Henkel Q3 2019

Hans Van Bylen, Carsten Knobel
Düsseldorf, November 14, 2019

Commented Slides

Earnings Conference Call Q3 2019, November 14, 2019

Henkel representatives
Hans Van Bylen, Henkel, CEO
Carsten Knobel, Henkel, CFO
& Investor Relations Team

Hans Van Bylen, CEO:

Dear Investors and Analysts, good morning from Düsseldorf and welcome to our earnings call for the third quarter of 2019.

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I would like to begin by reminding everyone that the presentation, which contains the usual form of disclaimer to forward-looking statements within the meaning of the relevant U.S. 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 conference call.

Before we start, let me say a couple of words on the changes to the Board we recently announced. After around 35 years with Henkel, thereof 15 years in the Management Board, of which 4 years as CEO, I have decided with the expiration of my contract next year, that now, it is the right time to make an orderly change at the top of the company. For personal reasons, I will not seek a further term as Chairman of the Management Board.
I'm convinced that in the interest of all stakeholders, once this decision is taken, the transition should happen timely and in an efficient and smooth way.

I'm very happy that Carsten was appointed from within our Management Board as successor and CEO.

Carsten, I wish you all the best in your new role and I'm convinced that Henkel will continue to develop successfully under your leadership.

Carsten Knobel, CFO:
Good morning, everyone, from my side as well. And thank you for your kind words, Hans. We have been working together for a very long time and since 2012 even as colleagues in the Management Board, and I'm grateful for our good cooperation throughout all these years. I very much look forward to take over the leadership role from January 2020. Until then, I will continue in my current position as CFO, and Hans and I are closely working together to prepare an orderly change at the top of the company.

With that, back to you, Hans.

Hans Van Bylen, CEO:
Thank you, Carsten. We'll now come back to our earnings release.

I'm sure that you will understand that, today, we will focus on our third quarter results and the guidance for full year 2019. I'm going to lead you firstly through the key developments in the third quarter of 2019. Carsten will then comment the detailed financials. And after that, I will close our presentation with the guidance for fiscal year 2019 and the key takeaways. And finally, of course, Carsten and I will take your questions.

Intensifying macroeconomic challenges

Q3 2019

Slower industrial production growth

IPX weak across segments and regions, outlook continues to soften

Intense HPC markets

Competitive environment remains intense, especially in Mature Markets

Mixed currency environment

Slight currency tailwind, pressure from Emerging Market currencies persists

Easing commodity headwinds

Lower direct material price pressure, high geopolitical and economic risks

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Let me start with an overview on key macroeconomic developments, which impacted our businesses in the third quarter 2019.

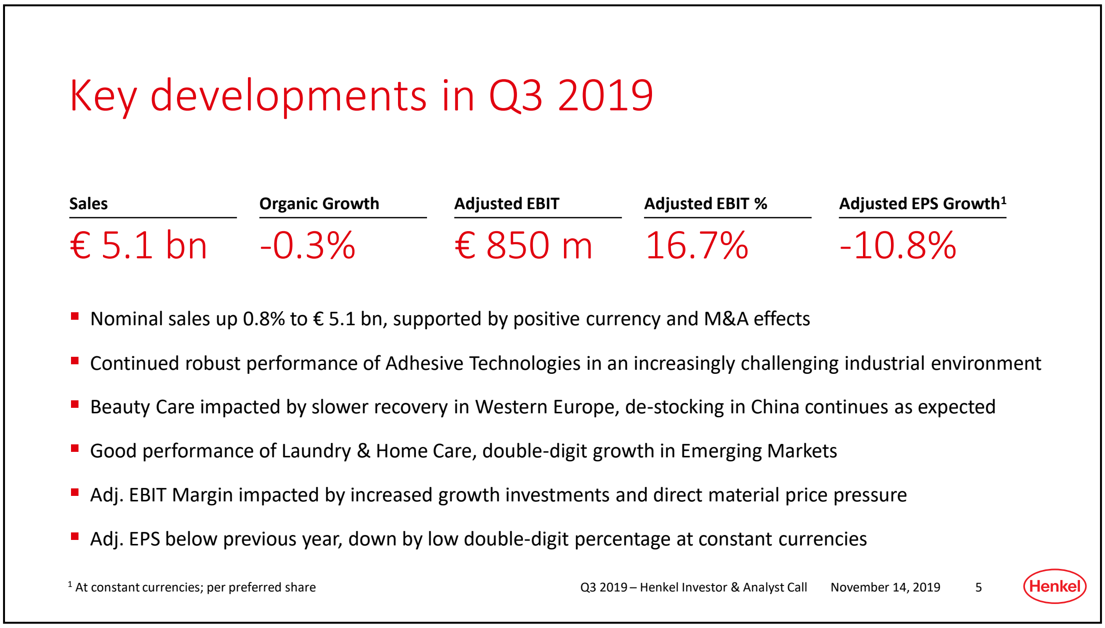
The challenges in the market environment we had experienced in the first half of 2019 continued to intensify. As you are certainly aware of, geopolitical and economic risks have been rising further, accelerating the underlying slowdown of the economic development. This is evidenced by ongoing reductions of growth expectations, for both 2019 and 2020, in key countries and industries. Industrial production growth reduced further in the third quarter with slowing market dynamics across regions. The market environment was especially challenging in some key segments, particularly Automotive, and to a lesser extent, Electronics and General Industry. The outlook for the full year continued to soften throughout the third quarter and near-term recovery is not forecasted.

The consumer goods markets continued to develop positively. However, the competitive environment remained intense with increased pressure in some categories and regions. We continued to face high price and promotion pressure and difficult retail conditions in key mature markets, especially in Western Europe.

Looking at currencies, we see a mixed but overall slightly positive development. The U.S. dollar continued to appreciate, though, against a more demanding comparable. At the same time, some key emerging market currencies devaluated against the Euro, some even to a significant extent.

Regarding commodity prices, as indicated in the past, the pressure from direct material prices on our businesses continued to ease slightly. However, prices are still a low single-digit percentage higher than in the previous year's quarter.

In the current macroeconomic environment, the outlook remains highly uncertain and volatile.



In this increasingly challenging market environment, Henkel recorded a differentiated performance in the third quarter 2019.

Our sales reached EUR 5.1 billion, nominally 0.8% above the prior year quarter, supported by a slight tailwind from currencies and positive M&A effects. Overall, we recorded an organic sales development of minus 0.3%.

In a further weakening industrial production environment, Adhesive Technologies continued to show a robust performance. Beauty Care was still impacted by a slow recovery in a highly competitive market environment in Western Europe, and as expected, the continued destocking measures in the Chinese retail business. Laundry & Home Care improved its performance year-over-year, thanks to a double-digit sales increase in emerging markets. In both our consumer good businesses, we made further progress in executing our growth initiatives positively contributing to our performance.

Adjusted EBIT came in at EUR 850 million, corresponding to an adjusted EBIT margin of 16.7%. Compared to the previous year, the margin in the third quarter reduced by 170 basis points. The main drivers of this development were, as expected, higher investments in marketing and sales support behind our growth initiatives and continued pressure from direct material prices as well as lower volumes. We were able to partially compensate these effects by our pricing initiatives and continued strong cost management focus.

At constant currencies, adjusted earnings per preferred share decreased by 10.8%.

Adhesive Technologies

Key Performance Indicators Q3 2019

Sales	Organic Growth	Adjusted EBIT	Adjusted EBIT Margin
€ 2.4 bn	-2.4%	€ 458 m	19.1%

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Let's take a closer look at the performance of our business units, and as always, starting with Adhesive Technologies.

Facing a further softening industrial production environment in the third quarter, the business unit recorded a negative organic sales development of minus 2.4%. This was, in particular, due to a significantly weaker Automotive business.

The adjusted EBIT margin reached an attractive margin level of 19.1%, although 50 basis points below the prior year level. Our pricing measures as well as slight tailwinds from direct material prices could, to a large extent, compensate negative effects from lower volumes.

Adhesive Technologies

Highlights Q3 2019

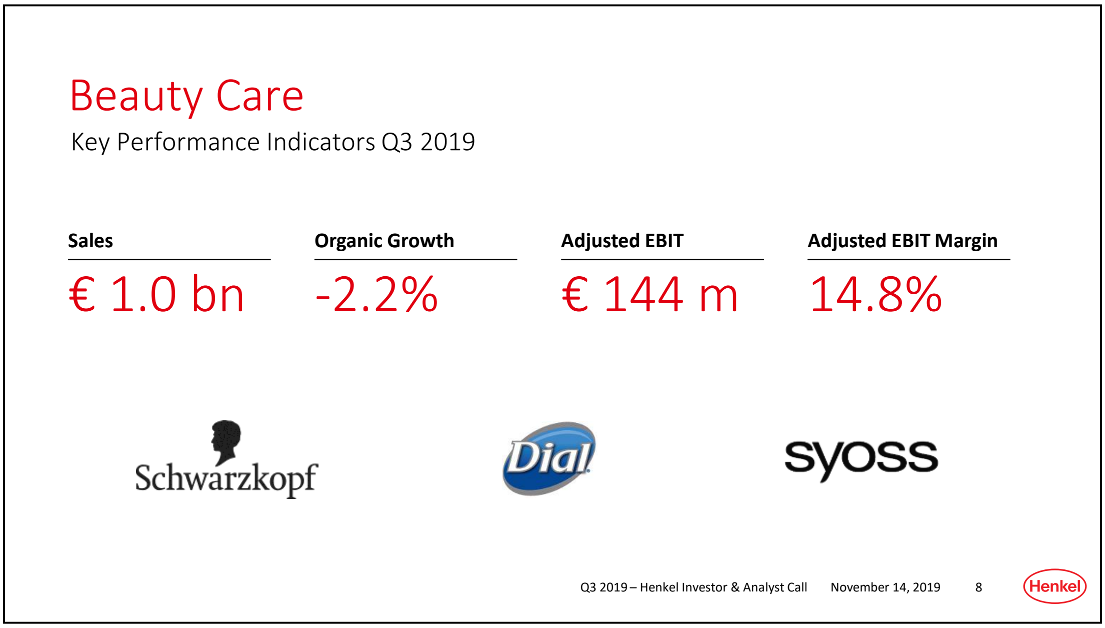
- **Semiconductor Industry**
  Significant growth with high-performance solutions for electronics
- **Paper Solutions**
  Strong growth with recyclable solutions for eCommerce deliveries
- **Construction Adhesives**
  Strong growth with innovative solutions in Emerging Markets

I would like to highlight some examples that contributed very positively to the performance of Adhesive Technologies.

