HENKEL Q1 2021

Carsten Knobel, Marco Swoboda | May 6, 2021

Commented Slides

Conference Call Q1 2021, May 6, 2021

Henkel representatives
Carsten Knobel, CEO
Marco Swoboda, CFO
& Investor Relations Team

Carsten Knobel, CEO:

Dear investors and analysts,

Good morning from Düsseldorf, and welcome to our conference call on the first quarter of 2021.

Thank you for joining us, and I hope that you and your loved ones are well.

I'm joined by Marco, our Chief Financial Officer.

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Before we start, let me begin this call reminding everyone that this presentation which contains the usual formal disclaimer of forward-looking statements within the meaning of relevant US legislations can be accessed via our website at henkel.com/ir.

The presentation and discussion are then conducted subject to this disclaimer. I will not read this disclaimer, but we take it as read into the record for the purpose of this conference call.

What’s on our agenda today?

First, I’m going to lead you through the key developments in the first quarter.

Then Marco will comment the Q1 business performance in more detail.

And finally, I will continue with our full year outlook, which we increased this morning, before closing today’s presentation with Henkel’s priorities going forward.

Afterwards, Marco and I, as always, are looking forward to answering your questions.

Let us start with the key developments in the first quarter of 2021.

Henkel achieved a **strong start to the year** with a significant organic sales growth of 7.7% in the first quarter, and with growth across all business units.

The implications of the global COVID-19 pandemic continued to affect our business environment. At the same time, industrial demand recorded a stronger recovery than anticipated in the beginning of the year.

The significant organic sales growth in the first quarter was in particular driven by our **Adhesives Technologies** business unit, which achieved double-digit growth of 13%. Here, all business areas and regions recorded a noticeable recovery compared to the prior year quarter.

Beauty Care delivered a good organic sales growth of 2.3% although having been affected by pandemic-related market effects. Growth was supported by both the consumer business, and in particular, the Professional business. Despite ongoing salon closures in many countries, especially in the beginning of the quarter, this business area achieved very strong growth.

Although developments in key mature markets started to slow**, Laundry & Home Care** recorded very strong organic sales growth of 4.1% in the first quarter. This was mainly driven by double-digit growth both in our Home Care business and in the emerging markets.

After the strong start to the year, in particular in our Adhesive Technologies business unit, and a stronger than expected recovery in industrial demand and despite persisting uncertainties in our markets, we **raised our guidance for the full year 2021** today.

We now expect a stronger development on both the top line and the bottom line with a group organic sales growth in the range between 4% to 6% and an adjusted EBIT margin of 14% to 15%.
Adjusted earnings per share at constant currencies are now expected to increase by a high-single digit to mid-teens percentage.

The COVID-19 pandemic continues to affect economies and societies. In this persistently challenging environment, the safety and the well-being of our employees remains our top priority.
And I am particularly proud of the continued resilience and the commitment of all Henkel employees, who keep an extraordinary level of motivation and focus during these times.

At the same time, we continue to execute our **strategic framework for purposeful growth** with full force. With a key focus on expanding our competitive edge and further enhancing our company culture.

Later in this presentation, I will focus on the progress we made in the first quarter in the area of competitive edge.

BUSINESS ENVIRONMENT

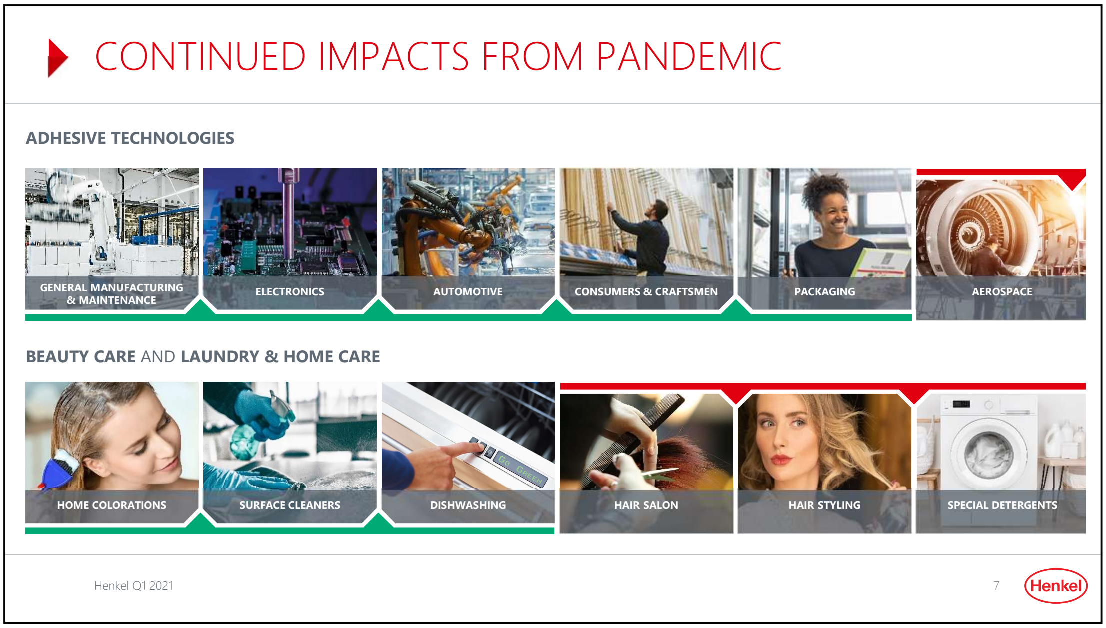
- **Strong economic recovery in Q1 2021** after significant pandemic-related downturn in 2020
- **Industrial production significantly improved**, in particular in Automotive and Electronics
- **Consumer behavior** continues to be **impacted** by COVID-19 pandemic and constraints to public life
- **Strong price increases in volatile raw material markets** due to notable surge in demand and supply chain disruptions

Let us first have a look at our business environment in the first quarter.

Despite the pandemic situation prevailing in most countries, we witnessed a strong economic recovery in the first quarter after a substantial pandemic-related downturn in the past year.
With a significant pickup of industrials demand, especially in automotive which recorded a double-digit rebound and in electronics. This is also evidenced by the increase of the industrial production index by about 5% in the first quarter, in particular due to a strong recovery in the Asia-Pacific region, and especially in China.

At the same time, public life did not return to normal in most countries. In fact, infection rates in many regions and globally are reaching new highs, triggering strict governmental action. As a result, consumer behavior continued to be impacted by the pandemic and related restrictions, such as social distancing.

The booming demand in the industrial sector and continued high demand in many consumer categories have put global supply chains under extreme pressure. In addition, the severe winter weather conditions experienced in the US at the beginning of the year massively disrupted production and logistics in the region in an already tight market, not to forget the blockage of the Suez Canal. This is also evidenced by a record high number of force majeure situations globally.
As a result, prices for many key raw materials and logistics have experienced sharp price increases.
So, despite a strong economic recovery, we continue to operate in a highly challenging and volatile market environment.



Taking a closer look now at the implications from the pandemic on some of our key markets:

Most markets relevant for our Adhesives Technologies business experienced a significant recovery after they had been severely impacted by the pandemic and suffered from the demand-driven decline in industrial production.

These include the general manufacturing and maintenance, and in particular, the automotive markets.
Also, other industrial markets experienced a higher demand; for example, the packaging industry, which continued to benefit from the strongly accelerating e-commerce trend, or the consumer and craftsman market, which profited from the persisting stay-at-home environment causing an increase in home improvement projects. Following a strong full year 2020, demand for electronics even accelerated further in the first quarter of 2021.

At the same time, the aerospace industry continued to be significantly negatively affected by resumed pandemic-related travel restrictions.

