



Transcript Q3/2011 Earnings Conference Call November 9, 2011

Participants

Kasper Rorsted; Henkel; CEO
Lothar Steinebach; Henkel; CFO

Iain Simpson; RBS, Analyst
Guillaume Delmas; Nomura, Analyst
Eamonn Ferry; Exane BNP Paribas, Analyst
Ralf Stromeyer; Allianz, Analyst
Robert Waldschmidt; Merrill Lynch, Analyst
Susanne Seibel; Barclays, Analyst
Celine Pannuti; JP Morgan, Analyst

Presentation

Operator: Good morning and welcome to the Henkel Conference Call. With us today are Kasper Rorsted, CEO, Lothar Steinebach, CFO and the investor relations team. For the duration of the call you will be on listen-only. (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.

Kasper Rorsted: Good morning, ladies and gentlemen, and welcome to our Q3 conference call. First, I'd like to focus on the market environment and the highlights of the third-quarter 2011. Then Lothar Steinebach, our CFO, will provide you with the Q3 financials in greater details and after that I will comment on the outlook for 2011 and, finally, we'll take your questions.

I'd like to begin by reminding everybody 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 discussions 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 the conference call. Now let me get started.

Market environment and highlights of the third quarter of 2011. Overall, we saw a continued slowdown in the global economy. We saw Europe with mixed growth; the north of Europe continued to be strong while the south continued to be weak and also impacted by the ongoing lack of resolution in Greece. The US economy grew, but only slightly. The emerging markets, from an overall GDP growth, continued to be strong, and MENA, while underlying good, remained politically unstable.

We are still seeing a considerable expansion of the industrial sector. Private consumption remains in a moderate level and the commodity price is still on a high. So, overall, a somewhat similar picture that we have seen throughout the year but, however, with a decrease in growth rate. But if you go back and look to the May expectations to GDP for the year, the global GDP expectation was 3.1 and we are now hitting an all-time low for the year of 2.6. So we are seeing a consistent slowdown, which we also experienced in the third quarter, and that will also be our expectation going into the fourth quarter that we will see an overall slowdown of the global economy.

What were the highlights for Henkel in the third quarter? We continued very strong organic growth rate on the top line. All businesses, so our three business groups, all three came above 14% adjusted EBIT margin for the first time. We continue to see double-digit growth in the emerging markets that now account for 43% of our total business and we saw market share gains in our relevant markets, so, on the positive side, a good quarter.

What were we not so satisfied with? We are not satisfied with the declining gross margin. The raw materials continue to be on a high level and we were not content with the performance of our electronics business. It is below previous years both on growth and profitability. This has stayed stable but dissatisfactory throughout the entire year, so no big change, but that does not make it satisfactory.

If we go through each of the business groups, we saw positive organic sales growth in our Laundry and Home Care business, based solely on price increases, showing that our pricing is sticking. We saw solid performance in our emerging markets, with high single-digit growth rates and we also gained market share in the relevant markets.

We saw our gross margin negatively impacted by raw material, despite the increase in pricing. However, we did at the same time see a further increase in our EBIT margin, to reaching above 14%. Innovation rate is trailing at -- or is running at around 40% consistently, so, overall, an enhanced performance in a highly competitive market environment.

Now, let me move on to our Cosmetics division. We saw strong organic sales growth, predominantly driven on volume. We saw all our regions growing and emerging markets continue to grow with double digits. Again, also in this market we got the right balance between market gain and market share gains and we all saw market share gains. Also here we saw our gross margin negatively impacted by raw materials. The adjusted EBIT margin further increased also to above 14% and the innovation rate remained at a high, above 40%.

Let me just remind everybody that every time we put new products into the market when we do the price and volume calculation, it is always calculated in volume. That means the more new products we introduce into the marketplace, they will be calculated in volume rather than pricing. Lothar will go into greater details on this. So, overall, a strong performance in a highly competitive market environment.

On the Adhesive side very strong organic sales growth, based on a mix between price and volume. We took the first pricing actions a year ago in the third-quarter 2010 and we had almost double-digit growth rates. All regions growing; the emerging markets were the main growth driver. However, the mature markets were also strong. Again here we saw market

share gains, but again here also gross margin is negatively impacted by raw materials, despite four quarters in a row of price increases.

Our adjusted EBIT margin further increased and our innovation rate were above 25%. As a side remark, for the first time ever we hit a EUR2b plus revenue number for our Adhesive business. So our strong profitable growth path was sustained.

Now let me move to the numbers. We grew organically 6.5% and, on the reported side, 1.7%, to EUR4.028b, so surpassing the EUR4b mark for the first time. On the top line we are satisfied with the performance. Our adjusted gross margin came out at 45.7%, down from 47% a year ago, so a decline of 130 basis points. We were not satisfied with the development in the gross margin line, which means that we will be taking further actions to change this development around. Not happy on the gross margin.