In our Semiconductor business, we achieved significant growth driven by our high-performance solutions for new-generation electronics. Our materials increased the performance of devices and infrastructure required for the upcoming rollout of the mobile communication standard to 5G.

In our Paper Solutions business, we achieved strong growth, particularly driven by our growing portfolio of sustainable solutions. Our new recyclable technology in mailers for e-commerce deliveries has been recognized with a prestigious Packaging Innovation Award.

In our Adhesive Technologies business for Construction, we achieved strong growth driven by our innovative solutions for flooring, tiling and facades, especially in Eastern Europe under our leading Ceresit brand. With the opening of the new plant in Russia in September, we have further increased our capacities to capture growth opportunities in emerging markets.



Moving on to Beauty Care.

The business unit came in below the prior year quarter, both in terms of top line as well as bottom line. Organic sales performance for the quarter was at minus 2.2%.

The business unit profited from increasingly positive results from our newly launched brands and innovations as well as good growth in Hair Professional.

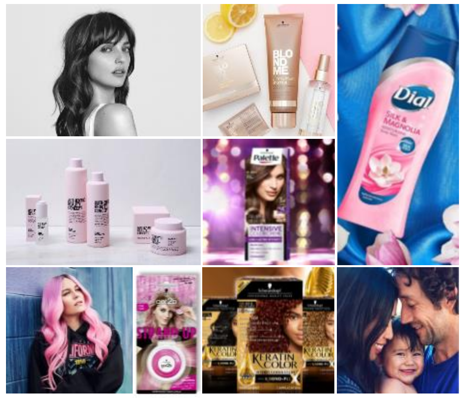
And in North America, Beauty Care achieved a positive development. In contrast, recovery in Western Europe is still taking more time, and we continue to see the effects on the destocking measures in the Chinese retail business, which are progressing as expected. Excluding China retail, Beauty Care would have recorded a flat organic sales development.

The adjusted EBIT margin of Beauty Care came in at 14.8%, 350 basis points below the prior year quarter. This was mainly due to negative volume and mix effects, continued direct material price headwinds as well as increased marketing investments into our innovations and growth initiatives.

Beauty Care

Highlights Q3 2019

- **North America Retail**
  Strong organic sales growth driven by both Hair and Body categories
- **Hair Coloration Retail**
  Good growth powered by successful core business and innovations
- **Hair Professional**
  Continuous growth momentum thanks to base business and acquired brands



Let me highlight some Beauty Care businesses that contributed with a good performance to the third quarter results.

In our North American retail business, we see visible signs of improvement with strong organic sales growth in the quarter driven by Hair and Body categories and here specifically with the Dial brand and Keratin and got2b Color.

We continued to strengthen our global #2 position in Hair Coloration and achieved good organic growth. Very strong growth under our Palette brand as well as innovations like got2b Strand Up contributed to this result.

In Hair Professional, we achieved continued good growth, both under Schwarzkopf Professional as well as our acquired brands like Zotos and Joico.

Furthermore, we continued to strengthen our Beauty Care businesses via M&A. With the acquisition of a majority stake in eSalon, we further strengthen our leading hair coloration portfolio and expand our digital business. And we just signed an agreement to acquire DevaCurl, a premium professional hair care brand and category leader in the fast-growing curly hair segment.

Laundry & Home Care

Key Performance Indicators Q3 2019

Sales	Organic Growth	Adjusted EBIT	Adjusted EBIT Margin
€ 1.7 bn	+4.0%	€ 267 m	15.9%

Concluding the business unit overview with Laundry & Home Care.

The business unit achieved strong organic sales growth of 4% in the quarter, driven by our activities in emerging markets, which achieved double-digit growth year-on-year. In contrast, mature markets recorded a negative development here, especially our North American laundry business remained under pressure.

From a category point of view, the organic performance was driven by significant growth in Home Care. Laundry Care achieved good growth.

Laundry & Home Care recorded an adjusted EBIT margin of 15.9%, 200 basis points below the third quarter 2018. This development was particularly due to the higher growth investments supporting our initiatives as well as continued direct material price pressure.

Laundry & Home Care

Highlights Q3 2019

- **Megabrand Persil**
  Double-digit growth driven by strong launch start of Persil DISCS & Persil Premium roll-out
- **Hand Dishwashing**
  Double-digit growth driven by Pril 5 and local activation with continuous marketing support
- **Eastern Europe**
  Strong initiatives in both Laundry Care and Home Care leading to double-digit growth

Let me come to the highlights in our Laundry & Home Care business unit.

With our premium mega-brand Persil, we achieved double-digit growth driven by a very good launch start of our 4-chamber Discs in Europe and North America as well as our Persil Premium rollout in Middle East/Africa.

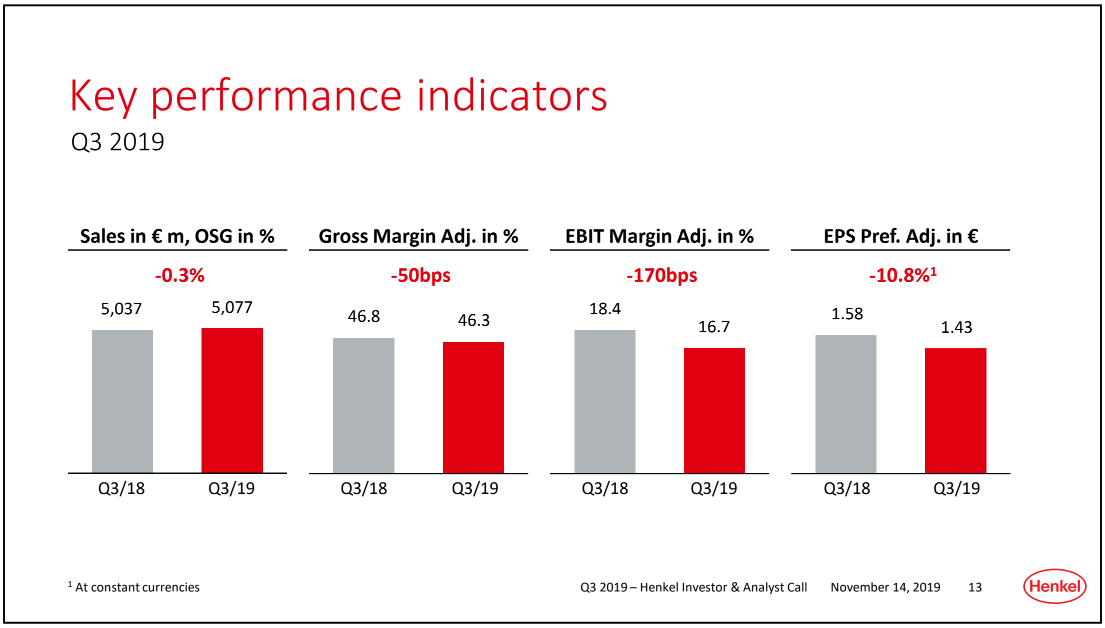
The Hand Dishwashing category recorded double-digit organic sales growth, thanks to successful pricing and media strategies for our innovations such as Pril 5.

Our business in Eastern Europe grew double digit, thanks to broad-based growth across both Laundry Care & Home Care and key innovations like our laundry caps.

And with this, I hand over to Carsten to comment the detailed financials of the third quarter 2019.

Carsten Knobel, CFO

Thank you, Hans. So let's have a closer look at the financials of the third quarter of 2019, starting with our key performance indicators.

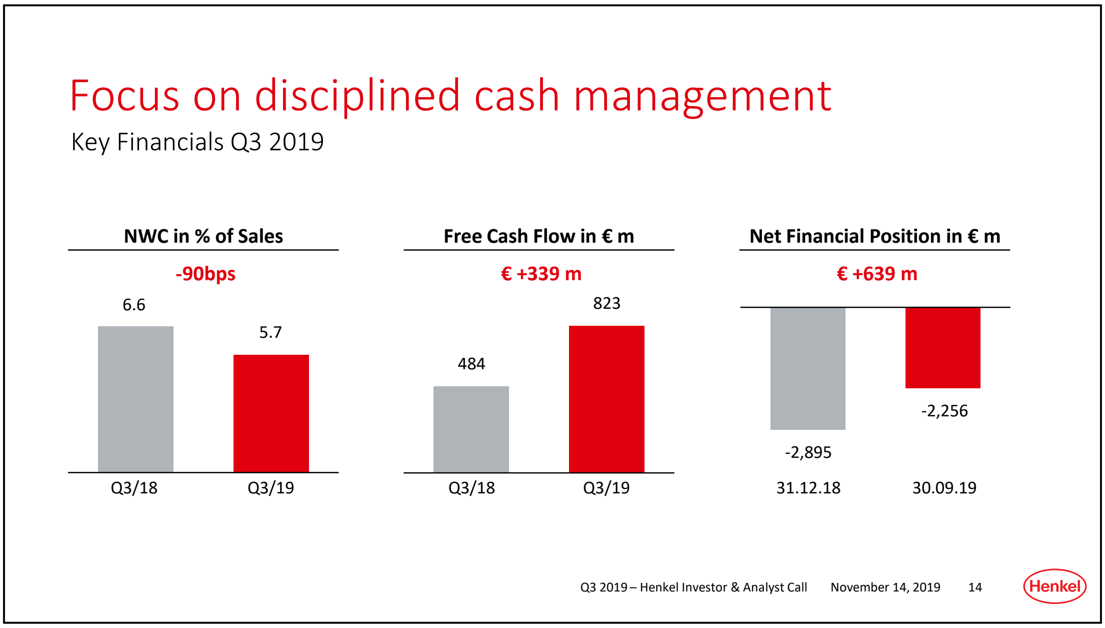


Our sales amounted to EUR 5,077 million and with that being nominally up by 0.8% above the prior year. The slightly negative organic sales development of minus 0.3% was compensated by positive contributions from currencies and M&A effects.

