Henkel Excellence is our Passion

Statement by Henkel CEO, Kasper Rorsted
Q3-Conference-Call
November 12, 2013, 10.30 a.m.

Ladies and Gentlemen:

Welcome to today's conference call.

This morning we published our press release and quarterly report in respect of our business performance in the third quarter and over the first nine months of 2013.

So I would like to just briefly recap on the key aspects characterizing the quarter and then talk about our outlook for the current year. After that, our CFO, Carsten Knobel, and I will then be happy to take your questions.

Ladies and Gentlemen,

The world economic environment in the third quarter remained very challenging.

This was the case in Western Europe and, above all, in the countries of Southern Europe where a continued decline in economic output was registered. The difficult economic situation negatively impacted both, private consumption and certain industrial sectors.

Outside of Europe the situation was difficult, too. Economic growth in the USA increased slightly, but fiscal risk continued to burden the world's largest economy. In Asia, the dynamism of the emerging markets declined slightly. And in the Middle East, the ongoing unrest also caused further market uncertainty.

Despite this increasingly challenging market environment, we continued our strong performance in the third quarter. And we were able to accelerate growth quarter by quarter in 2013. We significantly increased both earnings and profitability.

The detailed financials read as follows:

In the third quarter, Henkel generated sales of some 4.2 billion euros, following 4.3 billion euros in the same period last year.

The decrease is due exclusively to negative foreign exchange effects. The currency impact was even stronger in the third quarter than it had been in the first two quarters of 2013.

Overall, the appreciation of the euro resulted in a negative impact on sales amounting to almost 7 percent. The biggest factor in this respect was the devaluation of the US dollar. However, the currencies of the emerging markets also contributed to this development.

Excluding the impact of foreign exchange and without acquisitions and divestments, we achieved a solid organic growth rate of 4.2 percent.

Laundry & Home Care recorded strong organic sales growth with a plus of 5.5 percent. In Beauty Care the increase amounted to a solid 3.1 percent. And Adhesive Technologies also posted a solid growth rate of 4.2 percent.

The organic sales growth was driven by all businesses and all regions. In particular, our emerging markets again made an important contribution. Here, we recorded a very strong organic sales growth of 9.1 percent.

In Africa/Middle East and Latin America, we posted double-digit improvements. But the emerging Asian markets also contributed to the very strong growth – with China once again being the strongest driver. As a result, the share of sales in the emerging markets rose by one percentage point year on year, to 45 percent.

The emerging markets are very important to us, particularly with respect to achieving our strategic targets for 2016. This is also reflected by the opening of our new adhesives production facility in Shanghai, the largest of its kind in the world. With the new site we have further expanded our production capacity in one of our most important growth regions

From this hub we can supply our growing number of clients in China and the Asian region more quickly with innovative adhesive technologies. The new factory offers a platform for further growth in our adhesives business. We are thus expanding our global presence and will be able to further increase our market shares in these regions.

Our strong focus on the emerging markets does not, however, mean that we are neglecting the mature markets. Quite the opposite:

In the third quarter we again achieved positive organic sales growth in the mature markets despite the recession in some countries of Southern Europe. And once again our positive performance in Germany helped us here. Thus, Germany is and will remain a major pillar of our success.

Aside from achieving solid organic sales growth, we also succeeded in significantly increasing both our earnings and our profitability.

After allowing for one-time effects and restructuring charges, adjusted operating profit improved by 6.5 percent to 672 million euros.

At 16.1 percent, adjusted return on sales exceeded 16 percent for the first time. Compared to the prior-year period, this represents an excellent increase of 1.4 percentage points. All our business sectors contributed to this improvement.

Adjusted earnings per preferred share increased by 11.1 percent to reach 1 euro and 10 cents, which was once again above our target growth rate of 10 percent for the full year.

Our net financial position has also significantly improved. As of September 30, 2013, Henkel was able to show a net cash position of 485 million euros. At the same time last year, we still had a net debt of 612 million euros. This development once again underlines our strong financial position.

I would now like to come to our guidance for the current fiscal year.

We expect the global market environment to remain challenging. We do not anticipate any rapid improvement in the economic climate of Western and Southern Europe.

The situation in the Middle East is likely to remain unstable, with future developments difficult to predict.

We also expect further headwinds from foreign exchange effects.

Consequently, we will continue to work on improving our competitiveness.

We will be further adapting our processes and structures in order to simplify and accelerate them. We are keeping all our options open so that we may respond quickly and flexibly to changing business developments.

Overall, we consider ourselves well prepared for the rest of the year. We are confident of delivering our guidance for fiscal 2013 and are raising expectations with respect to the development of our EBIT margin.

As previously stated, we expect to generate an increase in organic sales of 3 to 5 percent for the full fiscal year.

Also for adjusted earnings per preferred share, we confirm our guidance of an increase of about 10 percent year on year.

Our forecast with respect to adjusted return on sales is now about 15 percent. Previously, we stated that we expected an improvement to about 14.5 percent. Here, we anticipate that all our business sectors will achieve a margin improvement versus the previous year.

Ladies and Gentlemen,

Around one year ago, we presented our new strategy and financial targets for 2016. Since then we have consequently pursued our strategic priorities and have already made substantial progress in all four areas – Outperform, Globalize, Simplify and Inspire.

We will be providing a detailed report on this in February 2014 at our Annual Results Press Conference.

We have headlined our new financial targets with the formula 20-10-10, in reference to the key targets of 20 billion euros in total sales, of which 10 billion to be generated in the emerging markets, coupled with an average annual growth rate of 10 percent in adjusted earnings per preferred share.

We are convinced that, with the new strategy, we have laid the foundations for the ongoing successful development of our company, and are very confident of achieving our 2016 financial targets.

Ladies and Gentlemen,

Many thanks for your attention. Carsten Knobel and I are now ready for your questions.