Adjusted EBIT grew 4.7%, adjusted margin from 13% to 13.4%, which was in line with our internal expectations, a growth of 40 basis points. Adjusted EPS from EUR0.80 to EUR0.85, 6.3%, so also in line. Our net working capital declined from 7.8% to 8.0%. While the decline is very minimal, we are not happy with the development on this line item.

Our net debt went from EUR2.8b to EUR1.8b. So when you look upon the balance sheet top line was good, adjusted EBIT margin was good, gross margin was not satisfactory and development in net working capital not satisfactory. However, overall what would be described as a solid performance in a challenging environment.

When we look upon the direction we have had on -- we had a clear strategic direction for the past, almost, four years. We are completely committed to our 2012 target and we are continuing to adapt our structures to the market.

As I alluded to in the introduction, we are seeing a deterioration of the overall economy and in order to address a slowdown in the market we have substantially increased our restructuring efforts, which Lothar will go into. But we are completely committed to our targets in 2012 and that's why we proactively adapt our structures to the market with the speed that we can.

One of the areas that we have greatly expanded over the last couple of years is our acceleration in shared services. 2008 we have 300 headcount. In 2010 we doubled it from to - from 600 -- from 300 to 600. In 2011 we have almost doubled it over 2010. And we expect the same growth rate also for 2012, reaching the 2,000 mark, driving not only speed into our organization but also enhanced -- our better cost structure. So a lot of focus on addressing and continue to slim down our fixed cost structure.

When we look on a topic that has been highly discussed, particularly in Europe in the last quarters, have been a share of female managers within our management team, that is not a new area for Henkel. We have increased it from 23 points to 30 points over the last seven years, so approximately one percentage point a year.

What we also did in the third quarter was an extension to our management team. HR has been part of the global management team within Henkel for many years. It's only the last two years that I have had that direct responsibility. We have promoted Kathrin Menges, a long-term Henkel employee, who was running HR and is now part of the management team. What

we also done, and we announced it last year, last year -- by the end of last year we hit our sustainability targets that were set for 2012; we hit them by the end of 2010. This year -- by the end of this year we will be announcing our new sustainability strategy. And I will not go into details on this today, but it is really focused around two things; achieve more with less; and it is built around what we call a factor of three, triple the value we create for the footprint made by operations, products and services.

That will be announced in the fourth quarter and also externally announced by the beginning of next year and you will see that in our sustainability report that will be issued at the same time as our annual report in the first quarter.

Now I would like to hand over to Lothar who will take us through the financials in detail.

Lothar Steinebach: As usual, we start with a look at the sales growth by business sector and for the total Company. The sector is obviously heavily influenced by the foreign exchange impact and, in particular, Laundry and Home Care, which has reported negative reported growth, with a strong negative impact from foreign currencies of minus 4%. We end up at an organic sales growth of 3.8%; Cosmetics/Toiletries 5.6%; Adhesive Technologies 8.7%; and the total Company at 6.5%. That is about the same level -- a little bit up versus the Q2 of 2011, so we have continued on our strong organic sales growth path throughout the third quarter of 2011.

A quick look at Laundry and Home Care first. 3.8% organic sales growth, about the same level that we had in Q2 of 2011, composed of 3.8% pricing and zero volume. So it was all achieved by raising our prices -- output prices. We have reported quite a bit about the pressure on the input side. We've reacted to it. We've finally made it implementing our price increases to a quite significant degree.

We have been quite strong in our Laundry division, which is the major part of our Laundry and Home Care business, with an organic sales growth ahead of the average of 3.8%. And we have been particularly strong in a number of countries and regions, among which is, most notably, Germany, which has continued above the average organic sales growth level. Middle East/North Africa, which is coming back to the growth rates that we have experienced in the past, despite the political turmoil and despite the fact that this is not over yet. We are reaching, again, double-digit rates there.

We have been positive again in North America, so we are more optimistic, although we are not through with it yet. And in Latin America we are again reaching the high single digits -- or have reached the high single digits. Positive effect from our own price increases and market share gains in a difficult market environment.

Next, our Cosmetics and Toiletries division, with negative pricing overcompensated by strongly increased volumes. And that's the appropriate place to point out again what Kasper has alluded to earlier, that if new product introductions are reported under volume growth because, obviously, new products create new volume, but, as we have reported on other occasions, we introduce new products only if they are margin accretive. So, in other words, there is a pretty significant pricing impact from new product introductions.

Our best estimate in respect of the Cosmetics division is that if we were to report this under pricing, the new product introductions, that would change from a negative 0.7% into a positive 1.3%. So from that perspective I think the way we have been implementing our price increases, not just by increasing list prices but by also introducing new, more valuable products to our customers and consumers, we have implemented a margin increase or fought back on the pressure on the input side.

Our strongest piece in that business is, obviously, Hair Care, with a strong increase above the average of the total division, particularly strong, our Professional Hair Care division, with double-digit growth. In terms of regions Germany was still quite positive, Middle East/Africa again in the high single digits, Latin America with strong double digit, as was Asia Pacific. And particularly strong was China, where we have successfully introduced our Syoss range.