The adjusted gross margin came in at 46.3%, and with that, 50 basis points below the prior year level. Our efficiency measures and the positive pricing could not fully compensate negative effects from our lower volumes, and thus, lower fixed cost absorption as well as persisting headwinds from direct material prices.

The adjusted EBIT margin amounted to 16.7%, 170 basis points below the prior year level.

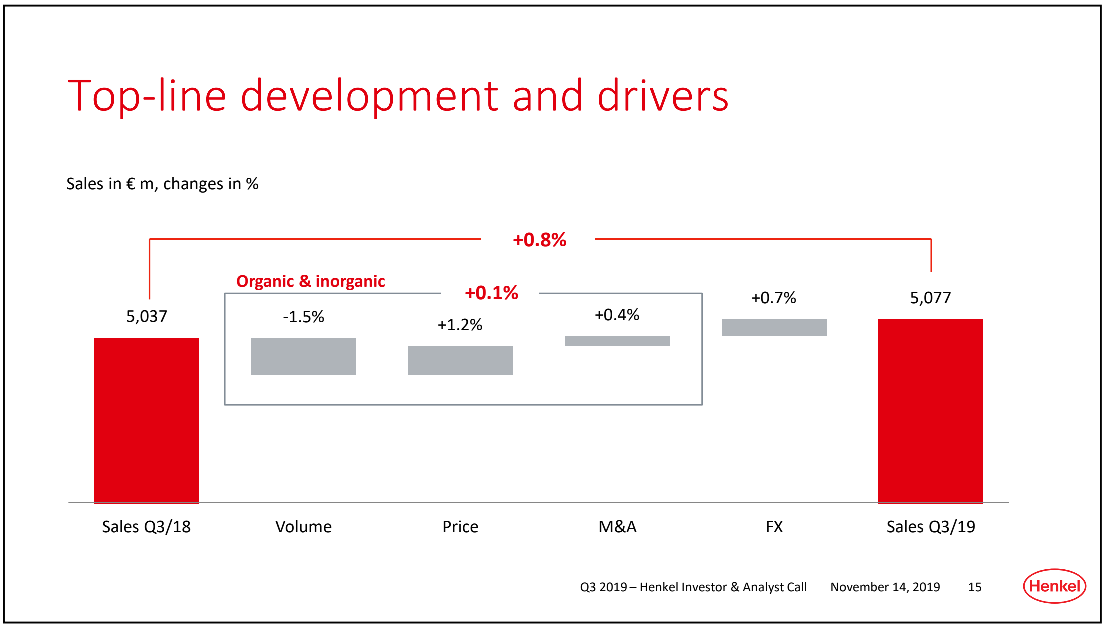
And we recorded an adjusted earnings per preferred share of EUR 1.43, corresponding to a nominal decline of 9.5%. At constant currencies, adjusted EPS was 10.8% below the prior year.



Looking at our cash KPIs. The ratio of net working capital to sales reached 5.7%, an improvement of 90 basis points versus the prior year quarter.

We recorded a record quarterly free cash flow of EUR 823 million, a very strong increase compared to the previous year, here particularly driven by the positive development of our net working capital.

As a result, our net financial position improved by about EUR 640 million compared to the year-end level of 2018, ending the quarter at minus EUR 2.3 billion.



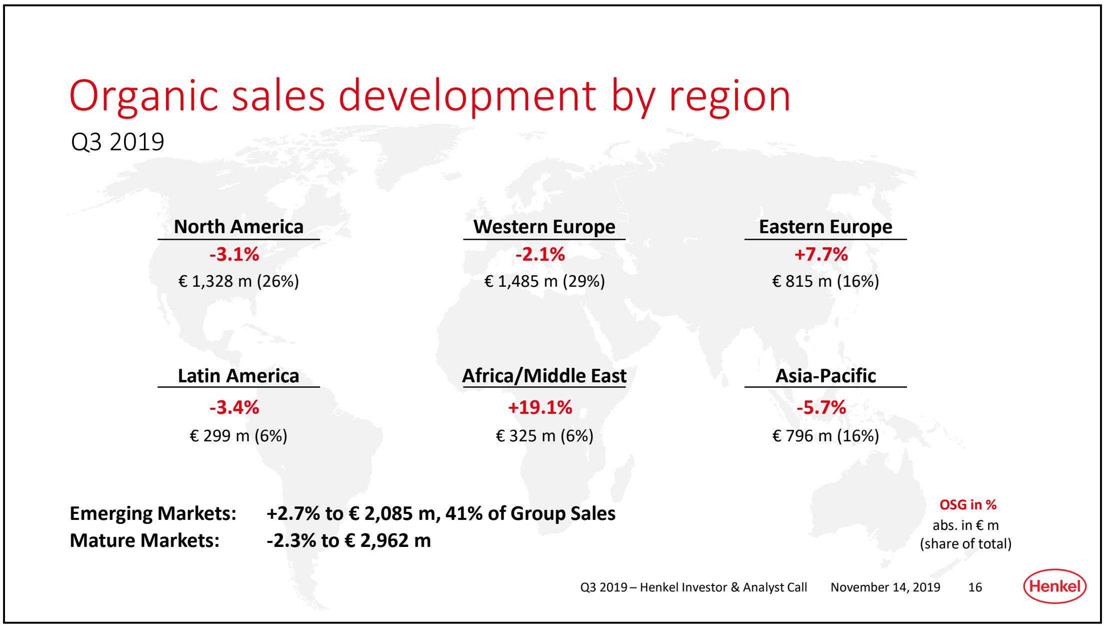
Let's take a closer look now at our sales bridge in the third quarter of 2019.

As said, we recorded a slightly negative organic sales development of minus 0.3%, volume of minus 1.5% was almost compensated by positive pricing of 120 basis points.

The net effect of our acquisitions and divestments had a positive impact on sales of 0.4%. Adding the organic plus the inorganic growth, this amounted to a slight increase of plus 0.1%.

Currencies were mixed but overall slightly positive in the third quarter. The U.S. dollar continued to appreciate versus the euro compared to the prior year quarter, however, to a lower extent than in the past quarters. This was, however, contrasted by sometimes significant pressures from some emerging market currencies. Overall, currencies constituted a tailwind of 0.7% in quarter 3 of 2019.

And as a result, and as already pointed out, sales amounted to EUR 5,077 million, nominally 0.8% above the third quarter of 2018.



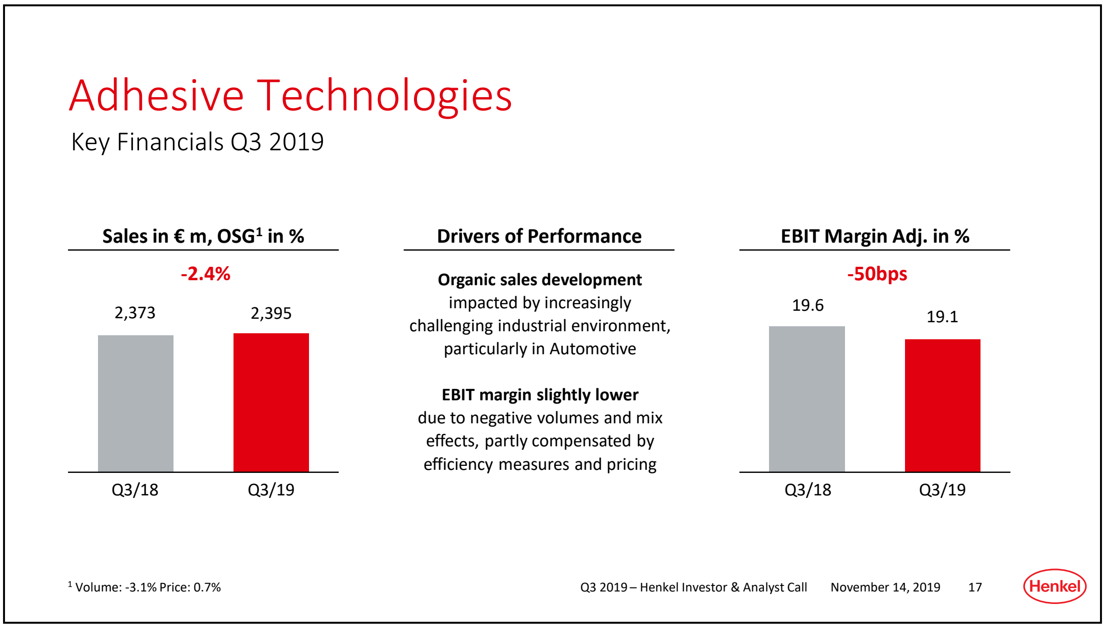
With this, moving now and on to the organic sales performance by regions.

The organic development of the group continued to be driven by the emerging markets, with a growth rate of 2.7%, however, with a very heterogeneous picture across the regions. Emerging markets sales amounted to almost EUR 2.1 billion, representing about 41% of Henkel Group sales.