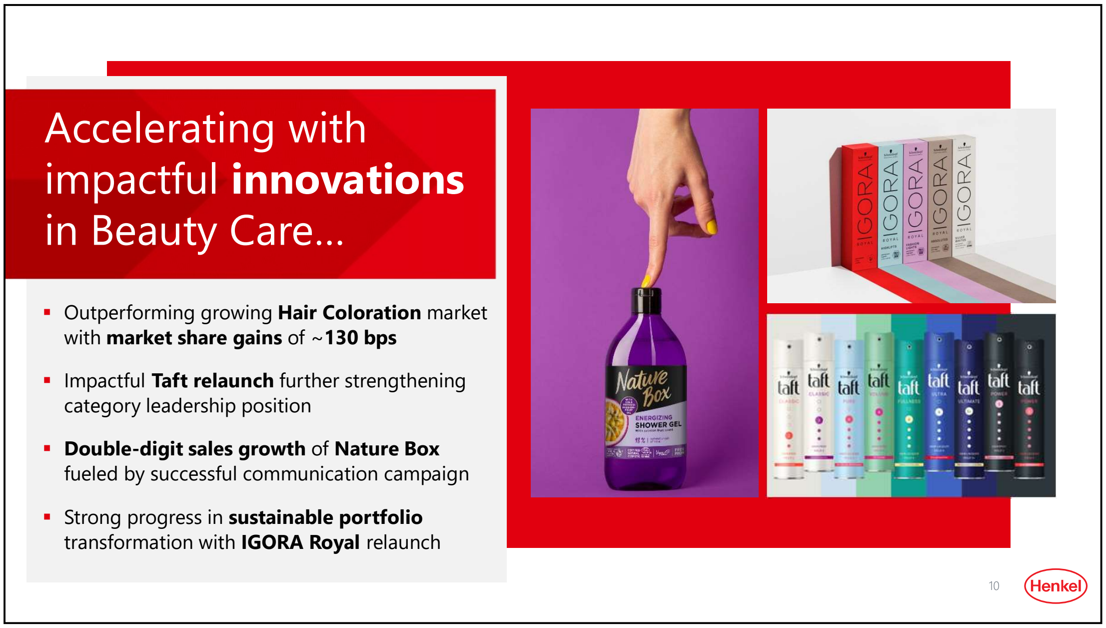
Looking at relevant market in our Beauty Care and Laundry & Home Care Business. Hygiene-related categories and those profiting from stay-at-home effects continued to benefit from higher consumer awareness for health and hygiene and constraints to public life.
For example, demand for products such as soaps, dishwashing or surface cleaners remained high. In contrast, demand for special detergents was weaker.
Hair salons were still confronted with enforced salon closures in many countries. And with social distancing in place and people staying at home, the styling market also developed strongly negative.
At the same time, the market for at-home hair colorations grew significantly.

In this challenging environment and during these uncertain times, we continue to drive the implementation of our Purposeful Growth Agenda with full force building on the strong progress we achieved in the first year of its execution.

And with the key focus this year on expanding our competitive edge, and further enhancing our company culture.

While we will report in more detail on our initiatives in progress and our half year results released in August, today I would like to focus on the progress we made in the first quarter with regard to our competitive edge.

Specifically, in the fields of innovation, sustainability and digitalization.



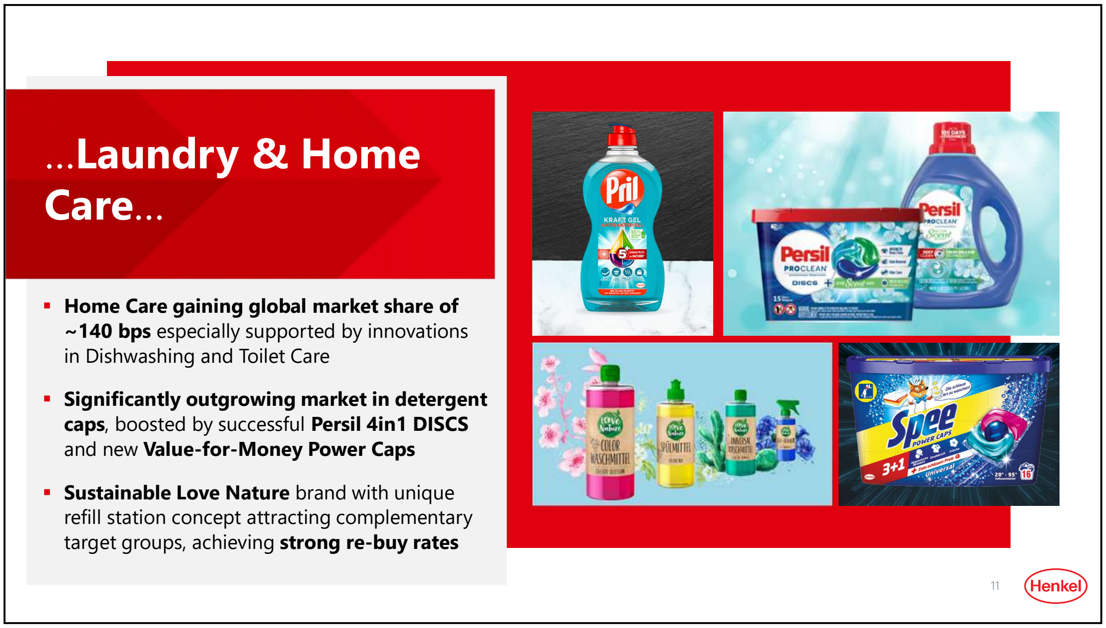
Starting with Beauty Care.

The teams were able to continue the successful development in **Hair Coloration**, again, outperforming this growing market segment in the first quarter and gaining market shares of around 130 basis points. This development was supported by strong innovations such as our relaunch of **Natural & Easy**, as well as the launch of **Schwarzkopf In-between Colors** in the US in the beginning of the year. Natural & Easy delivered an exceptional high double-digit performance, adding significant market shares.

In March, we also relaunched our iconic styling brand **taft** with new formulas and the new compelling product design, supported by a strong communication campaign. In a challenging market environment in particular in the styling category, and thanks to strong product launches, we were able to further strengthen our category leadership position, for example in the subcategory of Hair Spray and Lacquers, where we increased market shares by around 140 basis points.

Further advancing our portfolio towards sustainability is a central pillar of our strategy. With dedicated brand concept and consistently promoting sustainable packaging solutions across the board.
Our nature brand, **Nature Box**, again achieved double-digit sales growth in the first quarter. This was fueled by our successful communication campaign of Argan and Solids, additional listings, and the launch of our Solid 2.0 innovations.

Also in Professional, we further transformed our portfolio toward sustainability. The relaunch of our brand **IGORA Royal**, our biggest Schwarzkopf Professional brand, with a completely redesigned packaging concept is a great example. The tubes are now made of 100% recycled aluminium. The caps are made of 100% recycled plastic, and the folding boxes consists of at least 92% recycled carton. Further important steps to reduce the use of virgin raw materials, promote circular economy, and reach our ambitious packaging targets.



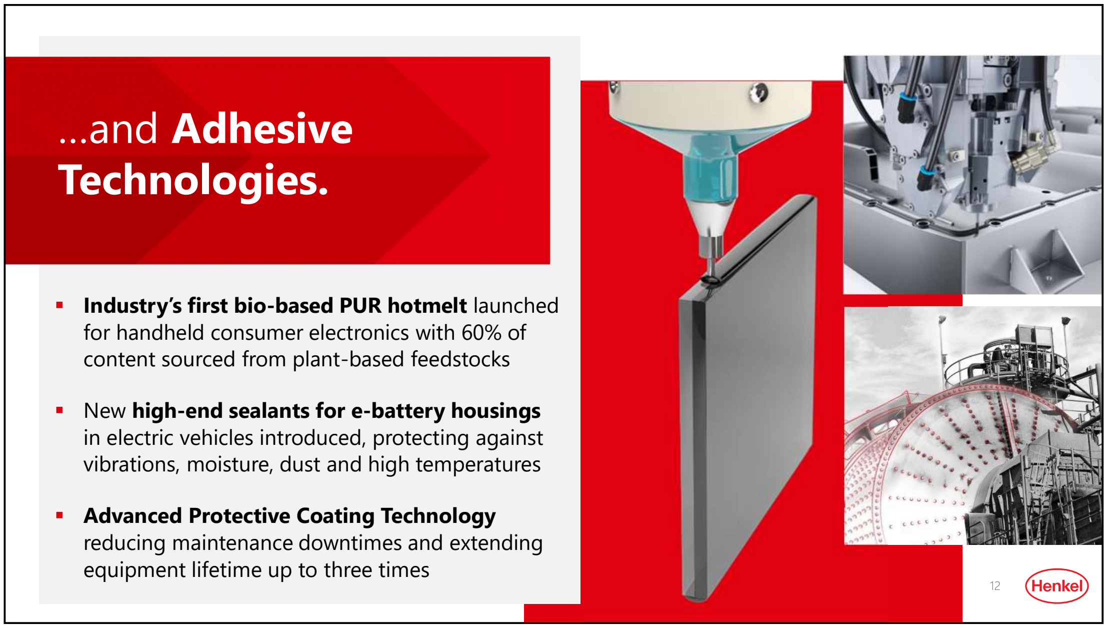
Moving on to Laundry & Home Care.

Here, the teams continued the successful performance in **Home Care**, further expanding shares in our markets by about 140 basis points.
A great achievement, which was driven by strong innovations we launched onto the markets in the past months in the Dishwashing and Toilet Care categories, both delivering a clear double-digit organic sales growth. The continued rollout of our innovative Pril 5+ with self-degreasing action in hand dishwashing continued to support our strong performance. Here, we also just launched a new line extender, Pril Antibacterial, addressing the accelerated trend towards hygiene products.

We also continued to outperform the market for **detergent caps**, which is of strategic importance for us and a key focus area, gaining market shares of around 90 basis points. This was in particular driven by our successful Persil 4in1 DISCS, which we continue to roll out in further markets with additional variants. The 4in1 DISCS are meanwhile available in 33 countries globally.