Next, a look at our Adhesive Technologies division, which has been continuing on a pretty strong growth path, with 8.7% organic sales growth for the total division, composed of 6.2% price, 2.5% volume. Here again we have been able to increase our prices, implement pricing increases which have fought back on the pressure on the input side. Particularly strong in terms of the divisions or sub-divisions within the unit our Consumer and Construction Adhesive division, but also Packaging was approaching double digits and also our Transportation segment.

Look at the total Company, the strong negative impact from currencies, which was mainly from the US dollar, Turkish lira, Russian ruble and the Chinese renminbi, which have resulted in the negative of minus 4% on sales growth and that, then, translates eventually into 6.5% for the total Company.

Now averaging over all divisions it's 4.0% pricing, 2.5% volume. So despite the strong impact and strong actions on the pricing front we have been able to either maintain or increase our volume, which shows the strength of our businesses and our brands.

Taking a look at the region in terms of sales growth, we have seen all regions growing organically positive. So we continue with Western Europe pretty strong, almost 4% organic sales growth, even stronger performance Middle East/Africa, Latin America and Eastern Europe, with all of them in the double-digit organic sales growth rates.

We have seen a little bit of a slowdown in Asia Pacific, with 7.6%, which is obviously something which has been impacted by the events in Japan, and somewhat lower growth in China, although China is still double-digit organic sales growth. So, in other words, while we expect that impact in Japan to go away over a period of time, it is still -- or has been affecting our numbers in Q3.

In the emerging markets we have been particularly strong, as I mentioned. In double-digit range is Eastern Europe, Middle East/Africa, Latin America. And if look only at the emerging-market part of Asia, that, again, has been double digit, so, without Japan, Asia is double-digit sales growth.

Sales share in emerging markets increased from 42% to 43%. That obviously was driven in a major part by Adhesive Technology and Cosmetics/Toiletries, so both have continued to experience double-digit sales growth in the emerging markets. But our Detergents division

has come back to a fairly high single-digit organic sales growth so, therefore, we are pretty happy and satisfied with our performance in terms of driving sales growth in the emerging markets.

Looking at our operating earnings evolution Laundry and Home Care, Cosmetics/Toiletries, Adhesive Technologies, all with an increase in adjusted EBIT margin; Laundry and Home Care with 40 basis points, Cosmetics/Toiletries at 70 basis points; Adhesive Technologies with 60. They all ended up at 14 or above so, in other words, -- so moving in the right direction of having our target in sight.

Let's look at our Laundry and Home Care division, where we have experienced a strong impact from high input costs which we haven't mitigated by our own price increases. And we have lowered our cost base in order to support our EBIT margin. Among others, we have consolidated our market research and media management between the two divisions Laundry and Home Care and Cosmetics/Toiletries, and we have realized savings in that particular arena.

Cosmetics/Toiletries efficiency gains and tight cost control, which have again delivered an improvement in our margin evolution by 70 basis points. That again has been supported to some extent by the consolidation of what I mentioned just a minute ago with respect to our Detergents division.

Finally, 60 basis points up in our Adhesive Technologies division, where we have experienced quite a strong impact from input cost inflation, which we have compensated by our own price increases plus efficiency gains and, thereby, increased our margin.

Looking at the gross margin for the total Company, which is down to 45.7%, which is minus 130 basis points, where we have experienced a strong impact from raw material price inflation of 500 basis points, which we have equalized to about 75% by increasing our own prices and, obviously, also through savings -- gained savings which we have implemented in the various divisions and functions.

We have also seen the negative mix effect from the slow growth or low growth of the Electronic Adhesives division, which, under normal circumstances, generates significantly higher gross margins than other parts of our business and, therefore, other parts growing stronger therefore result in a slight dilution of our gross margin.

Income statement to adjusted EBIT, I would like to highlight two lines; marketing, selling and distribution expenses which were down by 210 basis points; and admin expenses down by 20 basis points. Let's start with marketing, selling, and distribution.

We have, basically, spent the same total amount on media and promotion, but there has been a significant shift away from media into promotion. That the market evolution. That is not something that we have basically driven. We have been in line with market development. We have basically maintained our media spend in the same -- for the same levels that our peers have been maintaining and, therefore, we have followed the same strategy of increasing our promotional spend in order to trigger sales at the point of sales. The increased promotional spending offset the reduction of the marketing budget, so the total budget has been basically the same.

Selling and distribution expenses have been down, thanks to our restructuring synergies, amongst which has been the one that I mentioned earlier, that is, the consolidation of our media management operations in the two divisions.

We have seen a reduction of 20 basis points in our admin expenses. Extended usage of shared services which has further improved our cost base that is obviously something about which we have communicated quite a bit. We have extended our shared service approach, which we had initially implemented for the finance function, now to purchasing and also to the HR division, which has been quite active in implementing shared services as part of adapting our structures to the more competitive environment.