Sales in the mature markets came in close to EUR 3 billion, organically minus 2.3% below prior year. This was due to negative organic sales performance in North America of minus 3.1% and in Western Europe of minus 2.1%. I will provide more details on our business units in a minute.

Asia Pacific recorded a negative organic sales development of minus 5.7%, particularly driven by weaker volume of Adhesive Technologies and the continued destocking in the Beauty Care retail business in China.
In the Latin American region, organic sales development was negative at minus 3.4%. This was mainly driven by a phasing effect related to the go-live of our Horizon IT system where we preproduced and pulled forward sales into Q2 to ensure the smooth implementation.
Eastern Europe and Middle East/Africa, in contrast, contributed strongly to our organic sales performance with organic sales growth rates of plus 7.7% for Eastern Europe and 19.1%, respectively, for Middle East/Africa.

Now let me move to the business units and starting with Adhesive Technologies.



The business unit posted a negative organic sales development of minus 2.4%, driven by lower volumes of minus 3.1%. Pricing was positive at 0.7%, albeit on a lower level than in the past quarters. Thanks to the continued implementation of price increases, combined with a slight tailwind from direct materials and our cost efficiency measures, we could keep the gross margin stable in an increasingly difficult market environment. Industrial production growth slowed further and was particularly weak in key segments such as Automotive. The uncertainty remains high and current market forecasts don't anticipate a recovery in the remainder of this year and also looking into the next year.

In this environment, the top line performance of the business areas was mixed. Consumer, Craftsmen and Building achieved a positive organic sales growth. The Packaging and Consumer Goods business was only slightly below the prior year. Transport & Metal, General Industry and Electronics recorded a negative organic sales development.

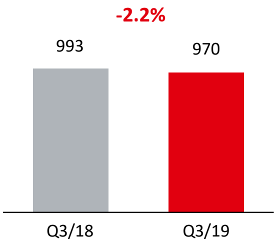
From a regional perspective, Adhesive Technologies recorded, again, a very strong growth in Eastern Europe. In contrast, sales in the emerging markets of Asia and Latin America came in below the prior year, leading to an overall negative organic sales development in the emerging markets. In the mature markets, sales organically remained below the prior year with Western Europe and North America recording negative organic sales growth, while the mature markets of Asia-Pacific were stable.

Moving on to the profit at 19.1%, the adjusted EBIT margin remained at a very high level. However, negative volume and mix effects could not be fully compensated by continued cost management focus and pricing. All in all, a very robust performance in an increasingly challenging industrial environment.

Beauty Care

Key Financials Q3 2019

Sales in € m, OSG[1] in %

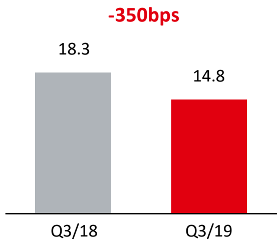


Drivers of Performance

Organic sales development
impacted by Western Europe and continued de-stocking in China, first signs of improvement in North America

Profitability impacted
by negative volumes, increased investments into growth initiatives and direct material price pressure, support from cost efficiency measures

EBIT Margin Adj. in %



[1] Volume: -1.2% Price: -1.0%

Moving on to Beauty Care.

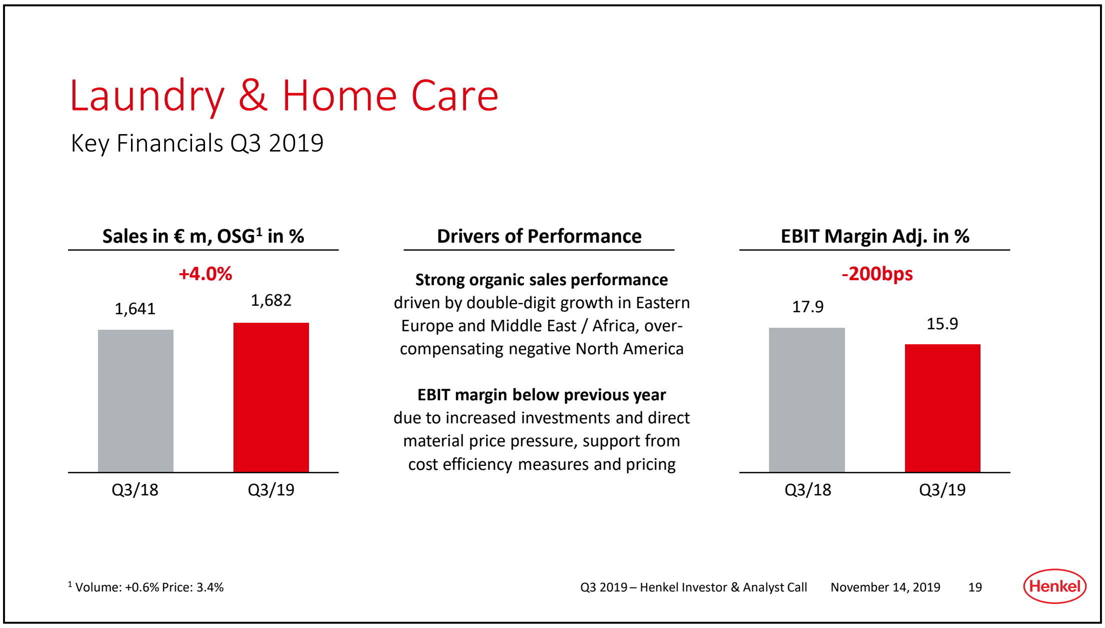
Organic sales was negative at minus 2.2% for the quarter with both volumes and pricing down year-on-year by minus 1.2%, respectively, 1%. In nominal terms, sales came in at EUR 970 million, 2.3% below the prior year quarter.

The Hair Professional business continued its positive momentum and achieved good organic sales growth in the third quarter of '19. The Retail business had another difficult quarter with sales organically below the prior year. As expected, the destocking in the China retail business continued in the third quarter. Excluding China retail, Beauty Care would have been flat in terms of organic sales performance. We expect to largely complete the necessary stock level adjustments at the end of 2019.

Facing high price and promotion pressure and difficult retail conditions, the recovery of our business in Western Europe continues to be slow and we recorded a negative organic sales development. In contrast, we see first signs of improvement in North America, showing good organic sales growth. In total, the mature markets displayed a slightly negative development.

The emerging markets posted a negative organic sales performance due to the ongoing destocking in the Chinese retail business. Our Eastern European business, in contrast, showed another quarter of a very strong growth in organic terms.

Profitability-wise, Beauty Care recorded an adjusted EBIT margin of 14.8%, down 350 basis points below the prior year. This was mainly due to the weak top line development, continued direct material price headwinds, as well as increased investments into our growth initiatives and innovations. Also here, we recorded a positive contribution from our efficiency measures.



Finally, on to Laundry & Home Care.

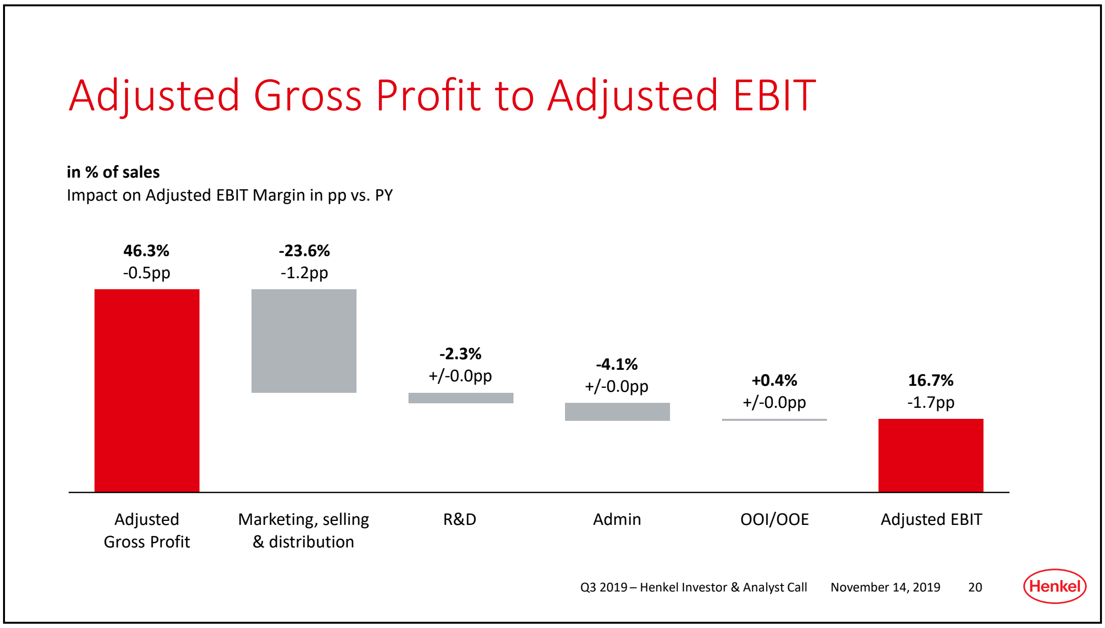
The business unit showed a strong top line performance, with organic sales up by 4%. This was driven by a double-digit increase in the emerging markets. In contrast, our North American Laundry business remained under pressure. Pricing for the business unit was strong at 3.4%. Volumes were up at 0.6%. Nominal sales came in at 2.5% above the prior year level.

In terms of business areas, Home Care achieved a significant organic sales growth. Laundry Care recorded good organic sales growth in the third quarter of ‘19.

Also looking here at the regions, the performance in emerging markets was driven by a double-digit organic growth in Eastern Europe and Middle East/Africa while Latin America and Asia, excluding Japan, were below the prior year.
In the mature markets, we recorded a negative organic sales development in an environment, which continues to be highly competitive. North America came in below prior year and Western Europe was slightly negative. The mature markets of Asia Pacific, on the other hand, showed a significantly positive organic sales performance.