We also extended our caps offering by expanding the concept in the Value-for-Money segment. Here, our new 3+1 Power-Caps come with a unique 3-chamber shape with first launches in Germany, France and Russia.

And last but not least, we continued to roll out our new sustainable cross-category brand **Love Nature** and its innovative refill station concept across retailers in Germany. Here, we see that we are attracting also younger consumers, thus addressing complementary target groups and achieve strong results with considerably re-buy rates.

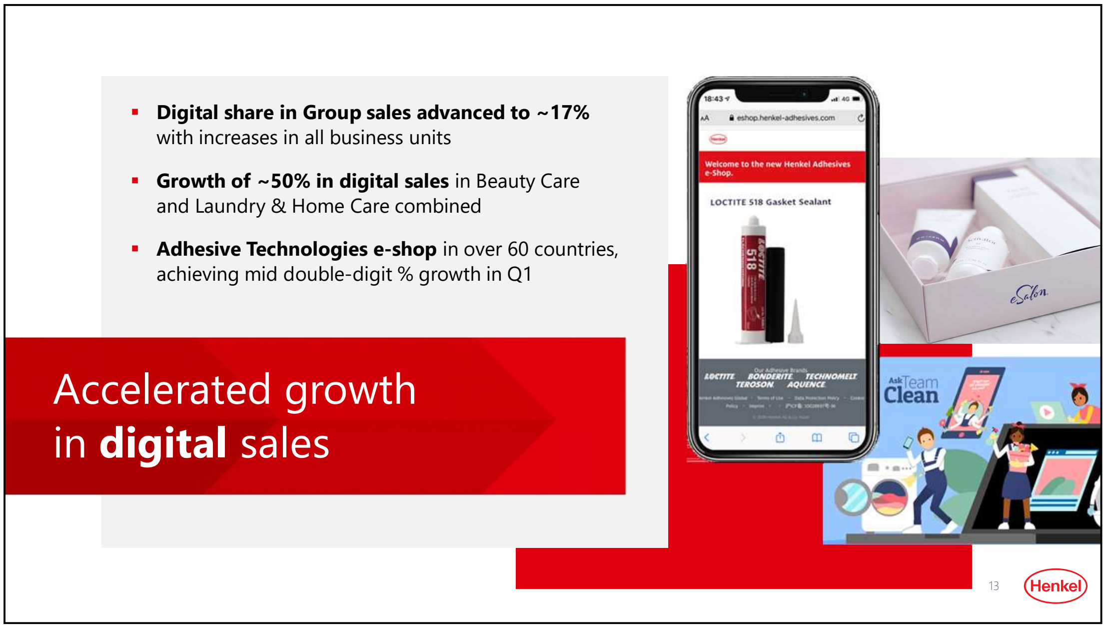


Also, in Adhesives Technologies, we continued to launch impactful and sustainable innovations in the first quarter.

For example, the industry's first bio-based **PUR hot-melt** designed for consumer electronics assembly. With nearly two years in development, this is our first product in an expanding Adhesives Technologies portfolio of bio and renewable material solutions.
60 percent of its content is sourced from renewable plant-based feedstocks. With this innovation, we are replacing conventional fossil fuel-based raw materials with renewable substitutes, which is highly relevant for our consumers and customers.

We also launched new **high-end sealants for battery housings** in electric vehicles which protect electric batteries against moisture, corrosion, and dust. In addition, they dampen vibrations and are resistant to temperatures. Protecting e-batteries against these influences significantly contributes to extending their lifetime, which is a decisive factor in the rapidly expanding field of electric mobility.

Also, in the first quarter, Adhesives Technologies launched and scaled a range of innovative and sustainable **Advanced Protective Coating products**, which supported double-digit growth in the General Manufacturing and Maintenance business. One field of application we are addressing is maintenance and repair of so-called ball mill machines in the cement and mining industry. Our new solutions provide three times the abrasion resistance of natural rubber extending equipment lifetime, driving operational efficiency, and helping to improve workers' safety at our customers' sites.



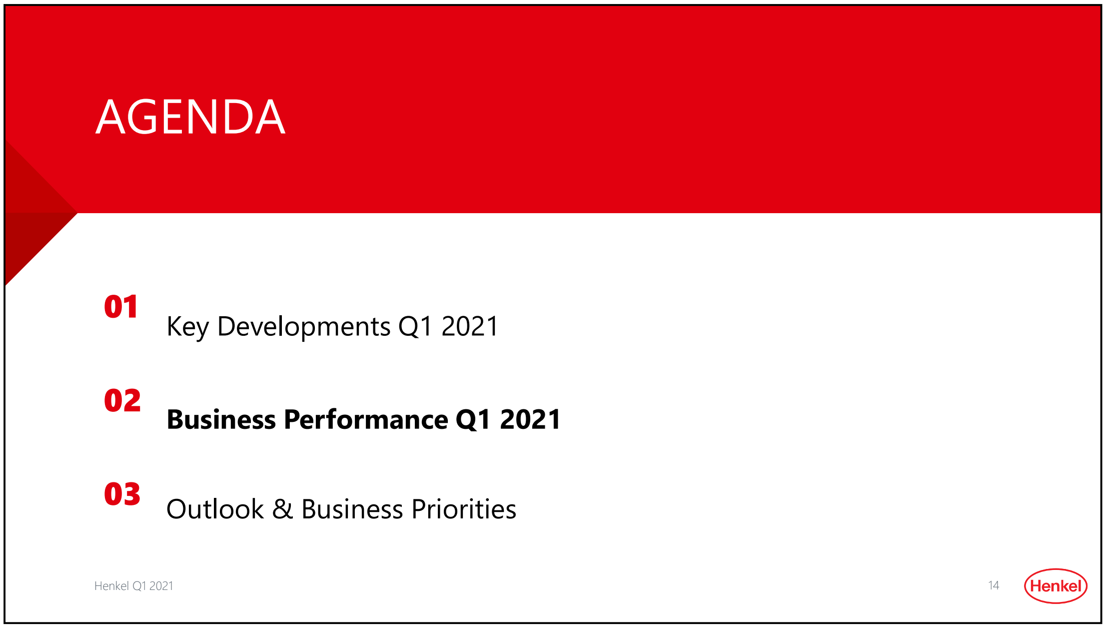
Next to innovation and sustainability, digitalization is an important lever for us to boost our competitive edge and create value.
Here, we remain focused on capturing the opportunities the current environment is offering, further accelerating digital sales.

In the first quarter, the digital share in our sales advanced further and reached a level of around 17%, with strong improvements in all business units.

In our Beauty Care and Laundry & Home Care business combined, digital sales grew by around 50% in the quarter to new record levels.
Our expanding direct-to-consumer businesses, the expansion of strategic customer partnerships, and a further acceleration in performance marketing were the key drivers of this strong development.

Our Adhesive Technologies business unit achieved digital sales growth, also in the mid double-digit percentage range in the first quarter, and increased the share of digital sales to more than 25%. Our digital B2B sales platform, which we have been continuously developing into a true customer engagement portal, is meanwhile live in more than 60 countries.

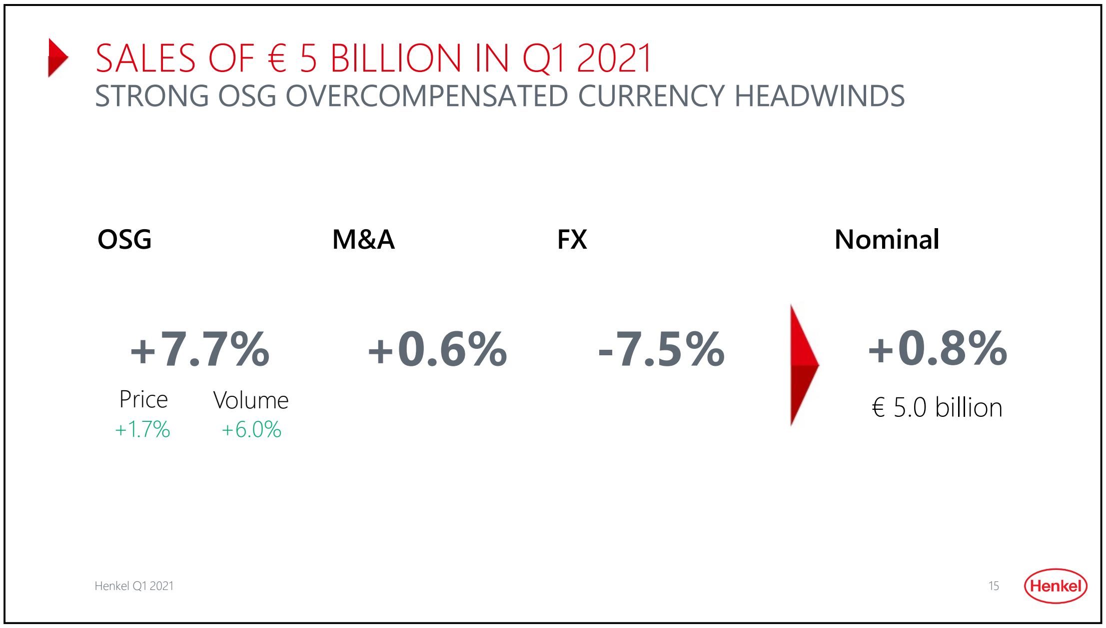
With this, let me hand over to Marco, who will lead you now through our business development in the first quarter in more detail.