We are in the process of extending this program into the other parts of SG&A, in particular, in the business divisions, where we expect significant savings potential in the next two years from implementing shared services in the processes -- in the transactional processes that are currently being operated within the business divisions. So there is a significant arena of cost savings opportunity which we are currently addressing quite aggressively.

Reported to adjusted EBIT, the difference between Q3 '11 and Q3 '10 is basically a strong increase in restructuring charges from EUR26m in '10 to EUR90m in '11. And, therefore, the difference between the increase in adjusted EBIT and the decrease in reported EBIT is entirely due to the fact that we have increased our efforts at changing our structures, adapting our structures, not only in following the markets -- obviously, our markets are growing much stronger in emerging markets than in the mature countries, but also in anticipation of potentially more severe developments in the near future. So we have increased our efforts and our speed in order to restructure our structures.

Now that pertains in large part to shared services, which I have explained a minute ago, where we have, again, spent -- or provisioned EUR30m for restructuring expenses in Q3. We have optimized administration manufacturing footprints, in particular, in the Adhesives division. And we have looked into the Laundry and Home Care division in terms of de-layering the leadership structure, with an expense that we have taken in Q3 of EUR25m.

So all these three programs together, and others, add up to the EUR90m charge that we have taken in Q3. And that is no more than a signal of our determination to adapt our structures to a change in market conditions, but also be prepared should the situation develop negatively.

Looking at the cash flow generation, cash flow from operating activities is up; EUR676m in Q3 of this year. Free cash flow is slightly down, to EUR515m, but on a fairly good level. And that has permitted us to reduce our net debt to a level between -- below EUR1.9b. That's for the first time in a long period of time that we are below EUR1.9b, actually, since Q2 2008. That's the lowest level that we had ever since and it's a strong signal of our unbroken strength to generate free cash flow and retire debt.

Net working capital to sales ratio, Kasper has alluded to that earlier. Although the change to previous year is only 20 basis points, as you can see in the detail, our Adhesives division is up by 110 basis points, our Detergent division is down, so they continue to manage their net working capital quite aggressively and quite successfully. A little bit up in the Cosmetics/Toiletries division, which, again, is not satisfactory, but the bigger issue is with our Adhesive Technologies division.

While it is best in class if we compare ourselves to our immediate peers in this particular sector, I think we can do better and we have communicated about this. This is not satisfactory. We want to achieve a better level of performance and I think we have the means of doing it. We'll address it aggressively in the next quarters to come.

Net debt development, I mentioned that earlier. Compared to the period Q3 in 2009 that a very significant net debt reduction and, in a way, that signals our ability to generate free cash flow, retire debt which we have incurred in connection with the acquisitions, National Starch in particular, and in a very short period of time despite difficult conditions. So net debt under EUR2b for the first time since 2008. And we have reduced total net debt by 41% in the last two years.

We communicated a lot about it. We have withheld -- held back on acquisitions and I think we have been extremely disciplined in managing our balance sheet in order to regain the strength that has permitted us to get the upgrade that we have received earlier this year.

The number of items that we have guided; direct materials increase in the low teens, that's not changed; restructuring charges, we're updating that to EUR220m. Obviously, we've spent in the first nine months already above EUR160m, which was the original guidance and, therefore, we have increased our guidance, basically, by the amount that we have spent additionally in Q3 to EUR220m.

The other items basically remain at the same level that we had guided earlier, so, from that point, the only significant change is in our aggressiveness to adapt our structures and incur charges in order to make that as fast and as quickly as possible and also as effectively as possible.

With that, I hand over back to Kasper to provide the outlook on fiscal-year 2011.

Kasper Rorsted: Thank you very much, Lothar. We expect a decreasing outlook for the remainder of the year, so the overall market environment will decrease as the years go by. It will remain positive, however, so we expect a global GDP growth of 2.6%, so still moderate growth but with an increasingly decrease.

How's our forecast look? We changed our forecast up again. Our organic sales growth we are guiding between 5% and 6% and will probably rather be a 6% than a 5%. Our adjusted EBIT is maintained at 13% despite the decreasing market environment. And our adjusted EBIT growth will remain at 10% plus.

We are confirming, then, our outlook for the full year of 13%. We are confirming our financial guidance for 2012 at 14%. And the specific growth targets that we always give for the year will be given to you at the disclosure of our annual results in March of 2012, so these are the growth targets. The margin target remains unchanged, at 14%. The new targets beyond 2012 will be disclosed in the fourth quarter of 2012.

So when I summarize the third quarter of '11, it was a solid performance in a challenging environment. It was an equal contribution from all business groups. We saw strong organic growth with margin improvement. We still experienced high raw material prices. We were unhappy with the development in the gross margin that continues to be under pressure. And

we continue to see a market in the Home and Personal Care with high promotional activities. So the bottom line is we'll continue to focus on efficiency gains and profitable growth moving forward.

When I look upon the year, we will continue to focus on getting the balance between profitable growth and market share correct, which we have done so far this year. We will focus on extending our position in the emerging markets that was up to 43% in the third quarter. We are in the process of improving our HPC business in North America; it has stabilized.