Profitability in Laundry & Home Care was impacted, as anticipated, by increased investments into our brands and innovations and persisting headwinds from direct material prices. We were able to partially compensate these effects with positive pricing and our efficiency measures.

As a result, Laundry & Home Care recorded an adjusted EBIT margin of 15.9%, 200 basis points below the prior year.



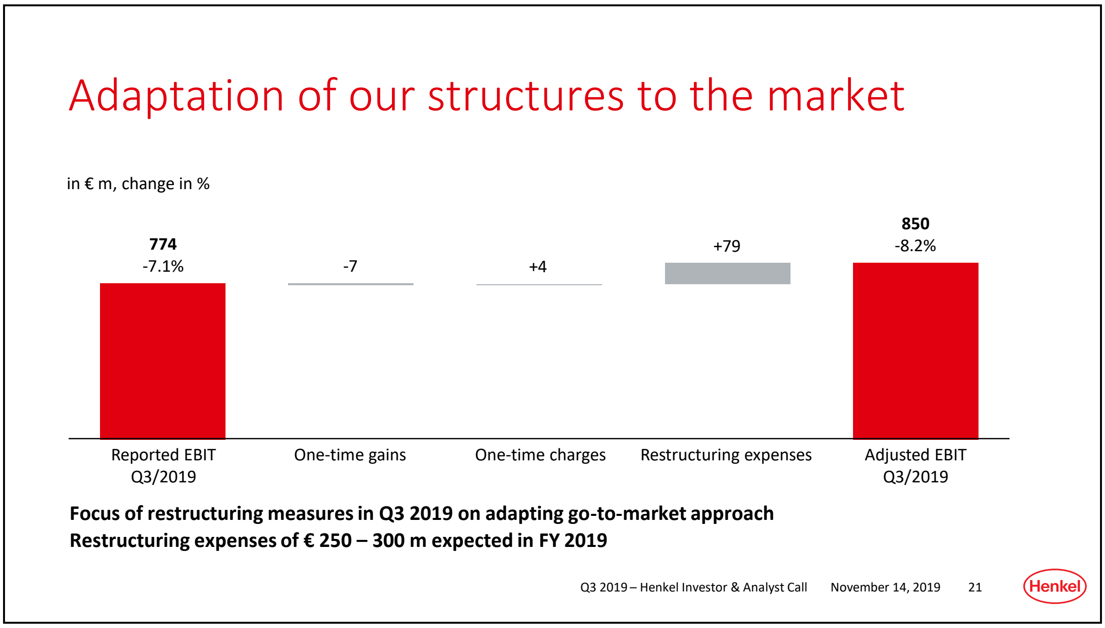
Let's move back to the Henkel Group, and in particular, to our adjusted income statement.

The adjusted gross margin at 46.3% was 50 basis points below prior year's level.

Adhesive Technologies was able to keep the gross margin stable, thanks to the positive pricing, slight direct material tailwinds and continued efficiency measures. The gross margin in our Laundry & Home Care business was even slightly positive in the third quarter. Here, positive pricing and our strong cost management could more than offset the persisting pressures from direct material prices.
Higher direct material pricing continued to impact Beauty Care as well. In addition, negative pricing and adverse volume and mix effects put the business unit's gross margin under pressure. As a result, Beauty recorded an adjusted gross margin below the prior year level. Based on the current direct material pricing trends, we continue to expect a low single-digit percentage headwind in the full year of 2019.

Marketing, selling and distribution in percent of sales increased by 120 basis points now to a level of 23.6% in the third quarter and thus was a key driver of the margin development in the third quarter. This was, to a large extent, due to higher investments in marketing and advertising into our growth initiatives. Our R&D and admin expenses as well as the balance of our operating income and expenses remained quite stable in percent of sales.

Overall, adjusted EBIT came in at EUR 850 million, corresponding to an adjusted EBIT margin of 16.7%, and as pointed out before, 170 basis points below the prior year quarter.

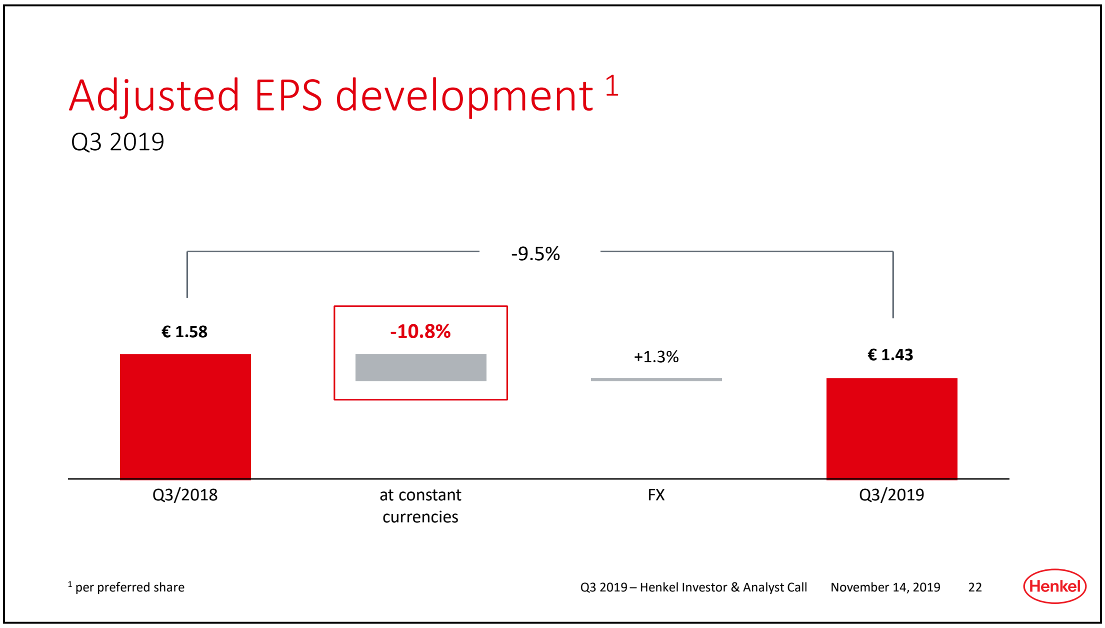


Looking at the detailed bridge from reported to adjusted EBIT.

Our reported EBIT came in at EUR 774 million, 7.1% below the prior year. We recorded small one-time gains and one-time charges in the quarter of EUR 7 million and EUR 4 million, respectively.

Restructuring charges amounted to EUR 79 million in the third quarter '19. One key focus this quarter was on adapting our go-to-market approach in Beauty Care. Taking into account our restructuring expenses year-to-date as well as the initiatives planned in the remainder of the year, we now expect restructuring expenses of EUR 250 million to EUR 300 million in the full year of 2019.

The increase is due to the additional adjustments to structures in our consumer goods businesses, particularly here in Beauty Care.

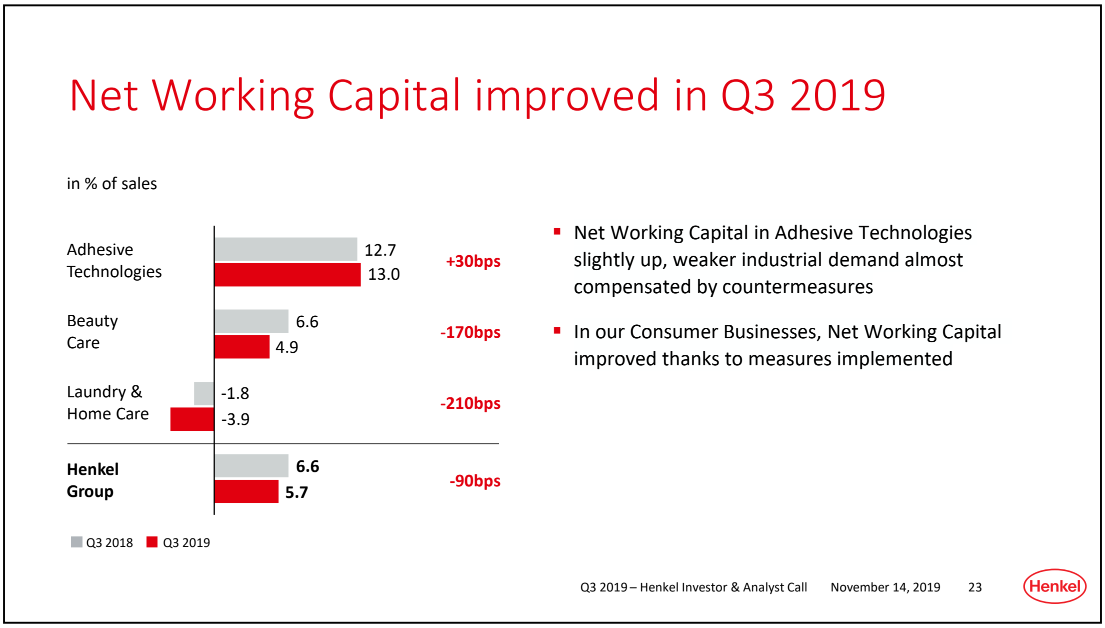


Moving on to our adjusted EPS development.

Overall adjusted earnings per preferred share came in at EUR 1.43 in the third quarter '19 in nominal terms 9.5% below the prior year level.

Also on our bottom line, we recorded a small tailwind from currencies.

As a result, adjusted earnings per preferred share at constant currencies, which is the basis of our full year guidance reduced by 10.8% in the quarter.



Moving on to our cash KPIs and starting with net working capital.

In the past quarters, we have said to step up our measures to improve our net working capital.