Marco Swoboda, CFO:

Thank you very much, Carsten, and good morning to everyone also from my side.

Let’s have a closer look at our business performance in the first quarter.



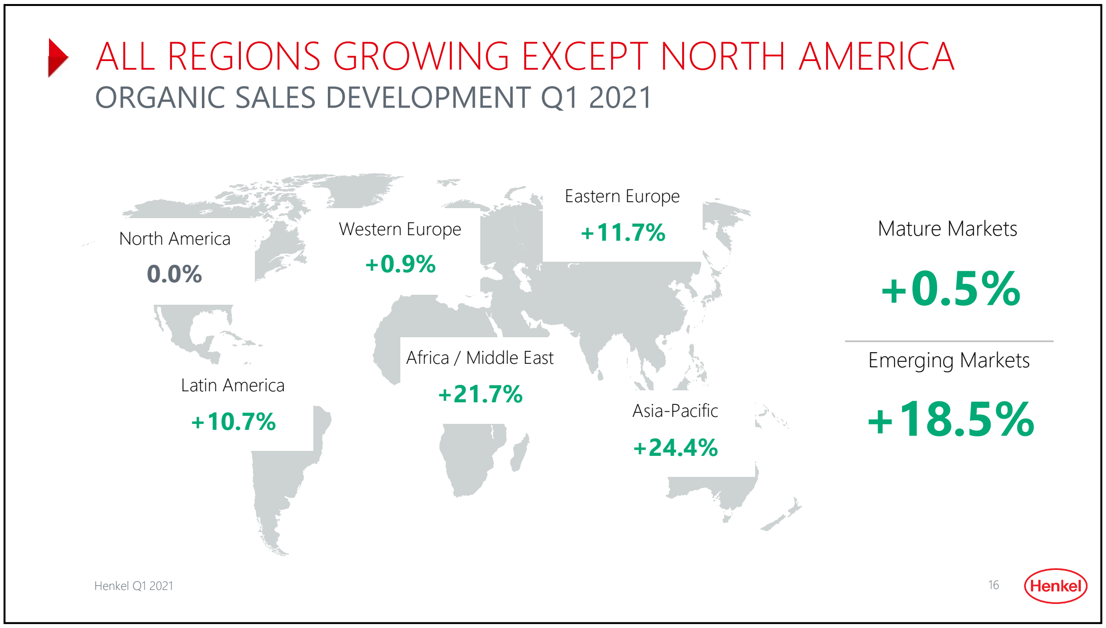
Henkel achieved significant organic sales growth of 7.7% in the quarter.

This was in particular due to strong volume expansion of 6%. Pricing overall was up 1.7% year-over-year.

The net effect of our acquisitions and divestments was positive at 0.6%.

Currencies were a strong headwind in the quarter in a year-on-year comparison. Sales were negatively impacted by minus 7.5%.
Compared to the first quarter 2020, in particular the US dollar and many key emerging market currencies on average devaluated versus the euro, such as the Mexican peso, the Russian ruble, or the Turkish Lira, partially by a double-digit percentage.

As a result, Henkel recorded an increase of nominal sales by 0.8% to €5 billion.



The significant organic topline growth was primarily driven by strong performance in the emerging markets where we achieved a double-digit growth of 18.5%. Mature markets were positive at 0.5%.

Overall Henkel recorded organic sales growth in all regions, with the exception of North America, which was flat. This was due to an organic sales decline of Laundry & Home Care in the region which was compensated by a very strong and good development in Adhesive Technologies and Beauty Care, respectively.

Western Europe recorded positive organic sales growth of 0.9%, supported by good growth in Laundry & Home Care and a strong development in Adhesive Technologies.

Organic sales in Asia-Pacific grew by 24.4%, due to a double-digit performance in the region's emerging markets, in particular, driven by China. Sales in the mature markets of Asia-Pacific increased strongly year-over-year.

Finally, we also recorded double digit organic sales growth in each of the Eastern Europe, Africa / Middle East, and Latin America regions.

Let me now move to our business units, starting with Adhesive Technologies.

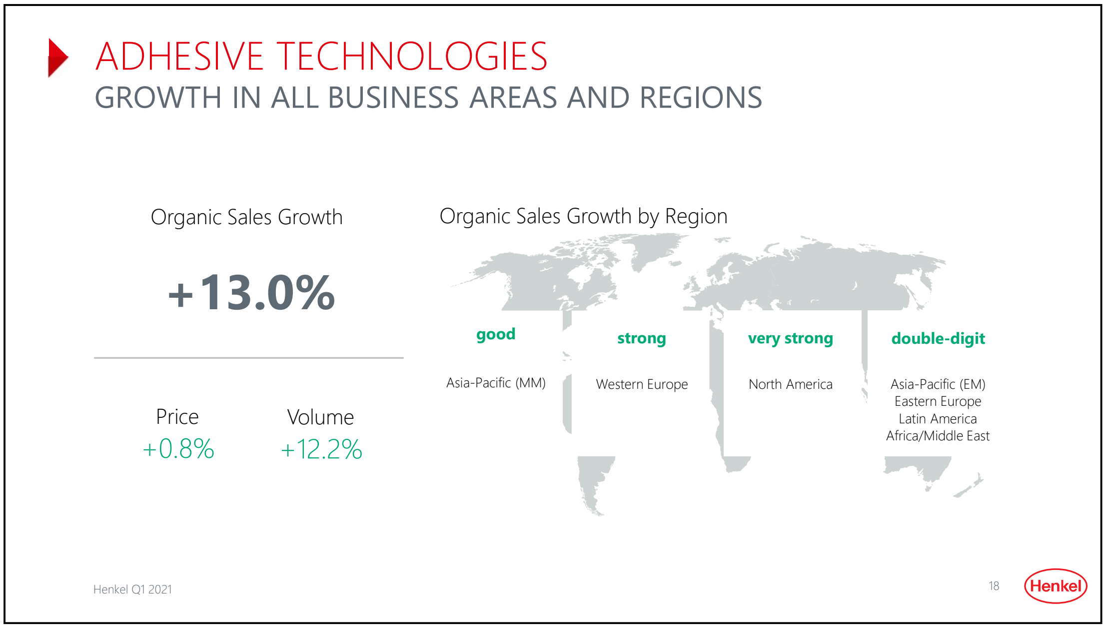
Here, double digit organic sales growth was driven by continued recovery in industrial production, with broad-based growth across all business areas and regions.
This compares to first quarter 2020, which had already been strongly affected by the implications of the COVID-19 pandemic.

Automotive & Metals delivered double-digit growth due to strong automotive demand, in particular in China, partially against the soft prior-year basis.

We achieved significant growth in the **Packaging & Consumer Goods** business area. This was supported by double-digit growth in Packaging, with the strong contribution from our sustainable padded mailer solutions. Here, we benefited from significantly increasing shipping volumes, given the pandemic-related restrictions and stay-home effects in many countries.

Electronics & Industrials also grew double-digit, mainly due to our Electronics business, which benefited from continued exceptionally strong customer demand.

Finally, we achieved double-digit organic sales growth in our **Craftsmen, Construction & Professional** business area. This was in particular driven by stay-home effects, positively affecting our do-it-yourself and craftsmen applications in the Consumers & Craftsmen business. In addition, we saw some stock build-up at distributors and customers in anticipation of an ongoing recovery and accelerating demand.



The strong topline performance of Adhesive Technologies was predominantly driven by a double-digit volume growth of 12.2%. Pricing was slightly positive at 0.8%.

In the first quarter, industrial demand continued to recover strongly and the business unit recorded organic sales growth across all regions. Developments in the different regions were mixed, as the impacts from the pandemic on industrial businesses varied.

Adhesive Technologies achieved double-digit growth in all emerging market regions, supported by all businesses, and with particular strength in China.

The mature markets showed a very strong growth led by the development in North America, in particular driven by the Craftsmen, Construction & Professional business area.

Western Europe achieved strong organic sales growth due to very strong growth in Automotive & Metals and even double-digit growth in the Craftsmen, Construction & Professional business area.