We will continue to push sales prices through to mitigate the increase in raw materials and go back and regain a positive development in GP1. We are applying a very strict cost control and, as Lothar closed on his presentation, we will continue to adapt the structures to the market.

We have seen a deterioration of the overall market environment and that is why we are increasing the spend in order to ensure that we have the optimal structures to ensure that we hit our targets, not only in 2011, but also for 2012.

With this, I would like to thank you for dialing in and now we'll be happy to take your questions.

Q & A Session

Operator: Thank you. (Operator Instructions). Our first question comes from the line of Eamonn Ferry from Exane BNP Paribas.

Eamonn Ferry: Thanks. Hi, guys. Two questions from my end. The first is in raw material and packaging inflation. Have you any early views on what that might be next year, and also for Q4 compared to the nine months so far this year?

And the second question is you said you were going to take further pricing. Could you perhaps quantify that for us? Thanks.

Kasper Rorsted: Eamonn, let me start with the outlook on, at least, Q4 and, to some extent, next year with respect to raws and packaging. We expect -- and, if I may say, -- or form that into the impact on our gross margin, we think we have seen the peak of it in Q3. We expect that to remain at the level or decrease slightly over Q4. And we expect to see some relief, so, lower raw material price inflation in Q1 of next year. So I think we are at the peak of it in Q3, we see slight relief in Q4 and a stronger relief in Q1 of '12.

With respect to pricing?

Kasper Rorsted: Yes, just a couple of comments on pricing. I won't comment on the detail or give you actual numbers. We will take pricing across the board, but just one point on the pricing translation into GP1. There is not a 100% correlation between the two because, of course, our GP1 is also impacted on the mix we have, not only the regional mix, but also the product mix.

So right now when we are seeing growth in Adhesives, where the growth is coming for -- for the sake of an example, for our packaging business, that is a dilution to GP1 when we don't have the similar performance in our Electronics business.

So it's not only a price-to-GP1 translation. It's also a mix translation. And when costs are doing both we are managing the price across the three divisions up. But over time it is also depending on which kind of mix we have. And right now we have a mix in our Adhesives division that is driving a lower GP1 due to the slowdown in the Electronics division and that is why you are seeing that change. But of course the target we have in our hands is how we get our GP1 back, which is a mix between product mix, regional mix and pricing.

Eamonn Ferry: Okay, thanks.

Operator: Thank you. Your next question today comes from the line of Ralf Stromeyer from Allianz. Please go ahead.

Ralf Stromeyer: Yes, hello. I would like to know -- you spent more on restructuring. What measures are you taking there, or what additional measures, additional to what you had planned previously?

Lothar Steinebach: I think we have tried to detail a little bit already the types of actions that we have undertaken. I mentioned the example of shared services, which is the best example, because we are extending shared services beyond the immediate area that we had worked on and that's something which we initially were targeting for next year.

We have decided to accelerate this program into this year in order to get, as much as possible, the savings earlier. And that's generally speaking in the SG&A sector. If you look at the processes in the business division, where, for example, sales management is one process where, obviously, contacts with customers will remain in the countries or in wherever they are currently located. And then, beyond that, there is a level of transactional activities, handling the sales order, pushing it through the system, eventually recording it. All this can be done in a shared service organization.

So we're again taking the same approach that we have taken in the functional unit into the business units. We're looking at the front end, which will remain with the organization, and we are basically transferring the back end from those transactional processes into shared services. And we accelerated that because we want to get the savings earlier rather than later.

Ralf Stromeyer: Okay, thank you.

Operator: Thank you. Our next question today comes from the line of Susanne Seibel from Barclays Capital. Please go ahead.

Susanne Seibel: Thank you and good morning. I have got two questions. The first one is focusing on Adhesives. Could you give us your best view how you expect volumes to grow in Q4 and into 2012, please? And the net working capital in Adhesives, is the negative development there an indication, perhaps, of a buildup of inventories?

My second question refers to the gains that you have made in consolidating the marketing efforts in Laundry and in Cosmetics. Could you give us an indication whether this is a first step to potentially consolidate more between those two divisions?

Kasper Rorsted: Susanne, let me start, and good morning to you. On the Adhesives side, as you know, we don't give outlook on volume, neither for the quarter or for the year, and we will give the growth targets for next year in the month of March.

But what we are doing is -- and that is what I said in my call. We are consistently trying to find the right balance between profitable growth and market share gains. So right now we believe that we are winning market share with the balance of putting pricing through and that's what we will continue to do. So we expect over time that our growth, as we have seen in the past, will be a mixture between volume and price. The actual growth targets for next year will be given next year.

On the decline in net working capital, from 14% to 15% roughly, what we have done, as you know -- that we have done a substantial consolidation on our manufacturing footprint and that has helped us. We still don't have the optimal processes to get the most out of it and that is why it is so important for us that we drive our back-end infrastructure into shared services and, thus, standardizing our processes and also speeding up our capability to react to market changes.