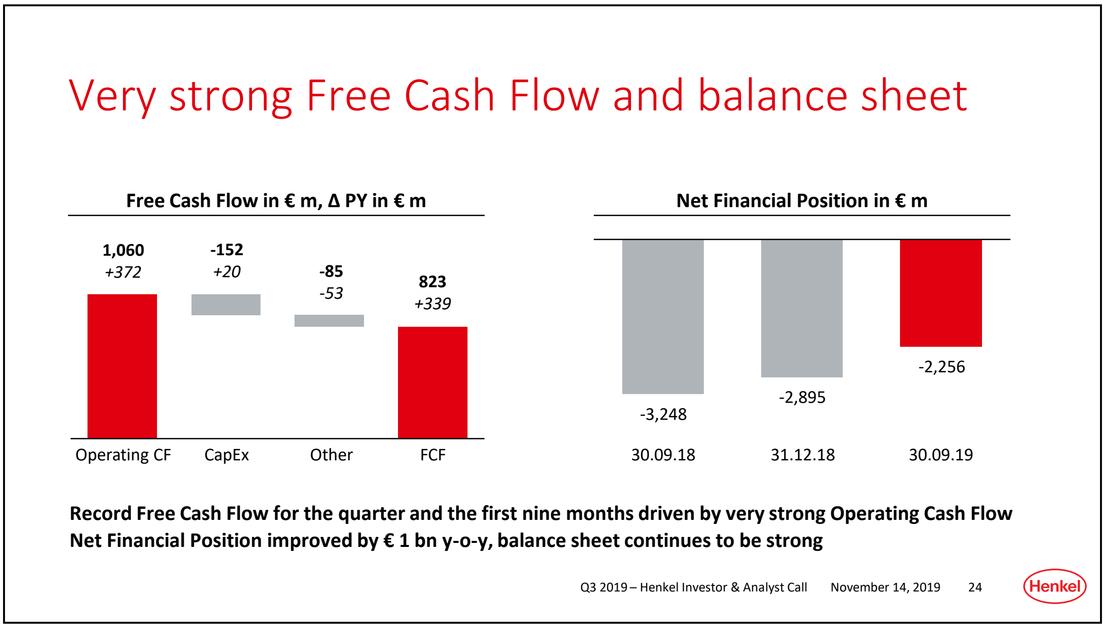
In Laundry & Home Care, we achieved further positive effects in the third quarter and net working capital improved significantly by 210 basis points to a level of minus 3.9%.

Also in Beauty Care, we recorded a strong reduction of 170 basis points now to a level of 4.9% in the quarter.

We have taken also measures in our Adhesive Technologies business as well and are making good progress. However, negative effects from the weaker industrial demand continued to have a counteracting effect.

Overall, net working capital increased only slightly by 30 basis points year-over-year to a level now of 13.0%. As a result, the group recorded net working capital improvement of 90 basis points now to a level of 5.7% in the third quarter.

While we recognize the positive effects from our measures, we continue to put high emphasis on further reducing the net working capital level.



On to the quarterly free cash flow, which came in at a record level of EUR 823 million in the third quarter, EUR 339 million above Q3 of 2018. In the first 9 months of the year, our free cash flow now amounted to more than EUR 1.8 billion.

The key driver behind the quarterly development versus the prior year was the strongly improved operating cash flow, and here, in particular, the reduction of our net working capital levels, as mentioned before.

We continued to invest in our businesses, having spent EUR 152 million on capital expenditures, EUR 20 million less than in the prior year quarter.

For the full year, we now expect cash outflows from investments in property, plant and equipment and intangible assets to be in the range between EUR 650 million and EUR 700 million, following shifts in the scheduling of some investment projects.

Thanks to our free cash flow in the first 9 months of '19 and taking into account the dividend payment of about EUR 800 million in April, our net financial position improved by almost EUR 1 billion year-over-year, ending the quarter at a robust number of minus EUR 2,256 million.

With that, we continue to have a very strong balance sheet, and I'm handing back to Hans.

Hans Van Bylen, CEO

Thank you very much, Carsten.

Let me now briefly summarize the development of the first 9 months, before we come to our guidance for the full year 2019 and our business priorities. After that, we'll move on to the Q&A.

Financial results in 1-9/2019

Sales	Organic Growth	Adjusted EBIT	Adjusted EBIT %	Adjusted EPS Growth[1]
€ 15.2 bn	0.0%	€ 2.5 bn	16.4%	-8.9%

Organic Growth by Business Unit	
Adhesive Technologies	-1.5%
Beauty Care	-2.3%
Laundry & Home Care	+3.5%

Adjusted EBIT % by Business Unit	
Adhesive Technologies	18.5%
Beauty Care	14.0%
Laundry & Home Care	16.6%

[1] At constant currencies; per preferred share

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Henkel

In the first 9 months of 2019, Henkel generated sales of EUR 15.2 billion. Organic sales growth was flat. We recorded an adjusted EBIT of EUR 2.5 billion, corresponding to a margin of 16.4%. This corresponds to a reduction of 150 basis points compared to the previous year, mainly driven by higher investments in marketing and sales support behind our growth initiatives and continued pressure from direct material prices as well as lower volumes. We were able to partially compensate these effects by our pricing initiatives and continued strong cost management focus.

Looking at the business units Adhesive Technologies, in an increasingly challenging industrial environment, recorded a negative organic sales development of minus 1.5%. The adjusted EBIT margin at 18.5% remained at a strong level, 40 basis points below previous year.

The Beauty Care business unit was impacted by slower-than-anticipated recovery in key mature markets as well as the destocking in the Chinese retail operations and recorded a negative organic sales development of minus 2.3%. At 14%, the adjusted EBIT margin was 370 basis points below the prior year level.

Laundry & Home Care generated organic sales growth of 3.5%, driven by the businesses in emerging markets. The business unit recorded an adjusted return on sales of 16.6%, which is 150 basis points below the first 9 months 2018.

In all our business units and functions, we continued to implement our fund growth initiatives, delivering an increasingly positive contribution to our financial results.

Finally, adjusted EPS per preferred share at EUR 4.20 was 8.5% and 8.9% below the previous year in nominal terms and at constant currencies, respectively.

Guidance 2019 confirmed

	FY 2019
Organic Sales Growth	**0 - 2%**
Adjusted EBIT Margin	**16 - 17%**
Adjusted EPS (constant currencies)	**Mid- to high single-digit % below PY**

We continue to operate in a business environment that is characterized by soft economic and industrial growth, intense consumer markets as well as high volatility and uncertainty.

Looking at our performance in the first 9 months, the development of our group organic sales as well as the adjusted EPS came in at the lower level of our guidance range.

The adjusted EBIT margin was well in line with our full year guidance range.

Based on these developments and our expectations for the remainder of the year, we confirm our guidance for fiscal 2019.

Business Priorities

- Focus on capturing growth opportunities in Adhesive Technologies
- Reinforce Beauty Care Retail growth, solve China Retail and continue Professional performance
- Drive growth of Laundry & Home Care strongly executing innovation strategy
- Continue to drive digitalization in all aspects
- Maintain strong focus on cost discipline, driving efficiency and adapting structures
- Continue to implement measures to improve Working Capital and expand Free Cash Flow
- Enhance value proposition of portfolio organically and via acquisitions

Despite the mentioned headwinds, we continue to execute our business priorities for the remainder of the year, building on our strong foundation.

We focus on capturing growth opportunities in Adhesive Technologies, further leveraging the strength of our portfolio and business model.

We aim to reinforce growth in our Beauty Care retail business, to solve the situation in China retail and to continue the strong performance in Professional.

And we will strongly execute our innovation strategy in Laundry & Home Care to drive growth, specifically supporting the mature markets.

We will reinforce to drive digitalization in all aspects.

At the same time, we will maintain our focus on cost discipline, further drive efficiency and adapt our structures.

We'll continue implementing measures to improve our net working capital and further focus on free cash flow expansion.

And we will enhance the value proposition of our portfolio organically and via acquisitions.

Let us now move on to the Q&A.

Q&A

Q&A Session (p. 1/7)

Question: First of all, can I ask on Adhesives. How are automotive and electronic markets currently performing, meaning Q4? And do you have any view into 2020 pertaining to these trends? And then second, Carsten, you talked a lot about free cash flow improving, which was indeed nicely performing in Q3, thanks to the good working capital management. How sustainable do you believe this is in terms of momentum going into 2020 given that one should expect higher working capital if a pickup in demand was to materialize. That's it from my side. And also, Hans, all the best for your future adventures.

Hans Van Bylen, CEO: Thank you. Also thank you for your questions. On your first question, Adhesive Technologies. Indeed, we do see that, especially on the automotive. I mean, in general, industrial production, we see that the IPX index, which stands for global industrial production is softening and it's now at the level of 1.1 with, month by month, some revisions downwards. And this is driven very strongly also by some key industries like automotive and electronics. We do see, especially in automotive, that the numbers show that the automotive market is under enormous pressure and the forecast, which we get is that this will not improve in the short-term future.

Carsten Knobel, CFO: To your question of the free cash flow. So in general, we are not guiding on the free cash flow overall. We are not guiding also today, not for 2020. But independent of that, what we do in terms of net working capital is always, for sure, with a background of being sustainable in terms of what we are executing. So that's what we see. And for sure, in the quarter, you see, for sure, if you compare it to the prior year quarter and you have improvement, then you have a onetime effect on that. But in general, what we do will also be visible in the next year.

Question: My first question is on Laundry & Home Care. Q3 demonstrated a strong performance, driven by emerging markets. How much of the strong performance in EM markets is driven by nominal price increases? And how sustainable is this in the next coming quarters? And conversely to this, the U.S. performance in Laundry was below the prior year. Why is Henkel still not getting much traction on investments in the U.S.? And are there any further plans to rectify this?

