Could you please give us a quick update on your portfolio planning, please? Are you done or is there more to come?

And I guess a follow-up question on your full-year guidance, do you have any expectations for a significant improvement in below-the-line items because we're struggling to reconcile the high single-digit EPS growth with 3% to 5% organic growth and margins at 15.5%. So just wondering if we're missing anything here. Thank you very much.

Kasper Rorsted: On the portfolio, we are getting closer to the end of the portfolio. We are still having some work to do on the brand side that we would -- we guided in 2012 that we would divest approximately EUR500m over the four-year period. We're well through that, so I would expect minor in the future. But there's still something to come, but we don't guide specifically on this.

On the guidance, I think as we've said, we guide for full year, and that is still the guidance that we have. So you're not missing anything. The guidance is the way the guidance is. And we're guiding high single-digit 3% to 5% and then 15.5%. And that is the way we're looking upon it this year. Where we believe it's appropriate, we will change the guidance. But we don't change guidance on a quarterly basis unless something disruptive happened in the marketplace, positive or negative.

Pinar Ergun: Thank you very much.

Operator: (Operator Instructions). Thank you, ladies and gentlemen. I will now hand over to Mr. Rorsted for closing remarks.

Kasper Rorsted: One second. So thank you for participating in today's conference call. We believe within a challenging and difficult market environment, particularly characterized by a strong FX and high competitive intensity, we did deliver a good start into the year 2014.

I wish you all the best and look forward to meeting you at your -- at our investor conference and analyst day for our beauty care business on June 4, 2014, here in Dusseldorf. And our second-quarter result is scheduled for August 12. Thank you very much for dialing in.

Operator: Thank you for joining today's conference call. You may now replace your handsets.