And so I would say right now it has been a focus. It has not been enough in focus. That is why we're seeing the decline. Whether 14% or 15% is best in class in the industry, we are not happy with the performance and we believe over the next one to two years there is still substantial headroom to improve that area.

We've taken the first step by consolidating approximately 50 plants in the last two or three years, and now we are taking the next step of driving our back-end infrastructure into shared services and that standardization will allow us to get an improvement when it comes to net working capital on Adhesives.

Lothar will take the second part of your question.

Lothar Steinebach: Just adding a little bit of perspective on the question that you had with respect to inventory buildup, the point that Kasper mentioned, which is we are in the process of building or, actually, constructing new plants and then moving production volumes from existing operations into new plants is usually accompanied by inventory buildup. Because you cannot expect that the new plant will run immediately without any interruptions and, therefore, there is a tendency within the organization to build up somewhat inventory in preparation for these kinds of movement.

Susanne Seibel: Okay.

Lothar Steinebach: We're currently moving production from western European plants into Hungary, so that is one reason why we are building up inventory in anticipation of potential problems. And you know that we are building or constructing plants elsewhere.

So there is one element of preparing for, potentially, problems which the organization obviously feels is necessary but, again, I think we are looking for structural improvements rather than short-term negative impacts -- or, let's say, mitigate the short-term negative impacts which may occur in the future as well, because we are continuing to move production into the emerging countries.

The second part, the gains that we have achieved in consolidating our media management, in our view that was basically -- that was not trying to anticipate any consolidation of Cosmetics and Detergents. It's, for us, a quick win. I think they're both basically active in the same markets, in the same media with the same agencies and, therefore, to consolidate this is, from our perspective, something which is rather natural, rather than something spectacular.

And it's accompanied by an improvement in efficiency, but also an improvement in the way we operate and handle this whole thing. We are also bundling our power much better vis a vis the agencies and that's basically where the savings will occur, so from that perspective that's, in a way, a quick win rather than us anticipating a signal for consolidation.

Susanne Seibel: Great. Thank you very much.

Operator: Thank you. Our next question today comes from the line of Guillaume Delmas from Nomura. Please go ahead.

Guillaume Delmas: Good morning, it's Guillaume Delmas from Nomura. Two questions from me, please. The first one would be on your full-year '11 guidance of 13% EBIT margin. Given the numbers reported for the first nine months, you're now effectively guiding for 100 basis points of margin expansion in Q4. Now, am I right in thinking that you will also benefit from around 60 to 70 basis points of positive margin impact from the special incentive you booked last year?

So, excluding this, effectively you are guiding for underlying margin expansion of 30 to 40 basis points; it's less than what you achieved in Q3. Are you just being conservative, or should we interpret your 'around 13%' as 13.2% rather than 12.9%?

And then my second question is on US HPC. You've had now a new team in place there for almost a year. They have implemented a new strategy. Are you already seeing some improvement in terms of market share momentum and also from a margin improvement standpoint? Thank you.

Kasper Rorsted: I will start with the second part of the question and Lothar will take the first part of the question.

On the US, you have seen in our slide, for the last three quarters we have had US in my part of the presentation being on the right-hand side of the slide, meaning dissatisfactory performance. You didn't see it on the right-hand side and you didn't see it on the left-hand side, so what we've seen is a stabilization. We have seen an increase in growth in market share in the last couple of quarters and also increase in profitability.

And the guidance we have given so far has been that we believe that we'll have turned around the situation by the fourth quarter. That is still what we are seeing at this stage and

still our anticipation. We've spent a year. We've put a new team in place. We have done a lot of changes, so not only the team, but also the strategy and the position of our products, brought new products into the market, like Crystals that was announced in Europe.

So at this stage we believe we have taken the right steps, we are starting to see the initial results, but, as I also said in previous calls, we believe the turnaround will be done by the fourth quarter. And that is why we are calling it a stabilization. While we're seeing slight growth on the top line, increase on the bottom line and market share improvement, but we are still not where we want to be.

Lothar Steinebach: With respect to our full-year guidance, obviously, we withstand the speculation to interpret our own guidance one way or the other. It is 13% and that is what it is.

With respect to the arguments that you have raised, I think what we are trying to do is to be on the safe side in terms of what might happen in the fourth quarter. You always know that our Industrial business has a weak fourth quarter, because industrial companies tend to close down their facilities rather early in December. That's not -- but that's not particular to this year. It'll -- it's basically happening every year.

The question, though, is whether there will be a stronger slowdown than we have seen during the course of this year that, obviously, nobody knows exactly, so from our perspective that is our best guess. It may be better or may be different, but I think we are happy -- or, let's say, we're confident that we are going to reach our best guess. But there is an upside and a downside, as usual, with any guess.

Guillaume Delmas: Thank you.

Operator: Thank you. Our next question today comes from the line of Iain Simpson from RBS. Please go ahead.