Hans Van Bylen, CEO: Thank you very much for both questions. Let me start with your question on U.S. As mentioned, both by Carsten and myself, indeed, Laundry U.S. is still not where we want it to be. And at the moment, we are in a full innovation offensive where we recently launched our single dose. *[answer continues next page]*

Hans Van Bylen, CEO: *[ongoing answer from previous page]* I mean single dose in Laundry is quite increasing, a big segment in U.S. and we just launched with our new single-dose caps, quite competitive products, which we now start supporting. We do see that, especially in Q3 on some top brands, that we get some good traction. But in the portfolio itself, we still have smaller brands, which lag behind. So you can be sure that in moving forward, U.S. Laundry is one of our top priorities also to turn our shares there.
On the contrast, we see that the more investment, which, in Q3, in Laundry was quite significant in, for example, Western Europe, Germany that we do see the effects of that and this also translates in better growth going forward if we see the 4% of Laundry. On that, Carsten, perhaps, you can comment on the topic of emerging markets.

Carsten Knobel, CFO: So regarding your question of Laundry & Home Care. Yes, the growth is particularly driven in the or with the emerging markets. In Latin America below prior year, but also particularly driven, especially by Middle East/Africa, double digit and also by a significant price effect - a positive price effect. That is something, which we also expect going forward, but not on that same level what we have experienced in these days.

Question: I will start by saying, Hans, all the best for the future. And Carsten, congratulations on the new role. A couple of questions from me, please. Firstly, I think China is only about 10% of your Beauty business, but it's been a headwind well into the hundreds of basis points from destock all year and you're guiding for more in the fourth quarter. Were there really several months of extra stock in the supply chain in China Beauty? That feels very high. And how did that situation develop? Secondly, could you talk a little bit about the acquisition of DevaCurl, a little bit about the asset and whether we might see you do more acquisitions in the professional hair care space? And then just, lastly, on your working capital. You've had some very big swings in the quarter, bringing down receivables by around 100 basis points, it looks like. Also had a fair amount of movement on payables. How have you been able to achieve such big improvements?

Hans Van Bylen, CEO: Thank you very much. Also thanks for your supporting words. Coming to your questions, the first question on China Beauty. Indeed, it’s a mixture of topics. Carsten, perhaps you can give some more insight?

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Carsten Knobel, CFO: I can. Sure. So the planned adjustments of the excess stock levels and the business model in China have been negatively affecting the financial performance of the Beauty Care business in the full year. As we already said in Q2, we plan to largely complete the stock adjustment by the end of '19, a little bit also in 2020, therefore, largely. And so far, we are executing our measures according to this plan. Excluding the destocking effects in the China retail business, organic sales in Beauty Care year-to-date would have been flat. And for the full year guidance, we continue to expect the negative impact from the destocking and the changes in the go-to-market model of around 200 basis points on sales and roughly 100 basis points on the adjusted margin level.

Hans Van Bylen, CEO: Let me comment on the acquisition of DevaCurl because, as you commented, it's the next acquisition in our professional field. In fact, the last years, we have been expanding our Professional business from a business less than EUR 500 million to now clearly above EUR 1 billion and this is another step in expanding this business. And we're quite enthusiastic on this one because DevaCurl is an enormously fast-growing company with an enormous dedication to one segment, which is the curly textured hair, and they have a unique competence in this. But on top, I mean, what this asset brings us is the dynamics, which, at the moment, also take place in this market in a way that they're also exposed not only to segments which are increasing, but also to channels which are enormously growing. If you look at the mixture of the sales, how it is composed by channel, it's around 1/3 classical professional business, but then we go 1/3 already in selective retail, which is a booming segment and another 1/3 is digital in e-commerce. And they master all those challenges, so we're extremely enthusiastic to get the team onboard, to have that asset as a quite strong growth contributor to our Beauty Care business.

Carsten Knobel, CFO: So, I take your last question, again, on net working capital. First of all, I think I repeat what I said some minutes ago. In Adhesives, the net working capital increased only slightly to 13%, and here, independent of that, we have taken measures to improve the net working capital and we are making here good progress, which we are also seeing in Laundry and Beauty these effects. The difference is that in Adhesives, part of that is compensated by really the negative effects from the industrial weaker demand, which continues to be counteracting in this respect.
The 2 improvements in Beauty and Laundry by 210 basis points in Laundry or effectively 170 points in Beauty, I think you have pointed that out are coming from receivables, are coming from payables and also in part of inventories. On the one side, these are the sustainable improvements and measures what we have implemented. For example, we have implemented net working capital task forces. *[answer continues next page]*

Carsten Knobel, CFO: *[ongoing answer from previous page]* We have increased our focus on collection of accounts receivables and negotiations on payment term prolongations. But we also have to admit, and I think if I would go back 1 year, your comments - not you personally, but the comments overall were that with 6.6%, this is not a really competitive net working capital. And for sure, we're also joining that statement. And by that, this has also an impact, that means the quite higher level we faced in Q3 of 2018 with 6.6% and now the 5.7% with the 90 basis points is a quite good improvement but has different effects. So base effect, but also initiatives what we are doing. I hope that helps.

Question: Two questions from my side, mostly on the Beauty Care segment. So there, in your Q2 presentation, you also mentioned under the key measures that you include a category and portfolio review of your Beauty Care business. So today, I'm currently missing this statement in the presentation. Is this still your intention also under Carsten? And then the second question, if so, where do you see the most underperforming brands from a geographical perspective? And then maybe just why was also the sales decline in Beauty, I mean, the price-related sales decline in Beauty there for Q3 2019.

Hans Van Bylen, CEO: Many thanks, for both questions. I will take the first one because, indeed, we are performing a review of all our activities in Beauty Care. And in this context, as you indicated, and we also indicated in Q2, we're looking at brands, categories, country positions in the portfolio to identify it and we will also address potential weak points. But here, I would like to ask for your understanding that we're in a full process and that at this stage we're not sharing details, but this activity is taking place.

Carsten Knobel, CFO: Yes. And to your question of the pricing in Beauty Care. Yes, indeed, it was negative in the quarter with roughly 100 basis points. We will continue to roll out value-accretive innovations to mitigate the impact from price pressures and material prices because, as you know, in our definition, in price, when it comes to Laundry and Beauty, so in our consumer businesses, the effect from innovation, that means from product we bring to the market with an average higher price compared to the rest of the portfolio is counted in the price component. So that's something where we still see improvement, where we still need to take actions and execute that and that's also the point where we would like to go further into the next quarter.

Question: First of all, all the best for both of you for your new adventures. And coming to my question. Actually, if you look that currently there is a major asset on the block basically up for sale with Wella. How's your general view regarding a major acquisition in Beauty Care given, firstly, that you've experienced that it's pretty tough to boost growth while integrating something big, and well, that obviously both assets are currently struggling to grow organically, to say it mildly. Well, would you agree that for something - for you to be really going for some major acquisition in Beauty Care, it really needs to be a very, very attractive price? Or just your thoughts on that one.

Hans Van Bylen, CEO: Many thanks. I'm pretty sure that, you will understand that, in fact, we cannot and we will not comment on any market rumors, information, potential M&A activities. On the other hand, I mean, it's part of our strategy, M&A. We also have a very strong balance sheet. And I think we have been sharing that also in the past with you. We have 3 criteria, which will not change, which is strategic fit, availability and financial attractiveness. And again, I count on your understanding that we cannot comment more than what I just said.

Carsten Knobel, CFO: But what we comment on is what we have done in the past. And for example, because you're referring to Beauty, if you look into our Professional business in Beauty over the last couple of years, we have acquired some objects or targets. And I think we have here clearly shown, and you see that also in the results, good experience how we can integrate. And I think if you look at the OSG performance of Professional in the last couple of years, that's also quite, I would say, good and accretive in terms of how we are performing.

Question: Yes, that's true. I just wanted to get a bit a feel on - well, my view is a bit that it's probably tough for Wella to really help you in anything. So it is probably something, which would only be attractive if it would be basically cheap.

Carsten Knobel, CFO: But as Hans said, we can't comment and we are not.

Question: Yes. I understand. I just wanted to make sure that...

Carsten Knobel, CFO: We could only comment on what we have done.

Question: Okay. Thanks a lot, and always good luck in your choices.

Q&A Session (p. 6/7)

Question: So just looking at the moving parts within your Laundry business. You've told us that gross margins were up slightly in Laundry. We can all see what's happened to the operating margin. So I guess, you've put SG&A up in Laundry by a few hundred basis points plus. Clearly, your Laundry business in emerging markets is doing very well. But your Laundry business in developed markets, particularly the U.S., is struggling. So I suppose sort of 2 questions from me. One of them is where has the extra SG&A spending in Laundry gone, both in terms of geographically, where has it gone? But also, has it gone into marketing? Or has it gone into couponing to or getting gone to the shelves of retailers, all of that kind of stuff? And then, secondly, how do you feel about the health of your U.S. Laundry business where we've had quite a few sort of false storms? What actions are you looking at in the coming quarters because it's sort of the one that of your Laundry business that isn't quite there at the moment?

Hans Van Bylen, CEO: Thank you, for your follow-up question. Indeed, it is an important and one of our priorities to increase our investments. And we did quite strongly also, we build it up quarter-by-quarter, Q3 for Laundry. We had significant more investments meaning here, especially in marketing investments, marketing support of our brands. And as we have been reporting, I mean, we have clearly defined priorities where we do invest. We also reported today that Persil laundry, in general, one of our priorities, Persil, had a double-digit growth in the quarter even. So there, we really see that the money we put behind our innovation program in Persil moves. We also reported on Home Care. That was another priority, in Home Care where we have really strong growth and we really see a strong takeoff.
Geographically, it is spread around our top countries. And as we also have been indicating where we do see traction, for example, in a country like Germany strongly. In the U.S., we, ourselves, are not yet happy where we are. I mean we see on some brands some traction, and as we said, in some innovation like single dose, we came in mid of the year, we now start supporting that. So in U.S., it's now a continuation of our focus on strengthening our brands with strong innovation behind.