BEAUTY CARE

ORGANIC SALES GROWTH: +2.3%

- Consumer business with overall positive development and mixed regional development
- Consumer Hair: double-digit growth in Coloration, very strong growth in Hair Care, Styling below previous year
- Body Care below prior year due to softer demand in key markets and a high prior-year basis
- Professional business with very strong growth despite COVID-restrictions, fueled by key market North America, and Asia & Latin America
- Further expansion of online sales in both Consumer and Professional

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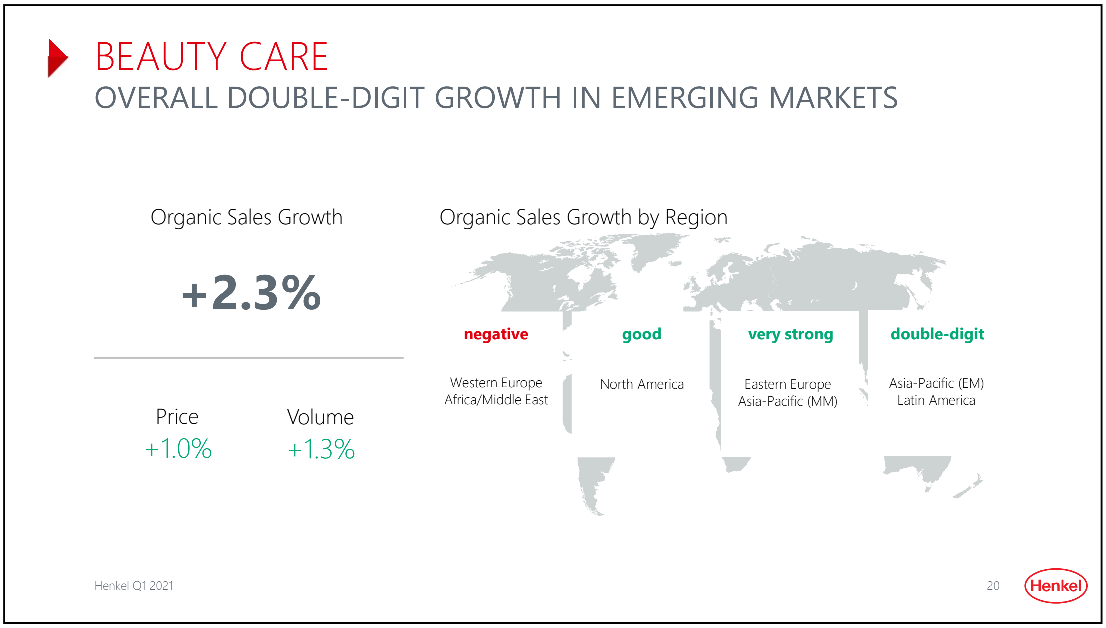
Moving on to Beauty Care, which achieved good organic sales growth of 2.3% in the first quarter.

The **Consumer** business achieved a positive organic sales performance compared to the prior-year quarter. While the development in mature markets was negative, emerging markets recorded double-digit growth driven by Eastern Europe, Asia, and Latin America.

Overall, Consumer Hair was able to continue the positive trend in the past quarters, with very strong organic sales growth. Hair Colorants achieved double-digit growth and Hair Care also performed very strongly. Given continued pandemic related restrictions and social distancing in many countries, Styling was lower year-over-year due to weaker consumer demand.

Our Body Care business remained below the first quarter of 2020. This was due to softer demand in key markets, against the high comparison base in the previous year, which saw increased demand for body care and hygiene products and stock-piling especially in March 2020 related to the COVID pandemic.

Our **Professional** business showed very strong growth. Despite continued headwinds from enforced hair salon closures in many countries, particularly in Europe.
This performance was driven primarily by significant growth in our core market North America, as well as double-digit growth in Asia-Pacific and Latin America. It was also due to a relatively low basis for comparison from the prior-year quarter, which had already been strongly impacted by the COVID-19 pandemic.



The business unit’s good organic sales growth was driven by positive volume at +1.3% and pricing at +1.0%.

From a regional perspective, organic sales growth in Beauty Care was in the double-digit percentage range in the emerging markets. Both our Consumer and Professional businesses supported this very strong performance. Growth was primarily driven by the emerging markets in the Asia-Pacific region, in particular in our business in China, as well as Latin America, with double-digit organic sales growth.

The mature markets recorded an organic sales development below the prior year quarter, in particular due to a decline in Western Europe. Here, in a persisting challenging market environment, the COVID-19 pandemic and related restrictions continued to adversely affect the business unit’s performance in the Consumer and the Professional businesses.

In contrast, organic sales growth in North America was good. This was due to a strong recovery of our Professional business, which achieved significant organic sales growth in the region. The Consumer business, however, was lower compared to the prior-year figure.

LAUNDRY & HOME CARE

ORGANIC SALES GROWTH: +4.1%

- Double-digit growth in Home Care with core brands Pril, Bref & Somat growing double-digit
- Laundry Care with positive growth driven by Persil 4in1 DISCS, special detergents and laundry additives
- Organic sales growth and continued share gains in almost all regions with key mature markets starting to slow
- North America below prior year, affected by supply bottlenecks, weather-related production cut and softer market dynamic
- Continued mid double-digit growth in eCommerce channels

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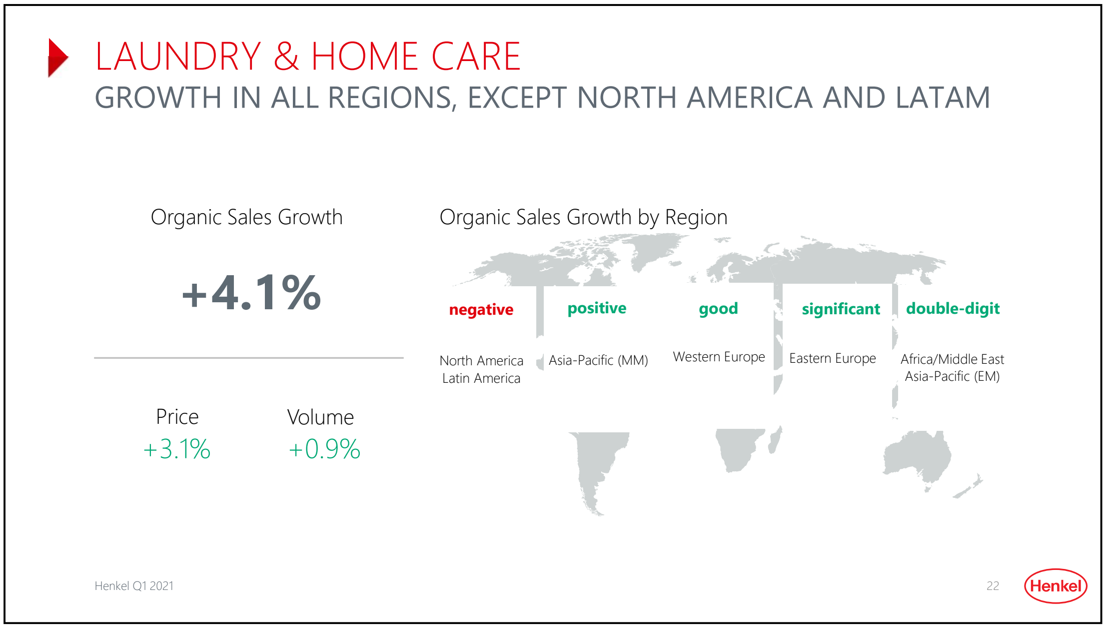
Finally, on to Laundry & Home Care which recorded a very strong organic sales growth of 4.1%.

From a business area point of view, **Home Care** continued to be the key driver of our business unit's performance with double-digit growth in the first quarter. Each of our core brands Pril, Bref, and Somat in the Dishwashing, Surface Cleaners and Toilet Care categories achieved double-digit organic growth. Both our successful product innovations, as well as continued consumer focus on hygiene related products, supported this development.

The **Laundry Care** business area recorded positive organic sales growth in the first quarter. Special Detergents and Laundry Additives categories contributed with good and very strong performance, respectively. Our core brand Persil, once again, achieved double-digit organic sales growth, in particular driven by our innovative Persil 4-in-1 DISCS.

Importantly, we continue to outgrow our markets and further expanded market shares in nearly all regions, and especially in Europe, Africa/Middle East, and Asia-Pacific.
Nevertheless, growth in key mature markets started to slow down against the high prior-year basis which was impacted by pantry-loading effects towards the end of the quarter and into Q2.
The North America region remained behind the prior-year level. Here, our business was affected by supply bottlenecks, partially related to COVID, but also weather-related stops in production and logistics, as well as softer market dynamic.



Organic sales growth at Laundry & Home Care was to a large extent driven by pricing of 3.1% in the quarter. Nevertheless, volume was positive as well at 0.9%.

Looking at the geographic split, Laundry & Home Care has been growing in each region in the first quarter except for North and Latin America.