Iain Simpson: Thank you very much and good morning. I was just wondering if we could talk a little bit about your earlier comments on marketing spend and how the level had stayed the same but there was more of a focus on promotion. So just, firstly, if we -- you bundled it all in marketing and selling and distribution. I wondered if you could talk a little bit about what was the delta within each of those bps, of that 210-bp swing. How much was attributable to distribution, how much is selling, how much is marketing?

And if you could also just remind us exactly where within your P&L you recognize promotion? That would be very helpful as well. Thanks very much.

Lothar Steinebach: Yes, let me address the question, Iain. First of all, marketing spend or media spend is only in the marketing, selling and distribution expenses, whereas, promotion is above net sales. That's the way the International Reporting Standards require it so, therefore, promotions are not in the P&L. They are above net sales -- the net sales line.

With respect to the difference that we see compared to last year, the difference is basically in the range of a bit more than EUR60m, half of which is allocable to the reduction in media and half of it is the lower selling and distribution expenses that we have incurred.

And from the reduction in media, there, again, we are also generating the savings that I alluded to earlier from the consolidation of the media management and marketing management operations. The smaller part of it, though, is from a reduction in this sector. The bigger part is reduction in spend, which has been basically added back to increase promotional spending. So the totality of both is basically at the same level of last year.

And the other element that we look at is share of voice to share of market. And that is an area where you obviously want to be represented in terms of media spend in line with your market share, or more for that matter. And, basically, at the level of one, that is to say we are well represented, and those are figures -- public figures so, therefore, we just refer and rely on public figures or figures that have been collected by agencies. So our spend is basically in line with what happens in the markets. We are spending as much as is appropriate in terms of our market share.

Iain Simpson: Thanks very much. Just a very quick follow up, if I may. Could you talk a little bit about what has actually happened within Cosmetics to drive that growth figure, which I think is somewhere above what we'd have seen out of some of your European competitors? How much of that 5.5% is Syoss? Thanks very much.

Kasper Rorsted: If you look upon it Syoss is actually only a marginal part of it. If you go back and look upon the sales development we have had for the last many quarters now, it has been consistently above market. And we have been running -- I don't have the actual number in front of me, but I can get it in a second. We are running at 5% plus consistently this year. So it's just a very, very strong innovation pipeline, very much focused on execution in the core segments that we are in.

And the fluctuation in our execution has been very little. So if you were to go back and look upon the last three years, we have been consistently growing above market. We have consistently expanded our EBIT position quarter after quarter. So it is not a Syoss takes it all, so to speak. It is the consistent execution of the strategy that Hans put in place a number of years ago and some of you would actually have been privy to.

I have just gone back and then look upon now that the OSG trend, or the organic sales growth trend, was 5.5% in Q1 '10; 5%; 4.6%; 4.1%; 4.8%; 5.7%; 5.4%; 5.6%. So if you take it and just average it out, pretty much since the first quarter of '10 you are running at an average of 5% plus. And that's what you are just seeing; a consistent, strong, very focused execution.

Iain Simpson: Thanks very much.

Operator: Thank you. Our next question today comes from the line of Robert Waldschmidt from Merrill Lynch. Please go ahead.

Robert Waldschmidt: Good morning, gentlemen. A couple of questions, if I may. In terms of input costs can you speak to whether it's related as much to supply shortages in terms of the pressures that are coming through and, therefore, potentially still very strong underlying demand from the industrial complex across the board? Or whether it's literally just the commodities themselves going up in terms of pricing?

And, within that, the pricing that you have taken, have you taken some tactical decisions to perhaps under-recover slowly versus your peers and take market share?

And then my second question, this still is with inventories, but rather than yourselves more at the industrial complex level. Are you seeing any signs of the industrial complex building up inventories which then may need to be released as sales growth slows due to slowing global GDP? Thank you.

Lothar Steinebach: Let me start with the topic of input cost and pressure on the scarcity. We continue to see that in the industrial business; we have communicated about it on several occasions.

It is obviously not helping in terms of putting back pressure on rising input costs. We don't think it's really the major issue. I think the stronger issue is the strong recovery and the ability of many suppliers to reduce their capacity which has resulted in lower volume in total and, therefore, has permitted the market to increase prices on the input side.

But there is a strong demand which has been continuing throughout this year and, therefore, there is a continuing strong demand on the materials that we source and that has -- obviously, has had an impact on some of the materials. We have communicated about Hotmelts, which is a scare -- in scarce supply.

It's been difficult, more, for us, in the sense of not being able to sell as much as we could have sold otherwise. I guess, our guess on the impact would have been -- or would be that we lost about EUR60m to EUR80m of sales, which we otherwise could have achieved, with, obviously, a good margin.

So from that perspective we don't really think that's the biggest impact, the scarcity. It is the overall demand which is strong in the markets and that has resulted in the increasing prices. And we also obviously have seen some increase in the oil price, which has been -- although it has been coming down a little bit over the third quarter, it is still on a very high level compared to last year.

So from that perspective, while the input obviously has increased, the competitive situation in sourcing has been severe and, therefore, that, all together, has resulted in the tense situation that we have experienced.