Carsten Knobel, CFO: But to be clear, SG&A, because you mentioned that it is marketing, as Hans pointed out. Marketing increases double-digit in the quarter on all activities where we are, but we are not giving you any additional absolute numbers on that. But it is not admin costs or whatever. It's marketing support. And also not promotion, it's marketing.

Q&A Session (p. 7/7)

Question: And sorry, just to clarify. That increase in marketing, that's been pretty evenly spread geographically around all your major countries. It's not like you're focusing on a region or 2. This is a big push globally for your Laundry business?

Carsten Knobel, CFO: No. That is, as Hans pointed it out, on the focus initiatives, which we presented beginning of 2019, these focus areas have also the focus, I would say, additional investments in terms of allocating the increase, what you see. For sure, the other countries are also supported, but the additional support goes into the focus activity. And by that, in the focus countries, segments/regions.

Differentiated performance in challenging environment

- Robust results of Adhesive Technologies
- Beauty Care below previous year
- Good performance in Laundry & Home Care
- Further progress in executing growth initiatives
- Very strong cash management and balance sheet
- Outlook for 2019 confirmed

Hans Van Bylen, CEO

Thank you very much, dear Investors and Analysts. Thank you very much again, for your questions.

First, let me summarize the key takeaways we wanted to convey to you today. In an increasingly challenging market environment, Henkel recorded an overall differentiated performance.

Adhesive Technologies achieved robust results, Beauty Care remains below prior year and Laundry & Home Care delivered a good performance. In our consumer goods business, we made further progress in executing our growth initiatives, positively contributing to our performance. Henkel significantly improved the free cash flow in the quarter to a new record level, and our balance sheet continues to be very strong.
Based on the results in the first 9 months of the year and our expectations for the remainder of the year, we confirm our outlook for the full year 2019. With that, we come to an end of today's call. But before we close, I would like to thank you for the collaboration over the past years.

I have always highly appreciated the exchange with you, our discussions and our personal meetings. Thank you very much, indeed. And I wish you all the best for your future.

Thank you very much again for listening, and goodbye.

Thank You

Upcoming Events

- March 5, 2020 — FY 2019 Earnings Release / Investor & Analyst Conference
- April 20, 2020 — Annual General Meeting
- May 11, 2020 — Q1 2020 Earnings Release
- August 6, 2020 — Q2 2020 Earnings Release
- November 10, 2020 — Q3 2020 Earnings Release

Guidance 2019 confirmed

		FY 2019
Organic Sales Growth	**Henkel Group**	**0 - 2%**
	Adhesive Technologies	-1 - 1%
	Beauty Care	-2 - 0%
	Laundry & Home Care	2 - 4%
Adjusted EBIT Margin	**Henkel Group**	**16 - 17%**
	Adhesive Technologies	18 - 19%
	Beauty Care	13 - 14%
	Laundry & Home Care	16.5 - 17.5%
Adjusted EPS (constant currencies)	**Mid- to high single-digit % below PY**	

FY 2019: Additional input for selected KPIs

Currency Impact on Sales	no material impact
Prices for Direct Materials	low single digit % increase[1]
Restructuring Charges	€ 250 - 300 m
CapEx	€ 650 - 700 m

[1] versus the prior year

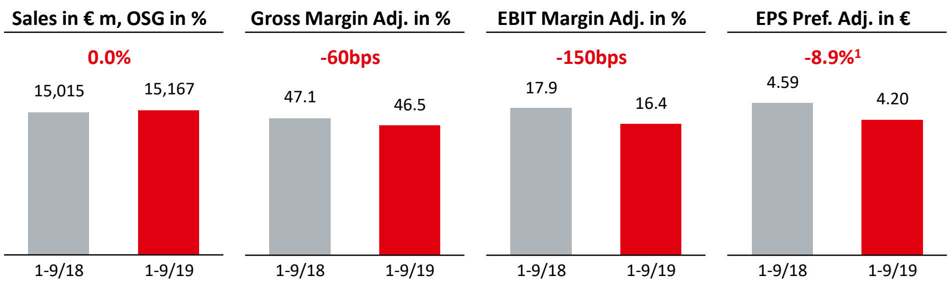
New IFRS 16 Leases Standard

P&L impact from first-time application

	Q3/19 results	9M/19 results	Full Year 2019 (estimated)
Sales	No impact	No impact	No impact
Operating expense	€ +38 m	€ +112 m	Low triple-digit €m decrease
EBITDA	**€ +38 m**	**€ +112 m**	**Low triple-digit €m increase**
D&A	€ -34 m	€ -100 m	Low triple-digit €m increase
Operating profit (EBIT)	**€ +4 m**	**€ +12 m**	**Low double-digit €m increase**
EBIT Margin	No material impact	No material impact	No material impact
Financial result	**€ -4 m**	**€ -12 m**	**Low double-digit €m decrease**
Net income	**No material impact**	**No material impact**	**No material impact**

Key performance indicators

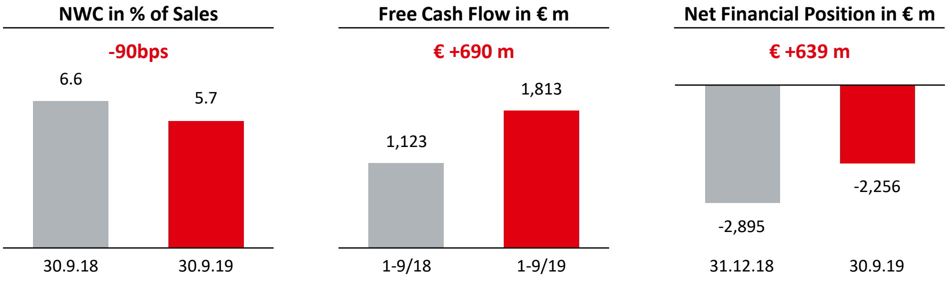
Key Financials 1-9/2019



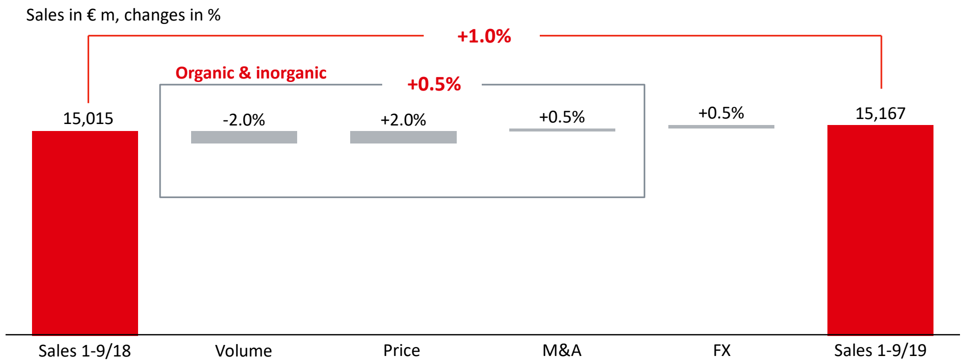
[1] At constant currencies

Focus on disciplined cash management

Key Financials 1-9/2019



Positive top-line growth



Organic sales development by region

1-9/2019

North America	Western Europe	Eastern Europe
-2.5%	-1.7%	+7.4%
€ 3,951 m (26%)	€ 4,583 m (30%)	€ 2,273 m (15%)

Latin America	Africa/Middle East	Asia-Pacific
+5.2%	+16.3%	-7.4%
€ 970 m (6%)	€ 976 m (7%)	€ 2,321 m (15%)

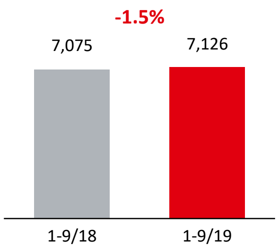
Emerging Markets: **+2.9% to € 6,118 m, 40% of Group Sales**
Mature Markets: **-2.0% to € 8,957 m**

OSG in %
abs. in € m
(share of total)

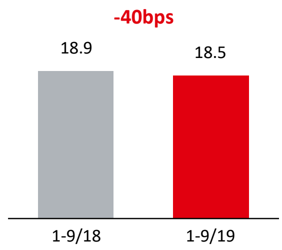
Adhesive Technologies

Key Financials 1-9/2019

Sales in € m, OSG[1] in %



EBIT Margin Adj. in %

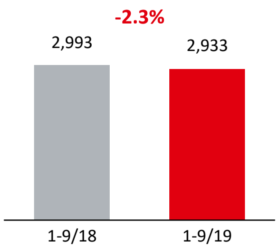


[1] Volume: -3.7% Price: 2.2%

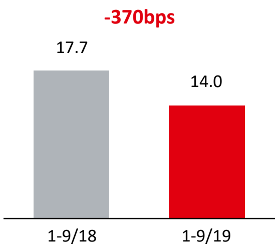
Beauty Care

Key Financials 1-9/2019

Sales in € m, OSG[1] in %



EBIT Margin Adj. in %

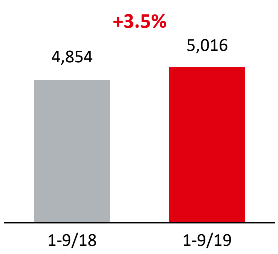


[1] Volume: -1.9% Price: -0.4%

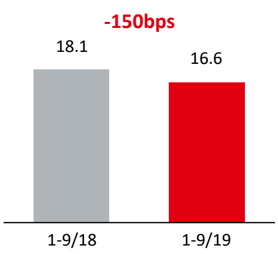
Laundry & Home Care

Key Financials 1-9/2019

Sales in € m, OSG[1] in %



EBIT Margin Adj. in %



[1] Volume: 0.3% Price: 3.2%