Overall, the very strong organic sales development was driven by our businesses in the emerging markets. Henkel achieved double-digit percentage increases in both the Africa/Middle East region and the emerging markets of Asia-Pacific. Organic sales growth was significant in Eastern Europe, while Latin America, in contrast, posted lower sales.

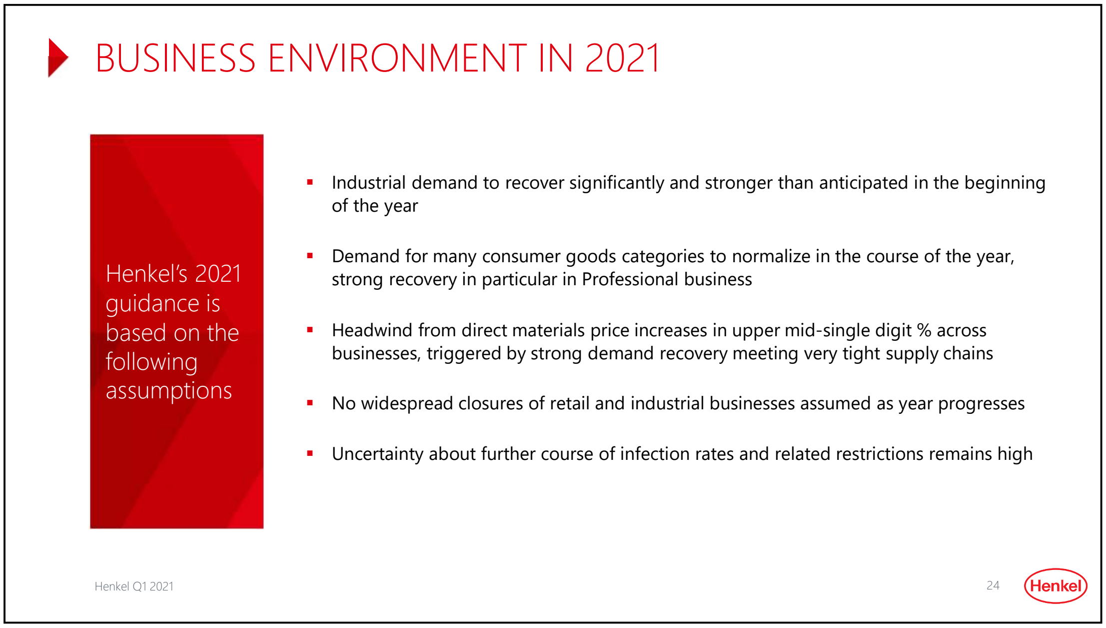
As mentioned, demand in key mature markets started to slow in the course of the first quarter.
While we still achieve good organic sales growth in Western Europe, sales in North America organically were lower compared to the prior-year period.

With this, let me hand back to Carsten.

Carsten Knobel, CEO:

Thank you, Marco.

So, before we move on now to the Q&A, I will now continue with our full year outlook and outline our business priorities for the remainder of 2021.



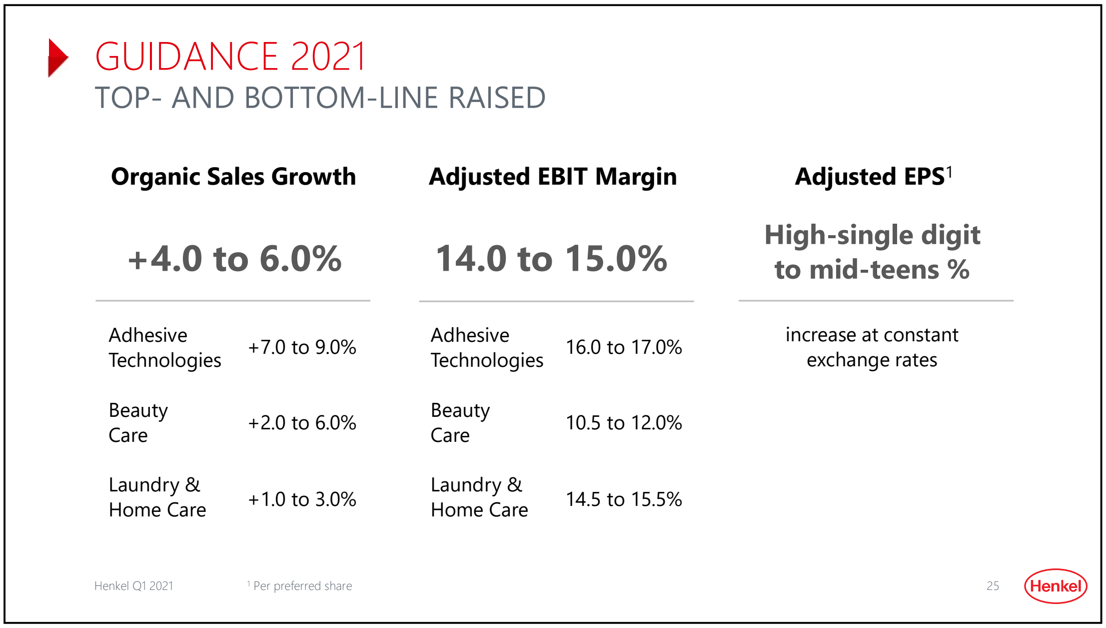
After a strong start to the year, we today raised our guidance for the full year, and expect a stronger top-line and bottom-line performance.

Looking at our business environment, we assume that the industrial demand will recover significantly after the sharp decline in global economic growth in 2020, resulting from the COVID-19 pandemic. And we expect the recovery to be stronger than anticipated in the beginning of the year.

We continue to expect the demand for many consumer goods categories will be returning to more normal levels as the year progresses, with a particularly strong recovery in the Professional business.

Direct material headwinds will affect our businesses to a stronger extent than anticipated at the beginning of the year. I already elaborated on the significant movements in raw material markets earlier in our presentation. For the full year, we assume that direct material prices will increase by an upper mid-single digit percentage compared to our original expectation of a low to mid-single digit headwind.
On the back of this development, we will look into potential further price increases for our products and solutions in order to mitigate the impact from higher raw material and logistic prices.

We continue to assume that there will be no widespread closures of retail and industrial businesses, as the year progresses, different from what we saw in the second quarter of 2020 in particular.
And at the same time, there is still a high degree of uncertainty as to how the pandemic will develop and how consumption and industrial output will be impacted.



Taking all this into account, we now expect Group organic sales growth in the range between 4% and 6%, up from 2% to 5% previously.

This improvement is driven by a stronger development in our Adhesive Technologies business unit, reflecting the very good start to the year, as well as a stronger than anticipated recovery of industrial demand in the full year.
For Adhesive Technologies, we now expect organic sales growth in the range of 7% to 9%, significantly up from the 2% to 6%, previously.
For Beauty Care and Laundry & Home Care, our guidance for the organic sales growth remains at 2% to 6% and 1% to 3% respectively.

The adjusted EBIT margin for the Group is expected to advance to between 14.0% and 15.0% versus the level of 13.4% in 2020 and compared to our initial guidance of 13.5% to 14.5%.

For Adhesive Technologies, we now expect an adjusted EBIT margin between 16.0% and 17.0%, improved from the previous range of 15.5% to 16.5%. This is in particular due to a stronger top-line and the corresponding operational leverage effects, partially compensated by stronger headwinds from direct material prices.

While our guidance for Beauty Care remains unchanged, for Laundry & Home Care, we now expect an adjusted EBIT margin in the range between 14.5% and 15.5%. This compares to an initial expectation of 15% to 16%. The difference in particular is due to stronger expected headwinds from higher direct material prices.

And finally, we expect a high single-digit to mid-teens percentage increase in adjusted earnings per share at constant exchange rates.

As the global COVID pandemic evolves, we as the management, board care. And we act.

Protecting the health, safety and the well being of our employees, their families, our customers, and strategic partners remains our highest priority. Our broad set of support measures stays in place, as we address the challenges together.

While we are successfully managing the short term, we continue shaping the company and drive the execution of our purposeful growth agenda. With a focus on expanding our competitive edge and further enhancing our company culture.

We remain committed to execute our active portfolio management, and to successfully drive performance across all our businesses.

Let us now move on to the Q&A.

Ladies and gentlemen, the floor is yours.

Question: Thank you. Good morning, Carsten and Marco. So, two questions from me, please. The first one is on pricing in adhesives, which was still relatively modest in Q1, I mean pretty much in line with what we saw in the second half of last year. So, my question is, in the face of rising raw material cost headwinds, should we expect some significant pricing actions in Adhesives being implemented from the second quarter, which would be consistent with pretty much what we've heard from all your competitors this earning season?
And I guess if you could provide a bit more granularity on this? I mean, could we go back to levels we last saw in 2018 when pricing was in the 3% to 4% range in some quarters. And related to that, maybe if you can remind us of the percentage of your portfolio in Adhesives where price increases are pretty much immediate, so where you have pass-through clauses.