With respect to pricing, have we been lower than our competitors? If you look at the margin -- the gross margin development, basically, with our competitors, who have experienced very similar gross margin negatives, we don't see much of a difference between ourselves and what our peers have reported. That's certainly true with our Adhesive peers, but is also true with HPC.

So from our perspective we have not been slow in terms of pricing. We have been, in some countries, actually earlier and stronger than our peers and in other countries our peers may have been stronger. So from that perspective we don't really see much of a difference in behavior in that respect.

In terms of inventory buildup, do we see a lot in the market, the answer is basically no, with one exception. The Electronics sector seems to be still sitting on a significant inventory, so we don't expect that slow movement that we have seen in -- basically, in three quarters to go away any time soon. That is an area where we don't see a strong improvement over the next quarters but, other than that, we don't see a strong buildup in inventory.

Robert Waldschmidt: Thank you very much.

Kasper Rorsted: We are getting to the last question.

Operator: Thank you. Our final question today comes from the line of Celine Pannuti from JP Morgan. Please go ahead.

Celine Pannuti: Thank you for taking my questions. Good morning. My first question would be on your outlook. First of all, for sales you said your 5% to 6%, even if you arrive around 6%, will imply a slowdown in Q4. Is that just being conservative and -- or maybe is there something to say about Q4 itself?

And on your 2012 outlook you, yourself, said that there was uncertainty in the market and, it seems, lower visibility. So could you tell us what were -- are your underlying assumptions for you to basically reiterate your high confidence in that?

And my second question, which is probably also similar, could you give us an idea of the margin drivers in 2012? It seems to me that 2011 we have seen lower SG&A or A&P driving EBIT, as gross margin [were hit]. Could you give us a bit of the big picture for 2012, please? Thank you.

Kasper Rorsted: Let me start with the fourth quarter. There are two things that is impacting the fourth quarter. First of all, it's the slowdown in the global economy which is across the board. That is not specific to Henkel; that is across the board. And if you look upon the various chart I showed you in the beginning of the presentation, you can see a slowdown. We have, as Lothar said, always had a slower fourth quarter than the previous quarters, predominantly due to the Adhesives business.

So right now there is no cautiousness in the outlook. So our fourth quarter we will -- believe we will be running between 5% and 6%, probably closer to the 6% than 5%, but also impacted on -- also depending on what is going to happen on the situation in Europe with the unresolved Greece scenario. So we believe that it's a very realistic guidance that we are running on right now.

On the details of the outlook for 2012, that, we'll be giving in March and we are very confident that we will hit our targets. We have had these targets in place in 2008. We have not changed any of our guidance from 2008. We have hit the targets we have set. We guided for 13 throughout this year. And maybe just to put, what we call, a solid quarter into perspective, the solid quarter we are speaking about today is the highest quarter ever in the history of Henkel when it comes to revenue and when it comes to margin and when it comes to absolute EBIT.

The reason why we are characterizing this as a solid quarter, not a great quarter, is that we are not happy with the gross profit one margin. That is why we are characterizing this as a

solid quarter and not a great quarter. When I look upon the translation from revenue to GP1, to EBIT, what you are seeing is we are not seeing savings in our marketing investments. We are seeing a change in the spend of A&P and where you're going into promotions.

So, by default, what you are seeing is, in spending on one line you are spending on a different line from gross to net. That's why also GP1 is going down, because you are taking it into promotional spend and that is why it is hitting that line and not the advertising line. So we believe that we'll spend in line with the market. Lothar spoke about our share of voice to share of market spend. That's, actually, stable to up, so we are not seeing any change in that.

And when I look upon the outlook of '12 -- and we have consistently, at every quarter throughout this year, confirmed our guidance for '11, confirmed our guidance for '12. We believe by managing the portfolio we have continued to address the cost structures as we are doing, because what we are seeing is, contrary to the outlook, we actually -- or the expectation we actually gave in 2008.

In 2008 we said our expectation to global economy would be a growth of between 3% and 4%. That growth we are not seeing at this stage and that is why we are accelerating the activities that goes in addressing our cost line. That is why we are confident that through consistently driving our costs down and also getting the right mix we can hit the 14%. The details we'll give in the quarter -- the first quarter of 2012 when we speak about the overall growth outlook.

But, as I said, I want to reiterate we are -- with the best quarter ever we are characterizing that as a solid quarter. We are not trying to say it is great, because we were not happy with the two line items I mentioned; GP1 and net working capital. And we are, at the same time, maintaining our guidance for 2011.

Which brings me to the closure of the call. I would like to thank everybody for participating in the third-quarter conference call.

And as I said, despite the challenging environment we did have a solid quarter in the third quarter of 2011. At the same time, we will maintain our rigorous approach to cost management and continue to adapt our structures to the changing markets. Let me re-stress we remain fully committed to achieving our financial targets, not only in 2011 of 13%, but also our financial target of 14% in 2012.

We wish you all the best and we look forward to speaking to you at the full-year 2011 conference call on March 8, 2012. Thank you very much.