And then my second question is on your active portfolio management initiatives, was wondering how much left is there yet in terms of divestment discontinuation so you can get to your €0.5 billion target by the end of this year. And if you're still on track and still expect this €0.5 billion to add 50 basis points to your organic sales growth. Thank you.

Carsten Knobel, CEO: So good morning. Thanks for your question. So, I start with the pricing one, I think, as I tried to get it across during the presentation so it's clear, where possible, we would pass on higher input material cost via the price increases and for sure by that evaluating risk and also chances. Overall, I would say in the year 2021, we anticipate that we will be able to partially compensate the increasing prices for direct materials, for sure. And, however, to a different extent in the business units.

So, your question was specifically on Adhesives. So, in Adhesive, I think we have demonstrated in the past that we are well positioned with our diversified portfolio and really with our leading high impact solution to pass on higher input prices over time. You've commented that in the first quarter, the pricing component in Adhesives, I would say was 0.8% rather, I would say, limited in that part, but it's also related for sure due to the time delay, which is also part from when the material prices come into our P&L and how we are bringing that then to our customers. But you can assume that we are showing here the same strength as we have done it in the past.

And the other part where your question was, how can we do that, in which categories we can do that immediately. I think that's predominantly in the Electronics business when it comes also to the silver part where it is also partly in the contracts, integrated. So pass-through, I would say is roughly 10% immediately of the total business of Adhesives. And the silver one was an example. I think that was the answer to your first question.

Moving to the portfolio part, I think, despite the fact that we are doing, I would say, in line with what our expectations are and what we have discussed or presented now during the last couple of months, I hand over to Marco, who maybe give some more light. As I said we will go more into the details during the half year presentation in August but nevertheless Marco can give you an update.

Marco Swoboda, CFO: Yeah, sure. Happy to give you a bit more color also on portfolio measures. So, in the first quarter 2021, I think we made further progress also in our active portfolio management while of course the market is still quite volatile, but I think we made progress. So, we completed the divestment of two additional brands within our Beauty Care business, which account for an annual total sales volume of around €20 million. And over the past days we also signed two further agreements to sell detergent brand in one of the European countries, as well as an Adhesive Technologies business. And looking at both transactions, so that represents roughly a combined annual sales volume of around €40 million. We also closed another transaction in the Adhesive Technologies business where we divested a smaller business, roughly making up €35 million.

In addition, of course we continue our structured divestment processes. And we are committed to execute the announced portfolio measures that we outlined in the defined timeframe by end of 2021. So still the €500 million that you referred to, that still is the target. And of course, we actively work on making that sure that at least the deals are done until end of the year.

We also plan to give you even more details and colors on portfolio progress during our half year results release where the call is scheduled for August. And that is where we will give you more details on that.

Question: Yeah, Thank you. Good morning, Carsten, Marco, Lars, and team. Two questions on the supply and demand side of things, please. First one, how is current demand from automotive given that we have seen many rather recent announcements caused by the chronic chip supplier shortages. For example, Ford shutting down its entire production [indiscernible], and we've also seen North American announcements.

Second question. Can you please elucidate the North American supply shortages and slowing market dynamics you alluded to in your comments for Home Care? Is this persisting into Q2, on the back of the freeze in Texas, for example? And also, did you see a similar impact in Adhesives due to the Texas freeze? And if so, could you quantify this? Thank you.

Carsten Knobel, CEO: Good morning. So, I first take the question to the automotive part. So, as you know, the global shortage of semiconductors impacted multiple automotive manufacturers and suppliers, as you mentioned it, which reduced the vehicle build rates for the first quarter, in particular, in the North American region. Our performance in the global automotive business in the first quarter was really impacted only to a limited extent. Overall, achieving really double-digit organic sales growth rates in that part. And entering the second quarter, we have also seen partially line shutdowns at several automotive factories in Europe. However, I think it's difficult to make a reliable projection on that. Overall, we expect that these challenges will continue until the third quarter of this year with a partial recovery in Q4.

On the other side, you see that, overall, we are very confident with our Adhesive Technologies business that was also the reason why we, I would say, significantly increased the guidance now to the level of 7% to 9% for the total year. That's to the first question. The second one, Marco, you take that?

Marco Swoboda, CFO: The market softness in Home Care question was whether it is persisting into Q2 and whether we see that also in Adhesives. Maybe, to start with Adhesives, I think that goes in line with what Carsten said that, so far, we don't see market softness in Adhesives. We see that continuing quite strongly across the industrial sectors and with the particular sectors that Carsten mentioned on the automotive side, of course.

Question: Sorry. In Adhesives, I meant more the supply squeeze due to the Texas freeze in Northern America, sorry, not demand.

Marco Swoboda, CFO: So, then we start with that one. So, on the raw material supply side. And of course, what we have seen beginning of the year was quite dramatic when the very strong winter weather affected much of the North American supply base on the chemicals side. And that affected us also, to some extent, but the impact in total could be managed quite well. So, when it comes to Adhesives, we don't expect that will have a significant impact on our turnover and ability to ship.

Where that impact might be more – is expected to be more pronounced is indeed in our Laundry Care business in North America, where we do expect that the whole supply situation will also affect that business still beginning of the second quarter while easing through the course of the quarter. But Laundry will be more affected by that supply situation in North America than Adhesives.

So, in Home Care overall, market softness that we have seen in particular in March is also expected to be ongoing in the second quarter. But of course, uncertainty is very high and at that moment it's very difficult to make precise predictions.

Question: Hi, good morning. I'd like to come back to the pricing discussion. If I look at quarter one, your pricing is up by 1.7% versus about flat for all of last year. And so, when I look at it, clearly, most of that comes out of Home Care. Am I right to assume that most of the pricing you saw in quarter one is basically mix based because of the innovations you made in Home Care? Or is there already a component of passing through higher cost prices?

And then, my second part is given the way you see the price commodities today, how much do you think can – the Consumer business you'll have to raise prices, so be able to price it with in the rest of the year? Thank you.

Carsten Knobel, CEO: Good morning. So, I think for your first question, I can be quite short. I think you are assuming it right, it's a combination. It's a combination of bringing prices through but also in that extent – yeah, a combination of both. Marco?

Marco Swoboda, CFO: Yeah, I mean, definitely also passing through higher input costs was a key factor. But also, then of course, in combination with the FX devaluation that we have seen particularly in the emerging markets, pricing was an important factor to protect our gross margins. And that is where the action took place and that is also behind also the pricing number that we see.

Carsten Knobel, CEO: And the other part is definitely also related to innovations. Because our clear point is to bring innovations to the market. And in combination with these innovations also to try to get higher prices that are especially then also for our consumer business relevant. So, therefore, a mixture of both.

Question: Thank you. And forward looking what you're expecting, given the cost price inflation that you haven't passed on yet, how big will the pricing pressure be in the Consumer Goods business?

Carsten Knobel, CEO: This is difficult to predict and due to the fact that we are not really guiding on that, and I would come back to the answer I have given at the beginning. I think it is what I said before in Adhesives, I think we have demonstrated in the past that we are really getting the prices through in discussions with our customers. And across BUs, I would say it's upper mid-single digit part which would be – yeah, the reality then.

Question: Thanks very much, couple of questions for me please. I wondered if you could dig a bit more into input cost inflation. So you've given us the kind of group impact. Are you able to give us an indication as to what input costs might do by division this year? And it would also be helpful if you could provide any color – you talk about the core mature markets of Laundry slowing. Any markets in particular you'd highlight? And is that a reference to any subcategory within your Laundry & Home Care business. You've obviously got some quite tough comps coming up in dishwash. Thanks very much.

Carsten Knobel, CEO: Good, I propose, Marco, you start?

Marco Swoboda, CFO: With the input cost inflation question then, indeed, we see that cost inflation picks up, and the guidance we give is upper mid-single digit, so significantly upwards 2% to 5% of the previous guidance. And we see that in particular in our Adhesive Technologies business, driven by higher prices in the petrochemical categories driven by the economic recovery and also the supply chain disruptions, for example, resulting from the extreme winter conditions in North America that I also was talking about earlier. And so that will hit for sure the Adhesive Technologies business.

And the other business that will also significantly see input cost inflation is Laundry & Home Care due to the mix of raw materials they buy, and also here we do expect that to be quite high. In contrast, Beauty Care will be a bit less affected but for sure prices will also rise there but to a lesser extent than it will be the case for Adhesives and Laundry.

Carsten Knobel, CEO: And into the point of when we say markets starting to slow down, here it is in the first quarter, core mature markets of Laundry & Home Care started to slow down in February and particularly in March. The Home Care categories overall on average performed better than Laundry, due to the continued high demand for the hygiene-related products, Dishwashing and Surface Cleaners for example. But also here we experienced a kind of a slowdown towards the end of the quarter. And this was, to a large extent, due to high comparable basis related to the COVID pandemic and a very strong demand as well as in parts significantly pantry loading effects, which we have seen in some categories and markets in the early days of the pandemic in Q1 2020, I think you recall also that part when certain products were even not available anymore. I think this is related to that. Hope that clarifies.

Question: Yes, good morning. Thank you for taking my two questions. The first one is on your guidance. I noticed that on EPS, you raised the low threshold from 5% to high-single digit but on the high threshold, you now expect mid-teens which doesn't sound very different to the previous 15%. Since you raised the top thresholds on both organic sales growth and operating margins, I was just curious on why you didn't opt for a, say, a high teens EPS for the top threshold for the earnings guide please.

And then my second question is more on the phasing of margins between the first and second half, hoping you could give us some color on how that is likely to evolve through 2021 please. Thank you.

Carsten Knobel, CEO: So good morning. Thanks for your questions. Maybe I start with the phasing one because at the end, the point is, from today's view, the business development over the course of the quarters is really expected to vary significantly. First, we are running against a very uneven comparable basis, due to the differentiated pandemic impact on the individual quarters in 2020, and that is especially true for our Adhesives business and also for our Beauty Care because the largest headwinds we recorded and experienced in Q2. And in contrast, we had recorded strong organic sales growth in the third and in the fourth quarter of 2020, also supported by each of the business units. And these experienced differences in the business development over the quarter is also reflected by the current forecasts in the industrial production index. So, if we take the IHS estimates, we see – well, there is a forecast for an increase in the second quarter of roughly 16% after the 5% we mentioned for Q1 and followed by a more normalized growth in the second half of the year.

And secondly, we entered this year for sure still facing partially significant pandemic-related restrictions in some countries and regions, and the further development and its impact on our business is really difficult to predict. So, overall, it's fair to assume that we have a very strong sales growth in the second quarter, and the more normalized one in the second half against also quite stronger prior two-year comparables.

Maybe that's to your second questions, and when it comes to the question of the guidance on EPS, I hand over to Marco.

Marco Swoboda, CFO: Yeah. So, your question was, basically, to the upgrade of the guidance, where we have guided earlier 5% to 15% and now high-single digit to mid-teens. So, we basically lifted our guidance at both end of the range. So before from the lower end of 5%, we basically lifted that to high-single digit. And on the upper end, we limited that to the 15% in the past. And now we said it will be roughly mid-teens and very clear mid-teens doesn't stop for us at 15%. That goes also beyond 15%, so also on the upper end, we also basically lifted that part of the guidance.

Question: Thank you for that. And just to clarify my question on the phasing was more to do with the margins, so I don't know if you can comment on how the EBIT margins will evolve between H1 and H2.

Carsten Knobel, CEO: I also got your question, but we hope you also understand that we are not giving that details but you can assume that what I'm saying for the top line is also reflected to a significant extent also in the bottom line. The only thing what you need to take into account is what we discussed several times now is for sure the whole situation with the direct materials impact, and how this will flow into the P&L, and how we can mitigate these things with innovations and also with price pass-through to the customers. So, therefore, I think I understood it. Sorry that I was maybe not clear enough on that, but you can assume what I just said also roughly for the bottom line.

Question: Yeah, good morning, everybody. Firstly, just on the Professional business, could you just remind us where you are in the number of salons now versus pre-pandemic or at least the level of capacity that you have versus pre-pandemic? And is there more competition now within Professional as we're going through reopening? And just on the gross margin there, should we expect that to come back with volume? Obviously, that was down versus 2019, or are gross margins going to remain relatively low in that versus history perhaps in that area?

And then just to try and clarify your comments please on FX, could you maybe just allude to what the translational FX and also transactional FX impacts are for you, and maybe related to that is of the 18.5% growth you saw in EMs, can you maybe give a sort of range as to how big pricing was within that please? Sorry, lots of parts but...

Carsten Knobel, CEO: No, no, all good, so good morning. I take your first question regarding the Professional business and Marco will then allude on your FX questions. So, you may recall when we had the ad-hoc, when we were talking about the full year, I think we started the year with a quite severe situation, which we also partly alluded now. Roughly 40% of our business at the beginning of the year was impacted by the pandemic means closure of our businesses. And this has been gradually improving over the last couple of months and weeks.

And currently, we estimate that less than 10% of our overall salon footprint is in lockdown with the continuously positive trend towards further lifting of restrictions and then salon re-openings across our relevant markets. And especially in one of our core market, the US market, we saw a very positive development with the vast majority of salons being open again towards the end of Q1. And that was also impacted by a quite very good development of the business in the quarter one. The latest rise in infection rates did not translate into renewed shutdowns of hair salons as potential restrictions always depend on local regulatory decisions. And most salons remained open, however, with stricter hygiene rules applied.

And when it comes to the question you had in terms of competition, I think there was not a significant change in terms of – for sure we're doing the utmost in order to improve our market position on that.

And I think also here we have made good progress. And also, in terms of volume, I think volume is also coming back. And this is also related to better gross margins because, for sure, there is now, due to the higher volume, also a better absorption of the cost situation overall. Maybe that's to your first question and for the second, Marco?

Marco Swoboda, CFO: Yeah, so second question was referring to the FX impact that we have seen. And as we said before, translation had roughly a minus 7.5% impact on the Group sales number, driven by the US dollar on the one hand but then also emerging market currencies on the other hand. And when it comes to the emerging markets, also here your question was in how far the growth we've seen there and how far is that driven by that pricing also reacting to that situation we see on the FX front. So, on the pricing effect in the emerging markets, you can say is roughly 5% in the quarter so out of 18.5% OSG and top line growth that we see roughly 5% is from pricing in these regions.

Question: Okay. Thank you. Maybe just to follow up briefly, you mentioned your footprint so it's just a question as well on Professional of where is the footprint you currently have – appreciate the utilization comments, thank you – but the footprint you have now in Professional versus where you were in 2019, please.

Carsten Knobel, CEO: So, from a footprint point of view, there is no big changes, roughly 50% of our business in Professional in North America and the rest is split, for sure, then another quite important part is Western Europe with roughly 25% and the rest is across the world, but in comparison to the last couple of years no significant change. The change of the footprint happened between 2014, 2017, 2018 due to our M&A activities we had with the acquisitions of Alterna, SexyHair, Kenra but also the Joico business of former Shiseido and and and.

Yeah, thanks to everybody.

So dear investors and analysts,

thank you very much also for your questions.

And let me close today’s presentation with a summary of our key takeaways.

In a continued challenging business environment, Henkel recorded a strong start to the year, and we delivered significant organic sales growth.

All business units supported this strong performance with particular strength in our Adhesives Technologies business.

Our priority at any time during the pandemic was and remains on ensuring our employees’ safety, supplying our customers, and supporting the communities in which we live and in which we operate in.

We continue the implementation of our Purposeful Growth Agenda with full force and with a clear focus on expanding our competitive edge and enhancing our company culture. And we made further progress also here in the first quarter of 2021.

And finally, while the uncertainty in our environment remains high, we raised our full year 2021 outlook on both the top- and the bottom-line.

So thank you for joining us today and stay safe and also stay healthy! Bye-bye.

THANK YOU

Henkel

FY 2021: ADDITIONAL INPUT FOR SELECTED KPIS

Currency Impact on Sales	Mid-single-digit % negative[1]
Prices for Direct Materials	Increase by upper mid-single-digit %[1]
Restructuring Charges	€ 250 - 300m
CapEx	€ 600 - 700m

[1] versus the prior year

GUIDANCE 2021 RAISED ON TOP AND BOTTOM LINE

		Guidance 2021 (4 March)	Guidance 2021 (new)
Organic Sales Growth	**Henkel Group**	**2.0 to 5.0%**	**4.0 to 6.0%**
	Adhesive Technologies	2.0 to 6.0%	7.0 to 9.0%
	Beauty Care	2.0 to 6.0%	2.0 to 6.0%
	Laundry & Home Care	1.0 to 3.0%	1.0 to 3.0%
Adjusted EBIT Margin	**Henkel Group**	**13.5 to 14.5%**	**14.0 to 15.0%**
	Adhesive Technologies	15.5 to 16.5%	16.0 to 17.0%
	Beauty Care	10.5 to 12.0%	10.5 to 12.0%
	Laundry & Home Care	15.0 to 16.0%	14.5 to 15.5%
Development in adjusted EPS (at constant exchange rates)[1]		**+5.0 to +15.0%**	**Increase by high single-digit to mid-teens %**

[1] Per preferred share

UPCOMING EVENTS

August 12, 2021	Q2 & H1 2021 Release
November 8, 2021	Q3 2021 Release
February 23, 2022	Q4 & FY 2021 Release
April 4, 2022	Annual General Meeting